Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Spending Review and Budget 2011-2015

17 November 2010

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR FINANCE AND PERSONNEL

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Members present for all or part of the proceedings:
Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Neil Gibson	)	Oxford Economics
Mr Mike Smyth	)	University of Ulster

The Chairperson (Ms J McCann):

I welcome Mike Smyth from the University of Ulster and Neil Gibson from Oxford Economics and invite them to make their opening remarks and then answer questions.

Mr Neil Gibson (Oxford Economics):

Thank you very much, Chairperson and members. I am delighted to be here. As an economist of 15 years in Northern Ireland, it is nice to be invited to speak about one of our greatest economic challenges. Mike will speak a little bit more about how revenue could be raised.

As an economist who works around the world, I want to be clear at the outset that what is in front of us is challenging. I do not want to underplay how hard it will be to make savings, but it should not be catastrophic. The amount of money that comes into Northern Ireland, and that will come in even by the end of the four-year period, should still be more than enough to run world-class public services. Most other countries, and certainly other regions of the UK, would be delighted to have that level of revenue. We need to keep that in perspective.

I noted with great interest that, in the debate during the boom years of public-spending announcements, we always quoted the Barnett formula and said that it provided a squeeze that was hurting Northern Ireland. The Barnett squeeze helps us when there are cuts, but that has been scarcely mentioned in any of the coverage. The cuts could have been much more significant. Asking for something akin to flat cash for four years on the current side is a situation that most private-sector businesses would have been delighted to face over the past two or three years, given the security of four years of the same amount of money.

The challenge that I put to Northern Ireland is to change the narrative from one of cuts to one of reform and think about the sort of public services that we want and can afford. If we believe that we need additional public services or if we want to fund things differently from other parts of the UK, it is increasingly our responsibility to find the money. As one who does a great deal of work in the other regions of the UK, I sometimes find how we speak about our financial problems almost disrespectful; many places in the UK are just as bad as — and worse than — Northern Ireland but do not have our level of funding. Saying that we are a special case and that we need to find extra money from outside Northern Ireland would be unsuccessful. It also abdicates our responsibility to get the economy functioning in a way that we can afford.

In addition to changing the narrative from one of cuts to one of reform, we should undertake an extended cost-reduction programme; after all, that is what the private sector has had to do. We need to control costs in public services. I mean that in the widest sense. Everyone instantly thinks of wages, which is an important issue that we will probably pick up on in questions. However, we need to control costs even in procurement. I speak as a consultant who avails himself of public contracts on occasion, so I may have a vested interest. However, we should look at that and take account of Sir Philip Green's review that looked at mobile phone contracts, for example, and how one purchases from consultants and what one asks of them. Thinking about a cost-reduction strategy across the board means that the numbers may not be as startling as people suggest.

The coverage of the cuts has been unfortunate. Our evidence papers that made the headlines were all about how many jobs it would cost: it might be 16,000 or 30,000. Even the evidence paper that quotes PricewaterhouseCoopers's work, which was sent to us in the briefing for today's session, does not reiterate that it is still a choice before Northern Ireland. Everyone around the water coolers in public-sector offices believes that job losses on that scale are inevitable; that has a psychological impact on confidence and spending. Pretty much every civil servant in Northern Ireland thinks that his or her job may be under threat.

There are difficulties, complications and challenges around fixed pay settlements and increments. However, in the private sector, the deal has often had to be put to businesses and staff: do we lose 15% of people or do we accept pay cuts? In the South, the question has been about pension levies and so forth. That narrative has not been well played out. One of our jobs is to mitigate the jobs impact, and that is doable if we can control costs.

The other aspects of cuts, such as capital, will be very challenging. However, that only raises the bar. Even if we go down to £800 million a year by the end of the period, that is a significant amount for a region of this size.

It is about what the main priorities are now. If good ideas, such as the expansion of roads, which incentivises economic development, were implemented, wider investment, such as pension funds, from elsewhere in the world would be interested because investors might get a return through the rates base, toll roads or whatever. That raises challenges.

It will also be difficult on the annually managed expenditure side (AME). It is interesting to hear the narrative around welfare reform, which is being couched as cuts to the AME budget. However, they are trying to do something to which Northern Ireland has long aspired: make work pay, to make it better to be in work than out of it, and to reduce problems with the welfare system. Although I do not want to minimise the risk that cuts — if you want to call them that — will bring to the AME side, we can use that and the squeeze on public-sector money to help Northern Ireland to re-orientate its priorities towards a private sector-led economy, which I have seen written in every economic strategy for as long as I have been practising. It is an extremely significant challenge, and I am not downplaying it; however, it offers opportunities. If it were done right, there would not be the devastating effects that are being portrayed in the public realm.

Mr Mike Smyth (University of Ulster):
Our weather this morning is sober to match these sober times. Perhaps that is a pathetic fallacy. I wish to make some general comments and then some specific proposals on the issues that the Committee asked me to consider.

The cuts under the comprehensive spending review (CSR) are very challenging, although I make no judgement on whether they were better or worse than we have been conditioned to think. A challenge for the Assembly is to examine new forms of revenue raising and alternative ways of leveraging public assets by keeping them public. Another challenge is to cause the Executive and the Assembly to ask fundamental questions about how we deliver public services and to get more value from less money. If we do not do the latter, we are implicitly arguing that we believe that public-service delivery is optimal. If you asked anybody about that, even those working in the public sector, they would tell you that that is far from the truth. Therefore, government must constantly ask whether it should be doing this or delivering that. We have not done that before, but the process must now become part and parcel of our daily thinking.

My suggestions to the Committee today would greatly reduce the impact of the proposed spending reductions on the delivery of front-line services in Northern Ireland. However, they make no value or political judgement on their impact on the electorate. I leave that to you; this is just my advice. My proposals also relate to the future path of fiscal policy in Northern Ireland, which may sound very new-fangled. We have fiscal controls here, but we do not have enough of them and we should get more. However, we do not yet really understand the ones that we have or how they work. This offers an opportunity to close the gap between taxpayers and services. That would be good for democracy here, because, at the moment, there is a wide gulf in financial and engagement terms between ordinary citizens, the services that they consume and the taxes that they pay. That goes to the heart of the problem.

I now turn to revenue-raising proposals that the Committee may wish to consider. I start with the most unpopular: water charges. I will not give the Committee a lecture on their merits or otherwise. I have been through the debates and took part in the public consultation — I still bear the scars from the debate with Eamonn McCann in the Guildhall. I am prepared to admit that Eamonn might be right. There's a quote: Eamonn might be right.

Mr McNarry:
He is more than likely wrong.

Mr Smyth:
People think that they pay partially for water, and I am sure that that is true. However, they do not pay enough, so where will the difference come from?

We can cry all we like about the privatisation of water, with which I never agreed in the UK, but it has happened. There is no Barnett line in the UK Budget from which we get a consequential to cover water. We either pay for much needed investment in water out of the block grant or we find other ways of raising revenue. We do not have to go straight for the proposals; it can be brought in very gradually, but we must make a start.

On a more pragmatic note, there are other new revenue sources that we can tap in to. Whether mobile phone texts or mobile phone masts are taxed makes little difference, although my preference is for a tax on mobile phone texts. In the UK in 2009, 97 billion mobile phone texts were sent. An imputed Northern Ireland share of 2·5% gives an estimate of 2·4 billion texts originating in Northern Ireland. Those figures were given to me by BT. A penny tax levied on each message would yield £24·3 million a year. That is a stealth tax. Nobody can tell me that that will greatly affect the most disadvantaged. It will come out of the pockets of parents who pay their children's mobile phone bills, but they will not notice it. Will we pass up on £24 million? It would generate about £23 million if 5% covered collection costs, which the mobile phone companies would have to do. It is a no-brainer, and I have heard no philosophical or commercial objections to it.

Raising the fee for MOT tests from £40 to £60, depending on the size of the engine or the CO_2 emissions, would raise between £10 million and £15 million. It would also achieve another public policy objective and would encourage behavioural change in motorists in the right direction.

In the Budget of 2007, the Minister of Finance and Personnel froze domestic and non-domestic rates for very good reasons, but the world was different then. Now, we have a choice between revenue raising and perhaps service cuts. If that is the choice, we should consider unfreezing domestic and non-domestic rates. The Republic of Ireland, in its dire straits, is considering introducing a property tax that is akin to rates. That reminds me of the joke, in the pre-Celtic tiger days, that the motto of the Finance Department in Dublin was "If it moves, tax it." In 2010-11, the estimated yield to Northern Ireland is about £280 million from domestic rates and £270 from business rates. Increasing those by 1% would raise £50 million to £60 million a year. We are closing the gap.

We now move to prescription charges. Never mind about the worth or otherwise, basic economics shows that if a good is made free, it will be over-consumed. The Minister of Finance said that that would cost between £12 million and £13 million; my research tells me that it is north of £20 million. It is time for a rethink.

Public-sector car parking is a very opaque issue here. For many people across the United Kingdom, workplace car parking charges are the norm. I pay about £300 a year for parking, sometimes on a muck heap at the University of Ulster in Jordanstown. Northern Ireland is more car-centric than any other part of the UK because our public transport infrastructure is simply not fit for purpose. A charge on public-sector car users seems appropriate. Five pounds a week might yield between £10 million and £15 million, depending on the assumptions that are made about car usage in the public service.

It is normal across the European Union and in the Republic for patients to make a small contribution towards the cost of a GP visit. In France, which is more socially oriented than we are and which embraces the European social model, it is normal to pay €50 for a visit to a GP. Thereafter, everything is magic carpet stuff. In the Republic, a charge of €45 has been introduced for an A&E visit unless one is referred by a GP, in which case it is free. At the very least, we should consider a GP visit fee, a fee for health check-ups or fees for out-of-hours access. Whether or not we adopt such measures, we need to consider them, cost them and see what revenues they would raise and what behavioural change they would bring about.

There is no incentive for Departments to borrow money. Under the reinvestment and reform initiative, which was negotiated at the time of the Belfast Agreement, Northern Ireland can have access to up to £200 million a year from the Treasury, theoretically serviced by regional rates but, in fact, serviced out of the block grant. The Executive should seek to increase that ability to borrow. The rationale for the reinvestment and reform initiative is even stronger now than it was in 1998. The Treasury may reject that request, but we should look to use our revenue streams to leverage more borrowing from it. There is an irony there that I will go into later.

It is my understanding that the restrictions on borrowing that apply to central government Departments do not apply to local government. If that is correct, I advocate that local authorities consider borrowing for capital expenditure. It would be appropriate if local government borrowing, which would be serviced from the substantial district rates receipts, could match central government investment, perhaps in a new investment strategy for Northern Ireland. I do not know whether the Assembly has considered that, but if the capital budget has been cut as severely as seems to be the case, we should make that up from elsewhere in local government if possible.

I will give you an illustration. The European Investment Bank (EIB) could lend £40 million a year to local government. That could be serviced from district rates, and, at a rate north of 4·5%, including an exchange rate premium, £2 million per annum would be paid. The £2 million per annum at an assumed interest rate of 5% is eminently affordable by the 26 district councils. That £40 million would be matched either by £40 million from the capital departmental expenditure limit in the block grant or £40 million from private finance. It immediately doubles, and the EIB will lend up to 50% for any project.

For that to work, it would be necessary for local and central government to agree on a strategy that would have to be compatible with the overall Northern Ireland investment strategy and with the needs of the participating local authorities. Therefore it requires a spatial dimension. One approach that I have thought about is a shared-services approach, which involves finding areas of common interest between central and local government. That is not difficult in the area of capital expenditure and can include waste management, housing, roads and infrastructure. It is past time that we started to investigate that, and the local authorities that I have run it past have indicated an interest in exploring it.

I move on to asset sales and asset leverage. You have heard the following point before, so I will reiterate it quickly: the Northern Ireland Housing Executive is a non-departmental public body. Changing its corporate status to some form of non-governmental organisation would not require legislation. If that were done so that its net asset base, which is in excess of £4 billion, was no longer counted on the public-sector balance sheet, it could access the financial markets and embark on a sustained programme of housing renewals, effective insulation and new building. That would make a huge contribution to reducing the pressure on the Northern Ireland block. It would take a line of a couple of hundred million pounds out of the block. Such a move would make the Northern Ireland Housing Executive a very bankable proposition.

It could involve the European Investment Bank and/or some of the larger banking institutions and pension funds in long-term, 20-year plus financing deals. Over the past five years, the Northern Ireland Housing Executive has reduced its historical debt profile from over £1 billion to £600 million. It is a tragedy that the Housing Executive cannot leverage its enormous asset base. We are missing a trick.

As a subset of that, the green new deal was recently published. Notwithstanding the issues about the business model that underpins it, for an outlay of £80 million the green new deal permits the simultaneous achievement of several public policy objectives: reduction in fuel poverty; reduction of CO_2 emissions; greater energy efficiency; and, above all, increased employment. Research shows that the most effective way of creating and maintaining employment at present is retro-fitting houses. I will give you the paper if you want.

As for assets, is it too late to revisit Workplace 2010? Notwithstanding market conditions, parts of Workplace 2010 could release savings to the Executive. We must consider leverage and public assets. Any public-sector activity that has an income stream, such as the Housing Executive, can use its revenue stream to finance capital expenditure. Public-transport fares could be used in that way to improve investment in the public-transport infrastructure. We need to think about that.

I move on to the issue of cuts in the annually managed expenditure budget. AME is administered, but not controlled, by the Executive. I have talked endlessly with informed colleagues about this and I share your frustration. One of the absurdities in annually managed expenditure is the use of jobseeker's allowance, disability living allowance or incapacity benefit. Those are passive responses. They say: if you fall on hard times, we will help you. Scandinavia does not operate like that. If you become unemployed or ill there and cannot work, the state will put you back to work, training or university. Those are called active labour market policies. There is no long-term unemployment in Denmark, Sweden, Finland or Norway. We, however, ex post, write cheques to people to do nothing.

When I ask how annually managed expenditure is arrived at, I am told that we forecast what we think the jobless and dependency level will be. Is there any scope in that for over-forecasting, creating a bit of space, and using the money proactively to send people back to school and training or to give them a job subsidy? Sadly, the Treasury watches that very carefully, so room for manoeuvre is limited. However, we should look at ways of turning the switch on AME. Instead of its being demand-driven, we should use it proactively to put people back to work.

A cut of £18 billion is proposed across the UK in annually managed expenditure; in Northern Ireland, it would amount to a £1 billion cut. We depend heavily on transfers from the central Exchequer. Let me give you some numbers: 87,000 claim income support; 99,000 are on state pension credit; 93,000 on incapacity benefit; 183,000 on disability living allowance; and 149,000 on housing benefit. Without any relative numbers, any cut in AME — whatever the source and all things being equal — will have a disproportionate effect in Northern Ireland. However, as Neil said, some of the proposed reforms are aimed at tackling our historically high levels of economic inactivity. If they succeed in doing that, it is slightly less bad.

I was asked to comment on the capital programme cuts and the status of the so-called £18 billion capital plan. The CSR takes £1,400 million out of the £18 billion capital plan. The Treasury arrived at the pledge of £18 billion and says that it is already half way to being met. As far as it is concerned, the capital programme runs two years beyond the present CSR to 2016-17.

However, it has been economical with the facts. It has included expenditure on capital, including the value of PFI and law-and-order projects in the years before responsibility for them was transferred, which is not fair. Some of its calculations use calendar rather than financial years, which extends the period of the pledge. It is a case of lies, damned lies and statistics.

On the other hand, it is not true that PFI and asset sales were not included in the original investment strategy for Northern Ireland (ISNI) calculations; they are there for all to see. Either way, we have to make up a shortfall in the capital budget. It is too late to do anything about the period of the capital plan. I prefer to concentrate efforts on raising and leveraging investment to replace it. Neil and I are happy to take questions.

Mr McNarry:
You are welcome, and I thank you for your presentation. Can we get copies of your papers? It is no reflection on Hansard, which is overburdened with work, but we do not get the Hansard report quickly enough. It would be great to have those papers, even after today. We are told that inflationary pressures will have to be contained and that no allowance is being made for inflation over the next four years in the proposed Budget. What could that mean?

Mr N Gibson:
That is the key question. All the estimates on the scale of the cuts are put into real terms, and the number of jobs that will be affected is based on those estimates. The crucial calculation is the inflation figure. It has almost been assumed that it will be about 3%. I challenge that, as many elements of the private sector have kept their inflation well below that.

That raises difficult questions about wages, which are the biggest chunk of spending. We heard Mike's numbers — £12 million here and £30 million there. I will get the precise figures and Mike may be able provide information. Of the £10 billion current costs, between £4 billion and £5 billion is wages. Therefore, a 1% wage increase is £40 million, which is a big number that we have to keep in mind. Many say that the public sector in Northern Ireland is better paid than the private sector, but we must be careful when comparing the metrics. One of the problems in the private sector is that there are not enough managers and senior officials, so it is not perhaps a fair comparator.

Reviews of Senior Civil Service pay have been carried out and questions raised about it. However, the public sector pays up to 50% more for some unskilled administrative officers than a private-sector business in professional services, such as mine, pays for graduate staff. Therefore, controlling pay, painful and controversial though it may prove, does not damage the standard of living to the extent that people suggest. In Northern Ireland, where the costs of housing, services and rates — even if they increase — are relatively low, that is not as damaging as it otherwise might be.

It is a painful route for those people; nothing is more demoralising than being told that one will not get a pay rise for four years. However, if we can keep hold of that, the inflation question that was raised will be the answer to some of the problems. If inflation can be kept at 1% rather than at 3%, the challenge of the cuts ahead will be much more modest. The procurement side of what is purchased, given the scale of the buying power of the Civil Service and the wages bill, is one of the biggest areas in which the cuts, for want of a better word, may not be as damaging as some people think.

Mr McNarry:

That is very useful. I find it difficult when we get a set of figures and then, six months down the line, somebody says that inflation was not included in them and it wrecks the calculations. Should we include a contingency figure for inflation because of the critical number crunching that we will have to do?

Mr N Gibson:

The figure that we have worked with thus far in real terms is to use the standard figure of 2·7% or 3%. The Committee would be wise, at least in its consultations, to see what keeping it at 1% would look like in respect of the choices in front of the Budget. To be fair, it will not be much higher than that, but — I tell my private-sector clients to budget for different oil prices — inflation almost dwarfs some of the other numbers that members heard. I support cost controls because, if we can manage them, they will mitigate the impact.

It is good discipline to look at whether rising costs will be incurred naturally, as that may not be the case. With food shortages, the rising price of oil and the cost of drugs in Health Service, there are many things that are difficult to control, so perhaps it is a little churlish of me to suggest that we could keep inflation at zero. We would probably have to do that by taking pay cuts to offset some rises in materials. If the Department plans for inflation at 3% and can realise an aggressive cost-saving programme in the Civil Service, a significant amount of money will be left to address the challenges. I support that contingency planning approach on different inflation assumptions.

Mr McNarry:

That is very helpful. We should not lose sight of it in our deliberations later and should try to get inflation configured into this because it could have a knock-on effect.

We were told that depreciation costs are inescapable. Surprisingly, in 2009-2010, depreciation amounted to about £34 million. I am probably going to give you a field day now, but do you have any ideas on reducing depreciation costs?

Mr Smyth:

It depends on the vintage of the capital. The public sector has a huge capital stock. Depreciation costs could be reduced by sweating assets more. What is the average time: seven years, 20 years? Can we push that back a little? This period of austerity will not last forever. Indeed, I am of the school of thought that the UK economy, and, in particular, the private sector, is recovering strongly, just as the Republic’s export sector is booming. That sits very uncomfortably with the domestic economy, which is very challenged; nevertheless, we will come out of this. The Northern Ireland manufacturing sector is recovering, and we should not lose sight of that. We have a period in which to make adjustments. I am sure that, as an accounting challenge, it is not beyond the powers of government accountants to push back the period for depreciation and reduce it.

Mr N Gibson:

I am no expert on depreciation or on how years and calculations are decided. However, you draw attention to an important figure and one which we should consider. For example, can we tie in the retro-fitting and building improvement element of the green new deal for construction into longer depreciation figures? The stock would be of better standing. It is at least worth exploring.

Mike listed valid options, but implementing them carries a significant political cost. It would play strongly if we produced the first Programme for Government to look in-house for savings before asking the public to make them.

Mr McNarry:

That is an important point. I share your thoughts on recovery. I am sure that everyone round the table hopes that we do not go to year 4 and that we see shoots. Alongside the figure of £34 million, we are told that rent and rates are another inescapable. It makes one wonder how the estates, land and properties are run in this place. Thirty-two million pounds is accounted for in the expenditure towards rent and rates.

Mr Smyth:

Is that for collection costs or arrears or a combination of both?

Mr McNarry:

That is payment. We have a massive estate here where we have depreciation costs. I cannot get my head round this. What are they depreciating against? How many blooming castles do we have here? We are still servicing government by inescapable costs — rent and rates — in 2009-2010 of £32 million. We simply accept those costs as inescapable. That is where your professional advice — as well as your energy and robustness — need to focus. We can help by saying that we cannot continue with £32 million of rent and rates or with £34 million of depreciation costs. Simply putting them in that column is no longer an option.

Mr N Gibson:

The public knows that you are undergoing that process. That is exactly the right attitude: do not assume that every number is set in stone. When a great deal of money was spent on private-sector consultants — good or bad — the question should have been asked: what are my options for getting £32 million of rent and rates down by 20%? You might not like the options, but too often Northern Ireland's economy has been given get-out-of-jail cards: this is not a devolved matter, or that is just a figure that we have to accept.

The Committee and the Executive should be able to go back to the figures. Many of the figures are done cleverly and correctly by people with excellent accounting skills, but one of our challenges is to find out how to work the system differently. Reducing such costs will be much less damaging than the loss of ten thousand jobs or the introduction of prescription charges.

Mr McNarry:
I assure you, Neil, that we are learning very quickly about the figures that they present us with, even though they still present us with a great many complications about how they end up with those figures.

Mr N Gibson:
I do not understand all the complexities. However, a 10% saving on the two figures that you mentioned would make a significant dent in our problems. We dismiss questions on wages by saying that they are set by national bargaining agreements and that, therefore, there is nothing that we can do about them. That may be right; however, none of our expenditure should get through by saying that it is what it is. They all need critiqued.

That is what the South did: it went through all its lines of expenditure to see whether there was any way of accounting them differently. Can we sweat the asset better? Are there sale options? Is there anything we can do before increasing taxes? The numbers are big and there is money to be found. It may not be easy, but cost reduction has to be our first and aggressive tactic. As I said at the outset, we must look at that before anything else.

Mr Smyth:
The question of depreciation, were we to roll back the period, raises issues about a rise in maintenance costs. Nevertheless, a legitimate question is: what impact would Workplace 2010

have made on the rates figure?

Mr McNarry:

The officials do not want to know. We question them and ask whether they could not do half of it, but all they say is that the property market does not suit. Such thinking does not reflect reality. We have to cut our coat according to our cloth. Buildings are included in Workplace 2010 that will, in the end, cost us a fortune. You mentioned maintenance. People not far from here would be insulted to be asked to work in those conditions. I agree that we should not let go of Workplace 2010.

The Chairperson:

We could ask DFP officials about those issues, including accommodation, and where efficiencies could be found.

Mr McNarry:

I like the Committee to do its work so that members know what they are asking officials, who are a slippery bunch, as you well know. If we do not get the questions right, we will not get the right answers.

Mr McLaughlin:

On that last point, I was at a meeting last week in the Stormont Estate. I was shocked at the state of the accommodation in which officials were working. However, to a person, everyone in the room said that they did not want us to do anything about it because they had a car park outside. That is their perk.

Mr McNarry:

Wait until we start charging them for it. Then we will hear what they say.

Mr McLaughlin:

We are wrestling with the same problem.

I found the presentations stimulating. The argument “it is challenging, but we can do it” has yet to permeate the political class. You have seen the problems that we encountered with

Workplace 2010. That was an early warning.

The Committee conducted an inquiry into what is described, generously, as "a budgetary process". The Committee recommended making timely arguments to allow for engagement, discussion and exploration.

Some of the presentation dealt with issues that would merit study, but that will take time. The time it takes us to produce and process reports means that you could agree your budget in time. There is a consequence of the work not having been prepared.

Let me also put into that mix the problems that we encountered with the review of public administration and the education and skills authority. Mike referred to addressing efficiencies and reducing the costs of bureaucracy as a "no brainer". However, the political process was just coming together and it is still prone to divisions and problems rather than to solutions. That is a part of the maturing process. The achievement is that we will complete a term of the Assembly, although there may be a certain frustration about that. However, since people come from differing political perspectives, certain tensions, dynamics and divisions will exist, even if they are gradually reducing. That affects what we can do here and now.

The presentation made revenue-generating proposals, some of which are already under discussion with the parties. That is to the good. However, efficiencies did not feature much in your presentation. Bearing in mind the very difficult timeline that we are working to, what issues will enable the parties, despite tensions, to agree to move forward?

Mr Smyth:

That is a very difficult question, but I will comment on your introductory remarks. Much of what I am talking about needs to be worked on, and it probably has a medium-term life. The Committee should consider, given that we will not be in this period of austerity forever, wage restraint as part of the immediate response for a year or two. The Committee should get to work on revenue raising and asset leverage. Keeping assets in the public sector but leveraging them seems to be the way to go because, until fiscal powers are devolved — although that may never happen — that is all we can do to create space in our Budget. To create that space, the

Committee needs to consider seriously a period of wage restraint in the public sector and the removal of the pay rise for the cost of living.

I did not talk about efficiencies because there is an easy way to solve the problem. A cost of living pay freeze and a freeze on public sector recruitment will take care of three quarters of the cuts. However, can MLAs sell that? Will the parties accept it? That will leave less to worry about. When Whitehall talks about efficiencies, it means reducing headcount and wage costs. I am firmly of the school that a public service is a public service, not a private one, and there are clear limits on how to bring the disciplines of the private sector into the public sector. However, in a perfect world, electorates would demand more and more public services; whether they are willing to pay for them is another matter.

All European countries are in a mess. I may be sidetracking slightly, but this is not all about bank bail-outs: the banks in Greece, Portugal and Spain did not collapse. However, reckless and feckless Governments in those countries spent money that they did not have and, in the case of Greece, lied about it. That is what happens when a country goes bankrupt, which is the position that they are in. In Ireland, Britain, France and Germany, there have been bank bail-outs, which is what is causing the Budget difficulties. However, reckless government caused the problem in those three important countries.

That tells me that, in Britain, the £86 billion cut is to put the structural part of the Budget back in balance; it has nothing to do with bank bail-outs. It is because politicians like to be popular and their default mode is to buy popularity by promising to deliver and worry afterwards about where the money will come from. We have now reversed that and are in a period where we cannot overcommit and make promises but have to manage the situation for a couple of years. Pay restraint and a recruitment freeze is the least insensitive way of doing it.

Mr N Gibson:
I agree with most of what Mike said. We should put on record our successes with efficiencies. On a slightly tangential point, I looked at issues such as sickness rates, which have come down significantly. That was in the Programme for Government and is a genuine saving, because Departments do not have to buy in agency staff to cover. It is nowhere near the private-sector

level, but it is improving. Given that much of the low-hanging fruit in efficiency has been picked, it gets harder and harder. That does not mean that we should take our foot off the pedal, but it is important that it is articulated that cost savings have been made.

We have to look very carefully at who is trying to find savings. Some things worry me, such as recruitment freezes, which Mike mentioned. They get headcounts down, but they are not a victimless crime: many young kids have qualifications but no jobs to go to. We can hope that the private sector will take them on, but we must take account of the generational damage that will be done if student placements or recruitment are halted because they are too costly.

When it comes to reducing headcounts and making savings, we are also looking quickly to external functions. Agencies and voluntary organisations are already being told to plan for pretty frightening cuts. There is a danger of centralising and retracting. I have noticed, for example, that some Departments are not asking private-sector providers to carry out appraisals but do them in-house. That is absolutely fine, if it is genuinely more cost-effective. Yet, we find that, in some cases, Departments do not record the time that they spend on activities and cannot say how much an appraisal costs. Are we sure that savings are being made by not asking for those tasks to be done by private-sector providers?

Some agencies, in the voluntary sector in particular, have shown terrific delivery over the past two or three years and could be punished because we have decided that it is easier to cut at the fringes. We are cutting externally and not looking at resources in the centre. In the UK, there is a great deal of examination of the cost of central government and the internal central functions. We must not leave them off. We ask people to consider options for cuts, but when we look at the list we see that none of the cuts applies to them. That is a natural human response, but we have to be careful about how we go about the cutting process.

I believe genuinely that, in pursuing our activities, we should explore the effective delivery model. That is not to say that it should be done in the private sector, but it would, at least, be nice to know what it would cost so that we had something to benchmark it against and be sure that our delivery model is cost-effective. Mike is right: it is a great challenge. However, we have to bring some private-sector disciplines into public-sector deliveries, irrespective of whether they are delivered in the public or the private sector. That includes challenging issues such as identifying staff who are underperforming. It is not about moving them to another Department or finding a different place for them to live for a few years. It is about making the difficult choices that all private-sector employers face when they have to sit down with an employee to explain that, having gone through a review process to get the employee up to standard, that employee is not meeting the requirements of the job.

We know that the number of people who leave the Civil Service because they have reached that stage of the disciplinary process is very small indeed. There are people who, even with training and support, are not suitable for the job. That is a very tough thing to have to do, but that is the discipline of the private sector. If you told Northern Ireland's businesses that you will give them the same money for the next four years, 80% of them would bite your hand off for it.

Things are bad but not as bad as they could be. We must keep our foot to the efficiency pedal and ensure that people understand the pay restraint deal and the difference that it makes. The unions have an important role, but we have to be careful that they do not peddle the myth to their people that they can reject this by saying that it will cost 20,000 jobs. It might not affect jobs, but there could be a 2% pay cut. It will be interesting to know how many civil servants would take that deal rather than have the uncertainty of the axe hanging over them.

The point was made earlier about depreciation costs. We must challenge all the numbers that we have. I have seen you, and others, sit through the night to make difficult political progress that I can only look on and admire; I could not have contributed to that debate. If you are to be locked in overnight until you get Budget deals, it is important that we, as advisers, are willing to be in there with you to help and that DFP and all its expertise can be there and say whether something can be done. If we have to stay all weekend in a famous castle until we get a deal, that is what we will have to do. We are at the economic crossroads. Surely, given the political hurdles that we have had to cross, we can get across this one. However, we will not be helping matters if we simply say that we had to do things ad-hoc. Cutting consultancy spending may be a good thing, but we must think of the private-sector firms that will be put out of business. Bringing activities in-house will put some voluntary organisations and other agencies under extreme pressure, but that will be OK. However, accepting pay rises will not leave Northern

Ireland in a good place.

I am sure that Mike and all economists are willing to be in those rooms with you to find a way through it.

Mr McNarry:

Free of charge?

Mr N Gibson:

So long as it is after 6.00 pm; my rate goes down after 6.00 pm. *[Laughter.]*

Mr Smyth:

Are members familiar with the fiscal balance report that I have here? It is great bedtime reading. It is all there, except that I could not find the wage bill in it. Northern Ireland's finances are a bit opaque, but they are easily understood.

Mr N Gibson:

I am ranting a little, but it does not help —

Mr McLaughlin:

It would not be like you at all.

Mr N Gibson:

Sure it's not. I knew that that was risk when I came here. *[Laughter.]* It does not help when advisers stand on the outside throwing rocks in the press and saying that it is terrible and that politicians do not know what they are doing but without offering to help. I am encouraged that members have looked at the numbers presented to them, but it equally does not help for us to look at those numbers and say that they are just the facts. We have to challenge everything.

Never forget that we have enough money to run this country well; the question is how we spend it. We can make tough, unpleasant choices, but — and I am not the right man to speak about this — think of it as a diet. We may hate the process, but we may be better off at the end of it, because tough choices bring about more efficient use of resources. Therefore the Committee has the support of all in the economics profession who wish to see this done well.

The Chairperson:

Mitchel has another question. Members must be a bit more focused, because everyone wants to ask a question.

Mr McLaughlin:

I will not open up another discussion. However, there was a range of revenue-generating ideas, which I will not rehearse because some of them have been identified by parties and are being explored in their discussions. The word emerging from the system on possible options is that this has implications for the block grant or the Treasury. Did you encounter that in drawing up the menu of options in your presentation?

I am interested in the areas that you identified, because they coincide with my party's position that we have more fiscal power than we acknowledge or deploy. That is partly because the dead hand here is telling us that we cannot go in a certain direction because that would raise issues about Barnett with the Treasury. Have the ideas that you put to the Committee today been impeded in any way?

Mr Smyth:

I have checked them out as far as I can. Part of the problem is that we have never been in this position. This report on the fiscal balance is all about how we take money in from across the water, generate a little money here and how we allocate or spend it. For example, the mobile phone text tax is predicated on an interpretation of schedule 2 to the Northern Ireland Act 1998, but I have a pretty good feeling that we could do that. There are no block-grant implications for the other local taxation measures.

It was hard to find but I secured a good source who assured me that local government borrows at the moment, but it does so by taking out mortgages on properties and so on. Therefore, there is a precedent, but they need the Department's permission. There is an issue whether, in giving that permission, the Department would transgress a Treasury rule. I do not think that it would, but it would have to be worked out. That is the only measure about which there is any lack of clarity at the moment.

Mr N Gibson:

It is important that we think of, say, corporation tax, as an example. That race has some way to run and we will see how it plays out. If we cast our minds back to the start of that process, we were told that the idea of a cut corporation tax was ridiculous, do not even look at it, no chance, it is not a devolved matter, forget about it. Now, we are much closer. The UK Government are in such difficult financial straits that they will listen to any proposition — even one to get more powers — that may cost them less in the long run. Therefore, the issue of powers not being a devolved matter is supplanted by the question of whether they should be. The present Government are more receptive than the previous one; therefore if you want more powers, now is the time to ask.

I agree with Mike that many of those options do not have a block-grant implication. A particular favourite of mine is rates. Many people here built beautiful large houses around the countryside, and we cap our domestic rates at a certain level. There is revenue potential there.

Huge houses were built and rates are capped at £400,000. We have million-pound houses all over the country. We may think that we need exemptions for certain farming properties, for instance, but surely that is the right way round in keeping that artificial block. Those little areas add up, and that does not have a block-grant implication.

Mr O'Loan:

I welcome your presentation; it elevates the debate to the level that we need to get to. Much of the political debate around this has not been at the required level.

Mr Hamilton:

We will do our best to bring it down again. *[Laughter.]*

Mr O'Loan:

Saying that we are utterly opposed to the Tory cuts or to the Sammy Wilson's cuts and that we will not engage in the debate will get us nowhere. However, if we say that it is challenging but not catastrophic and that it is manageable, we may get somewhere. When you suggest changing the narrative from cuts to reform, we start saying something serious.

As an example, I will look at the cuts that are coming to the capital side. In one sense, that is one of the most easily managed things. We should say that there is a particular amount of money, so we will do less. You reprioritise your list and start phasing things out longer. It is extremely easy. However, should we do that or should we say that we want to raise more money? That immediately begs the question: what are we trying to do? That is where the real reform narrative needs to change even further than you said. Where are we trying to get to? Then you start asking what we will do with the opportunity that is offered with the four-year budget.

I have to be critical and say that there are people round this table who engage in constructive debate here. However, when they get on the airwaves or in the public arena, they do not engage in a realistic public debate, contribute to informing the public, show the public that they are giving a lead, give them confidence or enable them to contribute in that very necessary debate.

We could discuss many of your interesting suggestions, but as we do not have the time I will ask about welfare cuts. You quantified that as £1 billion, which is more than previous estimates that I have seen. What would be the economic effect of taking that amount of money out of the economy? Would those affected move into the economy and could it receive them? Mike talked about using AME money in different ways and cited the Scandinavian model. I take your point about not accepting at face value everything that comes from London. Nonetheless, what freedom of movement do we have with AME to shift thinking and to create a Northern Ireland response to our situation?

Mr Smyth:

It is about how the proposed cuts are implemented, and I think that they are more than £1 billion. The intent is to move people from economic inactivity into activity, although that presupposes that there are jobs for them to take. That is an argument perhaps for this or another Committee. I have not checked how many unfilled vacancies there have been in the past month or so, but they sit at about 6,000 or 7,000. Most of them are skilled vacancies, although I am not sure. It raises the question of how the cuts will be achieved in AME if they are to be around the rules governing incapacity benefit, disability living allowance and jobseeker's allowance. The intent is to bring people out of inactivity into activity, but that will not work if the jobs are not there. It will be stressful for many households here if the numbers in this publication are correct.

On the issue of autonomy on AME, I understand that the Departments here make a forecast of what they expect unemployment benefit, incapacity benefit and disability living allowance to be every six months and moneys are then drawn down. The first time that I had this debate was with the late Mo Mowlam, and I said that it was a tragedy that, under Treasury rules, people are paid after they become idle rather than being paid to become skilled and employable. Under the present rules, there is very little wiggle room, but surely to goodness, at the highest level, we should be negotiating with the Treasury to see whether those rules can be suspended temporarily on a pilot basis to see whether those moneys can be used more efficiently to put people back to work, to retrain and re-educate them. That argument is worth having.

Mr N Gibson;

I welcome welfare reform. I recognise the challenge that it brings to Northern Ireland. Jobs have come to some of our more economically challenged areas, and significant inflows of migrants have come to take them. That is how the labour market works and no one can complain about it; however, it was disappointing that there was not more local labour willing and able to come forward or with which employers were willing to engage.

A subject that is close to my heart is the jobs that might come to the city of culture area, which might have the skills profile that local people will engage in. It has to be worth their while, and we should not allow press coverage of welfare cuts to be just that welfare is being taken off people. We should be looking at ways of reforming the system that always makes it better to be working than not working if a person possibly can. If it is done right, there will be more money to help the people who really need it, of whom there are many.

Do not underestimate the significant challenge of that problem in Northern Ireland, because it is probably the biggest one that we face: generations of people who are workless and significant numbers who are so far from the labour market. However, I fear that we must deal with that problem, as it will be difficult to tell Westminster that it has a responsibility to give us more money to deal with our deprivation. As Mike said, we need to think of ways of raising extra revenue to help with that huge problem.

David Cameron hit on something because the feeling from media commentators such as John Pienaar was that the speech on welfare reform would go down badly; however, surveys showed that many of those people want back to work. There is great support for measures that help them to get back to work, and everyone in Northern Ireland will tell you stories of people who have chosen not to work and who have a nice house. They will tell you about the number and standards of motability cars and that people who do not work can afford better cars than those who are on a low income. Those things rankle with working people. It will be painful, but if it is done right it will enable us to help those who need it and to get people back into work.

I take Mike's point that the biggest problem is in ensuring that there is demand for those people, and that is why the economy has to stay front, right and centre of your policy choices. We need the big employers to require skills at the lower-end of the spectrum. That must happen, or else all forms of welfare reform will fall on deaf ears.

Mr Frew:

I will try to be as concise and focused as I can. This might be controversial, but if there is one good thing about a recession, it is that it forces politicians to do something that perhaps they should have done 10 or 15 years ago. I have enjoyed this evidence session, because the comparisons that you made between the private sector and the public sector are 100% spot on. I also agree with your statement on welfare cuts.

I have four questions. The revenue cuts can be achieved, but cuts of 40% to capital spending will hurt the private sector. Could we manage the system by transferring funds from the revenue side to the capital side? You talk about increases in domestic and non-domestic rates. How will that affect the private sector, particularly retail, which is struggling and which could collapse as the construction industry did? There is merit in the green new deal, which we, as a government, are looking at, but could it create the 30,000 jobs that the construction lost?

You have been honest and frank, and I welcome that. How do you feel we politicians are performing on this issue? You are right: this is probably the biggest challenge that the Assembly has faced and is probably the one issue that affects all our population. How crucial is it that we strike a Budget as quickly as we can?

The unions told us last week that we should not strike a Budget. Unions are very good at telling us what we should fight for and fight against, but I did not hear many answers. You have offered us your services to sort this out. That is commendable, and society has to take that on board. We need to get everybody round the table to thrash this out. However, the unions are telling us what we are doing wrong and what we have to fight against, but they are not willing to take responsibility that will produce pain.

The private sector has taken a 10% or 15% pay cut; had it not, people would have lost their jobs. Pay freezes are the least that people should expect; people can take it. Faced with a choice of pay freezes or job losses, people would take the former — and take your hand off to do so. The unions are not telling their membership how it is.

Mr N Gibson:
You need experts for moving from current to capital, although my understanding is that it is very difficult to do. Therefore you may need to think of targeting revenue-raising measures specifically to top up the capital programme.

You need to be absolutely clear about what you need to build and about what is nice and what is necessary. You also have to remember that the capital programme that we have undergone does not need doing again, at least not for some time. We have made improvements to schools and hospitals that we need not do again, which is sometimes forgotten.

In many cases, new buildings and widening roads may not be what you need when things are contracting. Therefore a reprioritisation of the capital spend may mean that you do not even need as much as was previously quoted. You can also drive costs down more than in the past. The construction industry is dying for work, so you can be much more aggressive in costing projects.

The green new deal is a great idea. However, I sometimes wonder whether we need to be a bit more aggressive with the tax system. You are asking people to borrow and you will allow them to do that at 0%, but many people still regard that as taking on debt. In other places we used the tax system more aggressively to say that if your boiler is not x years young, if the energy certificate on your house is going down — that is, costing less — your rates will go down. There are ways of incentivising behaviour.

The retail sector is hugely important, as anything that we remove from people's spending power will have an impact. However, it might change how people spend: they will still have to buy food and petrol, but they may just shop around. That is why I favour an aggressive use of the domestic and business rates system in a more structured and progressive way. Increases should be at the high end of properties, not across the board. We do not charge for vacant properties; people can leave buildings covered in moss and with broken windows without having to pay for them. Is that what we want in our towns and cities?

Mr Frew:

Is that correct?

Mr N Gibson:

There is a reduced rate. However, Scandinavia, for example, incentivises owners to keep better-quality buildings. Under the Scandinavian system even opening a building to school kids to exhibit paintings is better than leaving it empty. We do not want to tax landlords heavily who own properties that they cannot occupy; however, we desperately want them to incentivise rates reductions to get people in. We can use the rates system more progressively rather than introduce across-the-board rises for everyone.

You asked how we thought politicians were doing. I am more positive than some. Economists can cast the first stone at politicians and say that they do not know what they are doing. However, unlike economists, politicians do not spend their lives in the minutiae of economics; therefore why should they be expected to find it easy? It is extremely difficult, which is why we should offer help and support. It needs the involvement of everyone round the table.

The trades unions in the South enjoyed good times, but they had settled deals and so could take very painful medicine in the knowledge that there was no alternative. That is exactly what we need to do. I am happy to listen to any arguments about the cost of pay reductions and what they might mean. However, we cannot do that without an alternative; we simply cannot ask Westminster for more money. We already get so much that it would be pointless to ask for more. Anyway, why should Northern Ireland not have to make some contribution to reducing the UK's financial problems? We should not abdicate our responsibility.

Mr Smyth:
One cannot go from current departmental expenditure limits to capital departmental expenditure limits; there is very little room for manoeuvre there. I agree with Neil on the impact of business rates on the retail sector. Given a choice on revenue raising, I would put rates lower on my priorities; there are other things that we can get on with.

The green new deal will not create 30,000 new jobs, but it will create many jobs. It should be looked at in the context of an enhanced social-housing programme of retro-fitting, which is the most employment-intensive activity in times of recession. The Housing Executive could move very quickly to open up new fronts by building houses, retro-fitting and energy efficiency to be part of the green new deal. I do not know what change would be necessary in the Housing Executive's legal status, but it could be done quickly if everyone showed willing.

You asked how politicians are performing and how important it is to strike a budget. I will not say that you should ignore the trades unions' advice, but the trades union movement is heavily public-sector focused. It is almost deaf to the plight of the private sector, even though far more people work in the private than in the public sector. I wonder where the trades unions are coming from.

Trades unions seem to assume that public-service delivery is optimal and cannot be improved. We can never get them to argue on public-service reform; they simply put their head in the sand. You should consider establishing a working party or a sub-committee to examine seriously the scope for asset leverage and borrowing. Such a working party's terms of reference should include the modalities of how it should be done as well as sensitivity to Treasury rules, and you should establish such a working party or sub-committee urgently.

The Chairperson:

Four members want to ask questions and we are running very late, so I ask members to be as focused as possible.

Dr Farry:

I will skip the preamble, except to say that you are letting down your profession very badly by agreeing with each other. It is extremely unusual.

Mr Smyth:

How many economists does it take to change a light bulb? Two: one to change the light bulb and one to hold everything else constant. *[Laughter.]*

Dr Farry:

We still hope for a corporation tax reduction. Should that happen, we would have to fund it over the next four years. How we could do that? Should we shift resources from less productive forms of economic support to what has been billed by economists as a much more efficient way of supporting economic growth?

Which of the options for revenue raising are regarded as progressive and which regressive, particularly around water charges? I share your view that they need to be introduced. I am confused that people from a left-wing perspective are more vocal in their opposition to what can be a progressive option than those who come from a business perspective. The debate seems to be the wrong way round.

Finally, I was under the impression that Treasury rules allowed us to move from current to capital but not from capital to current.

Mr N Gibson:

Most of those are for Mike, but my honest answer to your last question is that I do not know. It is important that we understand the options. I am on record as part of the Economic Reform Group

(ERG) as being very positive that we get a reduction in corporation tax, not just for the jobs potential but for the statement that it sends. What better message could the Executive send that we are ready for business than to introduce tax-varying powers?

It will cost, although I am frustrated at the people who have thrown that up as a reason not to go for it. I do not know what the finances will look like when we get a reduction, but all the big economic development choices will require some form of investment. Whether we look at raising tax or reprioritising spend to pay for it, let us cross that bridge when we get to it. We have to move from a de facto economic policy of protecting the block grant; that is unambitious, and it leaves us at the mercy of cuts. Let us be braver. The UK will not pay for it; businesses or somebody in Northern Ireland will have to pay for it. However, that is no reason not to keep our foot to the pedal to try to get it. It would make a great statement and could make a significant difference.

Mr Smyth:

Even with a fair wind, there will be no movement on corporation tax until 2012 or 2013. The recommendation of the Economic Reform Group is that it should be phased in until 2020, by the end of which it would be at a certain rate. Even announcing our intention to do that would have a tremendous effect on the number of enquiries into Northern Ireland.

There is justifiable concern in some quarters that reducing corporation tax would give a windfall to big business: the supermarkets, the banks, BT, Bombardier Shorts and the utilities. Therefore we have explored adjusting the property taxes — the rates — on those businesses. That measure would take us a fair way towards meeting whatever final figure the Treasury produces for the cost of reducing corporation tax. Business should pay, and there would be safeguards for small businesses. We used to have rates relief, which we should bring back. There is also the question of whether the industrial development budget would need to be at quite the same levels if foreign direct investment was flowing in. We need to look constructively at that. I am as anxious as anyone to see what final figures, or range of figures, the Treasury puts on the cost. However, I am confident that we can find fair ways of paying for it.

As to revenue-raising proposals, I must confess that most of the proposals that I put to you today are not progressive, but neither are they necessarily regressive. That is in the nature of things. We are a region of the UK and we do not have full control over progressive taxes. It is as though we have 10 VATs to allocate. Property taxes are at best proportionate and at worst regressive. I do not think that there is any way around it. However, in the debate on water charges, we showed that we can bring in safeguards to protect the vulnerable. We would have to offer the same facility in some of those other options. Rate increases already include protections. Would that we were a sovereign country; then, things might be different. However, we are not.

Mr Hamilton:
Neil said that, even in the face of very challenging circumstances, we still have sufficient money to deliver high-quality public services. However, there is a divergence in opinion. Mike gave a long list of potential revenue-raising areas. I am not afraid to look at existing revenue powers or new ones. However, I want to pull you up on this: you said that a 1% increase in rates could raise £50 million annually, but I think that it is only £6 million or slightly over it, of which £3 million is in the regional rate here. If a 1% rise could raise £50 million, the problem would be much easier.

Dr Farry:
Had there been an inflation-level rise in rates over the past three years, we would be £50 million better off.

Mr Hamilton:
That is right, but 1% is not £50 million annually.

I am concerned about concentrating the debate on money. Declan is absolutely right: it is good that we have this discussion. However, concentrating on revenue raising almost implies that public expenditure in Northern Ireland is as efficient as it could be. I will not go off on one my rants about the size of government. I agree with you about the sweating of assets, to use that awful phrase. I agree entirely with the point about the Housing Executive and its assets. There are ways in which they could be utilised much better, and I have no firm favourite. There are as many ideas about how that can be done as there are days of the week.

On the procurement side, I have spoken to organisations over the past weeks and months that are very concerned at what they see as retrenchment. Public services for which they used to tender are no longer being put out to tender. However, we have independent evidence in reports by Government in Whitehall that, even with in-house tendering, we can save between 20% and 30%. Therefore, we have an order to protect the centre with this retrenchment and to hell with the saving and the quality of service.

Before we look seriously at more difficult revenue-raising areas should we not first consider how we can use our assets much more productively and procure better? We should look at how we deliver those services first — indeed, whether we should be delivering some of them at all any longer — before we look at anything else.

Ultimately, even if there were new revenue powers, someone will to have to pay; if we borrow more, we will still have to pay for it. If we have enough money to run world-class public services, should we not be looking inside first before we start to look outside?

Mr N Gibson:

I can only commend that point. My strong belief is that we should start by asking what we are paying for and whether this is the optimum way of paying for it. Internal cost control should be the priority before we go down those more difficult avenues. There is a danger that if we had a list of tax-raising options ready to go, we might go to them too quickly before we had explored every option internally.

I cannot accept that if we are to bring services back in-house we have to demonstrate that it will cost us less. As one who has worked in the private sector all my days, I am amazed that we do not even account for some of our workers' time by assessing how much it costs to do a certain task. How can we possibly be sure that doing it in-house is a better choice? Many issues will remain in-house, but we have to look at all the possibilities.

Like members, I have heard that agencies and people are already struggling. We must think of the small towns and villages that have little consultancy practices, little architects and various little business that all depend on public contracts. We are almost parading the fact that cutting such private-sector spending will be less damaging. It could cause more damage because it will reduce an already small private sector, although I say that as a private-sector consultant. However, cost reduction and control will solve most problems. It is possible to get through the whole process without any additional revenue raising if we are aggressive enough about looking at our internal options.

Mr Smyth:

I do not disagree; however, the electorate should be given the choice. The electorate was softened up before the debate, but very little of the debate featured alternatives to the cuts. Revenue raising and borrowing in leverage, which we have not mentioned, are legitimate considerations. Whether the period of austerity is long or short, we need to look at revenue raising for the future because elected representatives will want to be able to promise the electorate a better standard of living and better public services. Even if the UK Exchequer recovers from its structural difficulties and we go back to a generous Barnett settlement, members will still want to have the resources to improve people's lives. Therefore the Committee must look seriously at revenue, borrowing, asset sales and leverage. It is your duty.

Ms Purvis:

I agree. I want to go back to the issue of welfare reform and work, as we cannot separate the two. Work is good for people's mental and physical health and well-being and is a good way of addressing poverty. However, some of the proposed welfare reforms target people who are already in work, particularly women, who tend to be concentrated in low-paid, part-time jobs. Tampering with tax credits will put many of those women out of work by raising the threshold to 24 hours. I cannot imagine how employers will pluck eight hours out of the air to give those women.

I see the potential for an increase in poverty, particularly lone-parent poverty, which will then increase child poverty. It is the most vulnerable — the sick, the poor, the illiterate and the workless — who depend most on public services. Demand for public services will increase, and I do not see how it can be matched by finding jobs. Poverty will create health, education and other inequalities. Some of the revenue-raising reforms seem geared to affect the most vulnerable. What room for manoeuvre should there be in the Budget to focus on preventative spending? You said that about 6,000 skilled jobs are unfilled. There are more than 250,000 illiterate adults in Northern Ireland and thousands of young people who are not in education, employment or training. There is a growing tale of educational underachievement that is not being addressed, and health inequalities are increasing all the time. Therefore, what focus should there be on preventative spending to reform our public services and our welfare system and invest in a way that will help us in the long term?

Mr N Gibson:

That is a fantastic point, and, as I said, that is our biggest challenge. From work that I have been doing in the north-west, I know about jobs that are coming in. Invest NI's strategy is to attract jobs that are above the median wage. We all know why that strategy is in place — and it is legitimate for creating economic growth — however, a huge tail of people here will find it difficult to engage with such jobs and the trickle-down effect may not reach them. It is your biggest challenge.

If we believe that the tax credit system will affect groups adversely and push people out of work, let us get the figures for Northern Ireland to estimate that and ask what we are willing to tax or to cut elsewhere to address that. So far, the debate has tended to be that we should not accept the welfare reforms from Westminster. If it really is a problem here, how will we reprioritise our spending to address it? As Mike said, let us think about the choices before us. Let us think about what a reduction of 1% in the pay bill would mean for the choices that we would have to put money into other schemes.

Welfare reform is a huge priority, but I am nervous about how we respond to it. Objecting to reforms will not work. We might want to lobby for greater powers over welfare here, but we should explore the options of top-up moneys or different ways of prioritising money. We should debate what we are willing to raise to address inequalities rather than simply object to cuts. We have to be more mature than that.

Earlier, I raised the example of motability cars, but I could have used any other example. The scale of long-term sickness in Northern Ireland cannot be purely a health problem. We did not have those levels of sickness in 1997, because, at that point, people could be on jobseeker's allowance without looking for work. We know that, however politically sensitive it is to mention it, there is a problem of benefits and welfare getting to people who are not as requiring of it as some of the people whom you mentioned. The nettle to grasp is how to be aggressive. The press will always pick up on the one or two people who will be affected adversely by a different policy; our welfare budget is huge and, used more efficiently, it could do much more for the categories that you rightly identified.

As I said, it is a massive problem for Northern Ireland, but it is our job to find a way to fix it. It is a question of ensuring that welfare moneys go to those who need them. If we still need top-up moneys for some of the categories that you discussed, let us think of prioritising some of the revenue-raising streams or cost reductions in the Civil Service directly to read across to the categories that you wanted rather than simply objecting to welfare reform.

Mr Smyth:

You asked very difficult questions. One of the things that surprised me in the debate is that it appears that Northern Ireland has some autonomy in how the welfare budget is allocated and administered. Iain Duncan Smith made that point when he was here, although I am not sure what degree of autonomy exists here. That is worth exploring, because it addresses your point about trying to prevent people from falling through the net.

In the welfare debate, I am always struck by the gap between the rhetoric of reform and the reality. The UK's welfare system is the best in the Anglo-Saxon world; it is there to help people who are vulnerable, and departing from it would be a disgrace. We are arguing about whether the system is fair in getting resources to people who need them and whether changing the rules would disadvantage those people. We have to be very careful. With social security tribunals and so on, we have to be sure about reforms.

We need to explore those issues with the Department for Social Development and the Department for Employment and Learning — they have responsibility — and with the Treasury. DEL piloted programmes to put people back to work. I must read the evaluations because if we are to make preventative interventions, we need to know what works and what does not.

Are we confident that there are enough safeguards to prevent the sort of personal tragedies that you highlight? It depends on our support mechanisms: citizens' advice bureaux, the community and voluntary sector, and grassroots workers. We have to support the reform's intention to try, as far as possible, to use the welfare system to help people who have become weakened or vulnerable to get back into the mainstream. However, the bottom line for the welfare system is that it is there to help those who cannot help themselves.

Mr N Gibson:

Some of my team are doing work in Sudan, and when Bill Clinton was here he mentioned his work in Haiti. We have significant problems here, but again I take you back to the number that we get in welfare money. That should be enough to do it well and fairly. We are sometimes too quick to say that a cut will devastate x or y. The pot of money, if we stand back and abstract from it, is enough to avoid some of the social tragedies that you talked about. It is about being ambitious, brave and aggressive about how we deploy money. Most parts of the developing world would love to have that money to tackle welfare reform and social problems.

Sometimes we lose sight of the amount that we have. As Mike said, it is a fantastic system. It may not be optimal, and we may be able to reform it; however, the number, just like the public-sector finance number here, is enough, looking at comparators across the world, to solve the problems. We just do not necessarily deploy it as well as we might.

Ms Purvis:

Getting joined-up government here is one of our biggest challenges, particularly welfare reform. The biggest obstacle preventing women from accessing the labour market is flexible and affordable childcare; we do not have a childcare strategy or available childcare in Northern Ireland. The Executive should look at that if they are looking at welfare reform and assisting women into work.

Mr Smyth:

Unless there is a corresponding proposal in England, we would not get any Barnett consequential for that in any future spending round. Perhaps that is a case for hypothecating some of my revenue-raising proposals.

I do not make those proposals in isolation. If you raise taxes and charges, you have to be up-front with people and tell them that you are doing it collectively for the following reasons, and that may be one of them. This is not a kneejerk reaction to a period of austerity. I do not want to get into the issue of whether we pay enough taxes here, but if we are to ask people, particularly the middle classes, to put their hands deeper into their pocket, we should tell them that the money will be used for things that people will genuinely buy into. That is what we urgently need here to bed down the political process.

Mr Girvan:
I agree with Paul that this has been a fantastic evidence-gathering session. With regard to welfare reform, you mentioned a cost of roughly £1 billion. Does that include its impact on the private sector? Removing a large amount of money from revenue that was to be spent in the wider economy will have a knock-on effect on corner shops and all those areas that are not necessarily included in the overall impact.

We do need to make efficiencies and ensure that we make proper use of the money that we receive. We probably need to focus on the areas that you identified. We need to make hard decisions about the public sector and about delivering better value for money through voluntary or other agencies. Unfortunately, for so long we were frightened, as the man says, to bite the bullet.

Last week, we had an evidence session in which the trades unions were airy-fairy about where money should come from; they were pulling billions of pounds from here, there and everywhere. I am glad that we can put meat on the figures that we are hearing today, which have been very helpful. There is, however, the issue of the £1 billion of welfare reform.

Mr N Gibson:
In this session, I have probably come across as reasonably up for the challenge of absorbing that and confident that we can get through it. However, how and where we take money out will have an impact. Taking it from people on low incomes, who spend almost all their money rather than save it or spend it on expensive foreign holidays, will draw more money out of the local

economy, because much of it goes straight into our shops. We need to be sensitive about that. However, welfare reform helps to get more people back into work, thus generating money, and that will mitigate the impact.

I commend the CBI paper, which we need to look through, as those people have a great deal of experience. Although I would not back all the paper, it was a terrific effort in beginning to ask questions about where we might find money. When you get into a closed room with the unions, political representatives and, for what they are worth, economists, you will want to discuss exactly that sort of paper. The alternatives cannot simply be a rejection of cuts or putting the onus on the banks. On the one hand, you could ask local banks how much money they can stump up; on the other hand, you ask them to lend more money. You must have those discussions and, as Mike said, you must require people to put down achievable numbers, which the CBI should be commended for doing. We have to deal with realities, not just the rhetoric of what we would rather not do.

Mr Smyth:

The figure of £1 billion in cuts is based on the UK target of £18 billion — although I very much doubt that it will ever be achieved — and Northern Ireland's share is about £1 billion. Achieving that would remove spending from the high streets and hit the private sector disproportionately.

Mr Girvan:

According to today's figures, Northern Ireland has had an uplift of 400 jobs, all of which, I am confident in saying, came from the private as opposed to the public sector. Yet the only noise that we hear is from people brought on to the streets by the trades unions talking about public-sector job losses, which I do not think there will necessarily be.

Mr Smyth:

The churn in public-service jobs will take care of that. If recruitment were frozen, there would be no compulsory job losses.

I also draw your attention to the evidence emerging from the reform of incapacity benefit in England, which suggests that they are finding it very difficult, because people are winning their appeals. We should not lose sight of the gap between rhetoric and reality.

Mr Girvan:

The employment and support allowance system is an attempt to do that.

The Chairperson:

Although the session has been very informative and interesting, I really have to end it here. If there are any more questions, we will follow up on them. I am sure that members will agree to have you in again. I am sorry to rush you out, but we are about an hour behind schedule. Thank you very much.

Mr Girvan:

We look forward to the late nights.