Response to Northern Ireland's Draft Budget

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January 2011

Summary

1. This paper is concerned with the likely impact of the Spending Review on living standards in Northern Ireland and especially the living standards of those with the lowest incomes. It is written by researchers engaged in a major study of Poverty and Social Exclusion in the UK funded by the Economic and Social Research Council.

2. The commentary is only concerned with the Draft Budget document and does not cover the separate budget statements issued by each Government Department.

3. The cuts in Treasury funding for Northern Ireland are greater than many assume. The consequence of the Spending Review is that by 2014-15 Northern Ireland will be receiving 7.6 per cent less in real terms from the Treasury than it was in 2010-11 to pay for current departmental functions. The real cut in capital funding is 40 per cent and the combined current+capital reduction is 11.3 per cent.

4. The new Office of Budgetary Responsibility (OBR) made three different estimates for public sector inflation during 2010. The Spending Review and the figures in the Draft Budget are based on the OBR's June estimates which were lower than its November estimates. Our paper adjusts the Spending Review and Draft Budget data using the November deflators (the most up-to-date).

5. The Treasury will have cut £530 million from the annual capital budget by 2014-15 and £780 million from current funding. By 2014-15 the Treasury will have withdrawn aggregate funding of £3.48 billion which is more than this year's current expenditure on Education and Justice.

6. Even these figures may be an underestimate. Confusingly, the Draft Budget figures differ from those in the Spending Review. The real cut in capital funding is closer to £550 million and for current funding, £874 million, if we go by the Draft Budget.

7. One of the controversies surrounding the Spending Review concerns the St. Andrews' Agreement and the commitment to the capital investment strategy for 2008-2018 agreed at the resumption of devolved government in 2007. We estimate that there will be a shortfall of £4.5 billion (in cash terms) by 2018. This will seriously undermine the explicit objectives of the strategy, including economic stability, tackling areas of social disadvantage, addressing poverty and promoting tolerance, inclusion, equality and good relations.

8. The emergency June 2010 budget and the Spending review make a number of changes to welfare benefits, adding to those already announced by the previous Government. By 2014-15, spending on benefits across the UK will be £18 billion less than it is now (in cash terms). The loss to Northern Ireland's benefit recipients will be more than £600 million per year by 2014-15.

9. The planned reductions in public spending are not evenly distributed across the Northern Ireland Departments. The UK Government has protected spending on health relative to other areas with the consequence that the current budget of the Department of Health Social Services and Public Safety is increased in cash terms by 7.6 per cent (or £326 million). In real terms, however, DHSSPS spending will be cut by 2.6 per cent over the period of the Spending Review.

10. By 2014-15 all Departments will have substantially lower current budgets in real terms than in 2010-11. The largest cut by volume is to Education (–£268 million), followed by Justice (–£176 million), HSSPS (–£125 million) and Regional Development (–£118

million). Proportionately, the largest cuts are to Regional Development (–20.6%), Culture Arts and Leisure (–17.7%), OFMDFM (–16.8%) and Environment (–15.2%). Two of the biggest departments, Justice and Education lose 13 and 12.7 per cent respectively. The smallest cut is to HSSPS followed by Employment and Learning (–6.8%) and Enterprise, Trade and Investment (–6.8%). By 2014-15, Social Development will be spending 9.1 per cent less than in 2010-11, a cut of £52m.

11. The Executive has sought to offset the worst of the capital budget cuts. Nevertheless, Regional Development, with the biggest capital programme, loses 13.8 per cent by 2014-15. The hardest hit Departments are Social Development (–41.4%) which has the second largest capital programme, Enterprise, Trade and Investment (–39.2%), Culture, Arts and Leisure (–35.9%), and Education (–28.3%).

12. The cuts in public spending are occurring in a context of a stagnant employment rate, rising unemployment and restricted opportunities for younger people. They will cause unemployment through direct job losses, through public agencies purchasing fewer goods and services from the private sector, and through reduced demand in the economy from lower personal incomes. The Draft Budget provides no assessment of job losses.

13. We estimate that the public spending cuts will lead to a loss of 38,000 jobs, half of which will be from the public sector.

14. The redundancies will have a disproportionate impact on women, an affect which is entirely predictable from the structure of the public sector. The Draft Budget makes no attempt to address this, leaving the Executive open to legal challenge for failing to have due regard to equality of opportunity.

15. The job losses and cuts in the value of key benefits will reduce living standards and increase poverty. The Executive’s main response is that a new economic strategy is being developed that will ‘rebalance’ the economy towards the private sector. The Draft Budget has set spending plans for the next four years without agreeing the general shape of the strategy. Consideration should be given to top-slicing Departmental budgets to provide a strategic fund to support agreed goals of sectoral growth, employment growth and reduction in economic hardship.

16. The main debate over economic strategy has been about lowering the rate of Corporation Tax. Our consideration of this issue concludes that to cut the rate to 12.5 per cent would be a poor use of £280 million per annum with little certainty of significant job creation.

17. The Green New Deal provides a model for an integrated economic strategy that has the potential to reduce household energy consumption and costs, to create employment and to reduce Northern Ireland’s carbon emissions. The proposed investment in Green New Deal for the next four years is negligible when put alongside the need to reduce fuel poverty and the Executive has yet to articulate a strategy for implementing key elements of Green New Deal. In terms of benefiting the worst off households, interventions need to be appropriately prioritized and targeted.

18. The new economic strategy will need to consider the future role and contribution of the banks, especially the quasi-nationalised banks, to Northern Ireland’s economy and employment growth.

19. The most serious impact on living standards in the foreseeable future stems from changes in taxation and welfare benefits. According to the Institute for Fiscal Studies, except for London, households in Northern Ireland are worst off as a result of the changes

for two reasons. Northern Ireland has a relatively high proportion of households with children and a higher proportion of household income is sourced from welfare benefits.

20. The tax and benefit reforms result in a cut of 5.5 per cent in household income for the poorest fifth of households and a 3.8 per cent cut for the richest fifth.

21. We propose that the priority for the Budget and subsequent actions is two-fold:

a) to *protect* the living standards of those at the lower end of household income distribution, and especially the prospects and opportunities for the children in those households;

b) to *improve* the quality of life in households and communities most affected by the recession.

22. One way to further these aims is in the design of new revenue streams, whether these involve charges, investment funds, rates, or tax varying powers (both tax reliefs and impositions). The implication of this is that revenue raising should either be progressive (with the better-off paying more relative to income) or should have an identifiable social or environmental objective.

23. We make a number of proposals including raising the price of alcohol, selective charging for car use and access, a tax on boat ownership, air passenger charges for local flights (Ireland and Britain, exit and entry), and the introduction of a land value tax.

The 2010 Spending Review and the implications for Northern Ireland

Various claims have been made for the likely consequences of the October 2010 Spending Review for Northern Ireland. Now that the NI Executive has agreed a draft budget for the next four years, there is an opportunity to examine the available data on public spending and assess the impact on departmental programmes and the overall economy. This paper is concerned with the likely impact of the Spending Review on living standards in N. Ireland and especially the living standards of those with the lowest incomes. It is written by researchers engaged in a major study of Poverty and Social Exclusion in the UK funded by the Economic and Social Research Council.[1]

Three sections follow. First we consider the scale and nature of the cuts in public spending. Secondly we estimate the impact on employment and unemployment. Finally, we comment on the Northern Ireland Executive's priorities in the wake of the UK Government's deficit reduction measures.

1. Public Expenditure Reduction

When the UK Chancellor George Osborne published the Spending Review[2] there were two main political reactions in Northern Ireland. The first was that the UK Government had reneged on commitments agreed with the previous administration regarding the political way forward for Northern Ireland. Following the St Andrews Agreement, there was an £18 billion commitment to capital investment and there are fears that this has been lost during the change of Government and the devolution of responsibility for the administration of justice. This is a very important issue as can be seen from the investment plans described in the 2008-2018 strategy document.[3] The second reaction was that the cuts were worse than expected. Northern Ireland's Finance Minister Sammy Wilson spoke of a reduction of "£4 billion in real terms across the Spending Review period".[4] The Secretary of State for Northern Ireland Owen Patterson was said to be surprised at the depth of negative reaction to the Spending Review, arguing that saving "1.7p in the pound in each of the next four years" was achievable. Northern Ireland was getting "a quite remarkable deal… I don't know what planet they're [NI politicians] living on." The Treasury's figure was a £2 billion cut over the Review period.[5] Adding to the confusion is the Treasury figure of –6.9% as the cut and the NI Executive's figure of –8%.

These are the political headlines. But what do the figures say? The figures in the Spending Review show that, by 2014/15, Northern Ireland will be receiving 6.9 per cent less than it was in 2010-11 to pay for current departmental functions such as health and education (Table 1). In arriving at this figure, assumptions have to be made about the rate of inflation that is applicable to the public sector, otherwise know as the GDP Deflator, a series maintained by HM Treasury. The assumptions made about public sector inflation are crucial to the calculation of increases or decreases in public spending. For example, according to the Spending Review health spending in England is set to rise by 1.3 per cent. Given that health spending covers almost a third of the UK spending budget, this is a significant commitment requiring steeper cuts in other budgets. Education (about 16% of all spending) will have 3.4 per cent less for the year 2014-15 than it has for 2010-11. Local government in England (just under a tenth of all spending) will have 27 per cent less by 2014-15.

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[1] For further details see http://www.poverty.ac.uk
[2] HM Treasury (2010) *Spending Review 2010*, Cm. 7942. London: Stationery Office.
[3] Northern Ireland Executive, *Investment Strategy for Northern Ireland 2008-2018*.
[4] Press Release, 20 October 2010.
[5] BBC News, 21 and 22 October 2010.

As the House of Commons Health Committee points out, the Department of Health was one of only two departments for which the Government made a commitment to protect funding. The Committee questions whether this has been achieved in the Spending Review. Because of a change in the estimate of the GDP deflator, health is likely to have around £250 million *less* in 2014-15 than it does now.[6] This is without taking account of the estimated above-inflation 3.9 per cent increase needed for the ageing population and technological innovation, or the costs arising from the proposed reform of the NHS.

Table 1: *October 2010 Spending Review allocations to devolved administrations*[7]

Resource funding[1] *£billions*	2010-11	2011-12	2012-13	2013-14	2014-15	Change to budget by 2014/15 %
N Ireland	9.3	9.4	9.4	9.5	9.5	-6.9
Scotland	24.8	24.8	25.1	25.3	25.4	-6.8
Wales	13.3	13.3	13.3	13.5	13.5	-7.5
Capital funding						
N Ireland	1.2	0.9	0.9	0.8	0.8	-37
Scotland	3.4	2.5	2.5	2.2	2.3	-38
Wales	1.7	1.3	1.2	1.1	1.1	-41
Resource AME[2]						
N Ireland[3]	5.5	5.8	5.2	5.1	6.2	
Scotland	0.0	0.1	0.2	0.3	0.4	
Wales	-0.1	-0.1	-0.1	-0.1	-0.1	

1. Current funding governed by Departmental Expenditure Limits.
2. Annually Managed Expenditure.
3. Figures for N. Ireland include Capital AME (2010-11: 0.3; 2011-12: 0.3; 2012-13: 0.2; 2013-14: 0.1; 2014-15: 0.2.).

How will the revised GDP deflator affect N. Ireland's budget? The impact of assumptions about public sector inflation can be seen in Table 2.

Table 2: *Change in Northern Ireland budget by GDP deflator*

		2010-11	2011-12	2012-13	2013-14	2014-15
1	N Ireland resource funding (£bn)	9.3	9.4	9.4	9.5	9.5
2	OBR pre-budget GDP deflator		1.6	2.4	2.7	2.7
3	OBR June 2010 budget GDP deflator[1]		1.9	2.3	2.6	2.7
4	June 2010 index[2]	100	101.9	104.24	106.95	109.84
5	OBR November 2010-revised GDP deflator		2.5	2.2	2.7	2.7
6	November index	100	102.5	104.76	107.59	110.49
7	Value of 2010-11 resource using June 2010 index	9.3	9.48	9.69	9.95	10.22
8	Real change (R1-R7) £bn	0	–0.08	–0.29	–0.45	–0.72
9	Running total of R8	0	–0.08	–0.37	–0.82	–1.54
10	N Ireland capital funding (£bn)	1.2	0.9	0.9	0.8	0.8
12	Value of 2010-11 capital using June 2010 index	1.2	1.22	1.25	1.28	1.32
13	Real change (R9-R10) £bn	0	–0.32	–0.35	–0.48	–0.52
14	Running total of R11	0	–0.32	–0.67	–1.15	–1.67

1. Percentage increase over previous year
2. Shows the cumulative affect of row 3 with 2010-11 as 100.

[6] Commons Health Committee, Second Report. *Public Expenditure.* 9 December 2010, para. 50.
[7] Source: HM Treasury (2010) Spending Review, Cm 7942. London: Stationery Office.

Rows 1 and 10 (resource and capital) give the Spending Review cash budget for each year covered by the Review. In 2010, the newly-established Office of Budgetary Responsibility published three different forecasts for the GDP deflator: a) in its pre-budget report (row 2); b) the deflators used in the June 2010 emergency budget statement (row 3); and c) revised estimates published in November (row 5). The Spending Review used the June 2010 deflators and these are shown as an index in row 4, based on 2010-11 as 100. Using this index, row 7 shows what the 2010-11 spend is worth in later years. For example row 12 shows that the £1.2 billion capital spend for 2010-11 would need to be £1.32 billion by 2014-15 in order to keep pace with public sector inflation. But the Spending Review allows for a capital spend that year of only £0.8 billion, a cut of £0.52 billion (£520 million) in real terms, or 39 per cent in that year alone. Similarly, the resource budget for 2014-15 (row 1) is £9.5 billion compared to the £10.2 billion required to keep pace with public sector inflation (row 7), a 6.9% cut from the 2010-11 level of spending. The resource and capital Treasury funding for 2014-15 will be £1.24 billion below what it was in 2010-11: a 10.7 per cent cut.

Based on the GDP deflators used for the Spending Review, a total of £1.54 billion will have been cut from resource spending between 2011-12 and 2014-15 (row 9). Another £1.67 billion will have been cut from capital investment (row 14), bringing the combined cut to £3.21 billion. Using the November revision to the GDP deflator, the reduction in resource funding rises to £780 million for 2014-15 and £530 million is lost from the capital spend – a combined total of £1.31 billion (Table 3). The contrast between the June and November deflators is shown in Table 4.

Table 3: *Revised estimates of change to Treasury funding for N. Ireland*

		2010-11	2011-12	2012-13	2013-14	2014-15
1	N Ireland resource funding (£bn)	9.3	9.4	9.4	9.5	9.5
2	OBR November 2010-revised GDP deflator		2.5	2.2	2.7	2.7
3	November index	100	102.5	104.76	107.59	110.49
4	Value of 2010-11 resource using November 2010 index	9.3	9.53	9.74	10.01	10.28
5	Real change (R1-R4) £bn	0	–0.13	–0.34	–0.51	–0.78
6	Running total of R5	0	–0.13	–0.47	–0.98	–1.76
7	N Ireland capital funding (£bn)	1.2	0.9	0.9	0.8	0.8
8	Value of 2010-11 capital using November 2010 index	1.2	1.23	1.26	1.29	1.33
9	Real change (R9-R10) £bn	0	–0.33	–0.37	–0.49	–0.53
10	Running total of R9	0	–0.33	–0.70	–1.19	–1.72

Table 4: *Comparison of losses in Treasury funding using different GDP deflators*

Losses to 2014-15 budget	*£ million*		*Percentage change*	
GDP deflator	*June*	*November*	*June*	*November*
Resource	–720	–780	–6.9	–7.6
Capital	–520	–530	–39	–40
Resource+capital	–1,240	–1,310	–10.7	–11.3
Aggregate losses 2011-12 to 2014-15				
Resource	–1,540	–1,760		
Capital	–1,670	–1,720		
Resource+capital	–3,210	–3,480		

We are now in a position to assess the headline claims surrounding the Spending Review. It appears that neither the Secretary of State for Northern Ireland's "1.7p in the pound" nor the Finance Minister's £4 billion cut are borne out by the above figures. The 1.7p figure comes from dividing the 6.9 per cent cumulative cut to the 2014-15 resource budget Table 1, row 1) into four equal parts (1.72). But this is not how the cuts are projected by HM Treasury. In the first year they are projected to be less than one per cent, in year two, three per cent and in year four, 4.5 per cent before reaching 6.9 per cent in the final year. And this only covers the current resource element, as well as being based on the now out-of-date June 2010 GDP deflators. The capital cut for the next financial year (2011-12) is 27 per cent of budget, or £330 million. Combining capital and current resource budgets, £460 million will be lost – a 4.3 per cent cut for next year.

It is not clear where the claims of £4bn or £2bn in cuts come from. By 2014-15, Treasury based funding (resource + capital) will be £1.3bn (or 11.3 per cent) less than 2010-11. By the end of 2014-15, an aggregate loss of £3.48bn to N. Ireland's Treasury funding will have occurred (Table 4). The loss of Treasury funding may be considerably more than this as the Spending Review figures are expressed in billions and rounded to the nearest 100 million. Using the more detailed figures contained in the N. Ireland's Draft Budget (Table 4a) the estimated cut in Treasury capital funding is £1,855 million.

Table 4a: *Reduction in Treasury capital funding for N. Ireland, Draft Budget data*

£ million	2010-11	2011-12	2012-13	2013-14	2014-15
N Ireland capital funding (£bn)	1,222.9	903.4	858.9	780.6	803.8
Value of 2010-11 funding using November 2010 index	1,222.9	1,253.5	1,281.1	1,315.7	1,351.2
Real change	0	–350.1	–422.2	-–535.1	–547.4
Cumulative change		–350.1	–772.3	–1,307.4	–1,854.8

A major concern is how the cuts in capital funding affect the plans outlined in *The Investment Strategy for Northern Ireland 2008-2018*. Between 2011-12 and 2017-18 the planned investment was £11,692 million. Up to 2014-15 the Treasury will fund £3,347 million, leaving a shortfall of £8,345 million. If we assume that £200 million per year will come from the Reinvestment and Reform Initiative over the entire seven year period, the shortfall is £6,945 million. For the three years outside the Spending Review period, Treasury funding will need to be £2,315 million each year in cash terms, almost three times the 2014-15 level. This is highly improbable and the likely scenario is that the Investment Strategy will be £4.5 billion short by the end of 2017-18 (cash terms only).

The 2008-2018 Investment Strategy followed the resumption of devolved government in 2007 and expressed both optimism and ambition. It was clearly seen as a peace-building plan involving economic, social and environmental goals. The package was designed to address the lack of investment in N. Ireland's infrastructure over many decades and the social goals of promoting 'tolerance, inclusion, equality of opportunity and the desirability of good relations', promoting 'regional balance in future development' and tackling areas of social disadvantage. The explicit aim was to procure capital projects in order to,

> maximise the social and employment opportunities for all our people, addressing existing patterns of socioeconomic disadvantage and using prosperity to tackle poverty.[8]

The status of the Investment Strategy vis-à-vis the St. Andrews' Agreement has been much debated. Paragraph 9 of the Agreement states, 'The Governments are also committed to working with the parties to establish the most favourable possible financial climate for a newly restored Executive'. Annex B to the Agreement committed the

[8] Northern Ireland Executive, *The Investment Strategy for Northern Ireland 2008-2018*. p. 5.

Government to publishing ‘an Anti-Poverty and Social Exclusion strategy to tackle deprivation in both rural and urban communities based on objective need and to remedy patterns of deprivation’, which would thereafter be taken forward by the Executive. Annex C is titled ‘Financial Package for the Newly Restored Executive’. The key text says,

> The Governments are committed to working with all the parties to establish a platform for long-term economic stability and reform necessary for a newly restored Executive. In the context of restoration of the institutions, the Governments remain committed to ensuring the Executive has the capacity to provide quality public services, to continue the process of necessary reform, to plan for the future, to make the long-term capital investments to underpin the economic transformation of Northern Ireland, as well as bringing long-term benefits for the island as a whole.[9]

These commitments, albeit unquantified in the Agreement itself, were an intrinsic part of securing and strengthening political trust between all the political parties and the British and Irish Governments after decades of violent conflict. In this context, the idea that the Spending Review equates with ‘long-term economic stability’ attracts cynicism and the ability of the Executive to sustain a long-term investment programme to transform N. Ireland is undoubtedly compromised. The Treasury’s cuts to the Northern Ireland budget are, therefore, not only fraught with economic consequences, they carry social and political consequences as well. For the political parties and the Executive, the cuts amount to a breach of trust in peacebuilding. Many local communities will be undermined and destabilized by the disinvestment in services and projects. Individuals and families face futures of unemployment and economic insecurity. These are the risks that are being taken with N. Ireland’s peaceful future.

Unlike the other devolved administrations, Northern Ireland’s social security benefit costs comprise the main element of the AME allocation in Table 1.[10] The Treasury provides no estimate for real changes in this budget as elements of it are demand-led (e.g. the costs of unemployment and health-related benefits, and pensions) and subject to fluctuations in inflation. However, the emergency June 2010 Budget and the Spending Review together make cuts to welfare benefits such that by 2014-15, benefits spending will be £18 billion lower than had the measures (such as changing the indexing of benefits) not been implemented. As we shall see, the impact of the benefit changes by 2014-15 will fall disproportionately on Northern Ireland, but assuming the £18bn is shared proportionately and in line with the 2009-10 outturn for social protection spending, £612 million will be cut from the 2014-15 welfare benefits budget, with lesser sums in the preceding years, amounting to an estimated aggregate loss of £1.2bn. Coupled to the aggregate loss identified above, N. Ireland stands to lose £4.81 billion of Treasury funding between now and the end of 2014-15. In summary, total Treasury-based support for public expenditure in N. Ireland for 2014-15 will be £1.31bn less in real terms than in 2010-11 and a further £612m (in cash terms) will have been directly removed from pensioners, the unemployed and others with no paid employment.

The N. Ireland Draft Budget (published 15 December 2010) provides a broad outline of departmental budgets for the planning period. At first sight, the figures bear little resemblance to the Treasury planning figures (Table 1 above). This is for a number of reasons, the main one being that the Executive is able to off-set the withdrawal of Treasury funding to some extent by raising funds through the rates, the sale of public assets and the introduction of charges. In particular, the Executive has chosen to moderate the Treasury cuts in capital funding. Another reason for the lack of correspondence between the Spending Review data and N. Ireland’s Draft Budget is

[9] Agreement at St Andrews. http://www.nio.gov.uk/st_andrews_agreement-2.pdf
[10] See HM Treasury, *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy*, 2010.

because of the exclusion/inclusion of ‘depreciation’. The adoption of International Financial Reporting Standards (mandatory for all government bodies from March 2010) requires that the cost of assets depreciating over their lifetime is written into annual accounts. Table 5 shows the difference depreciation makes to the N. Ireland resource account. There is still a discrepancy in the 2010-11 spending figures as between the Spending Review (Table 5, row 2) and N. Ireland Draft Budget (row 3). The probable explanation lies in a footnote to the Treasury figures that refers to the timing of the cuts.[11]

Table 5: N. Ireland *Draft Budget, resource funding and depreciation*

		2010-11	2011-12	2012-13	2013-14	2014-15
1	Resource (excluding depreciation)[1]	9.3	9.4	9.4	9.5	9.5
2	Resource (including depreciation)[1]	9.6	9.8	9.8	9.8	9.9
3	NI Draft Budget[2]	9.8867	9.8367	9.8589	9.9271	9.9854
4	Value of 2010-11 resource (row 3) using June 2010 index	9.8867	10.07858	10.3059	10.5738	10.85955
5	Real change (R3–R4) £bn	0	–0.24188	–0.4470	–0.6467	–0.87415
6	Percentage change		–2.4	–4.3	–6.1	–8.0

1. October 2010 Spending Review
2. Draft Budget 2011-15, 15th October 2010

Before moving on to the Departmental allocations in the Draft Budget, the headline figures for resource and capital spending are modelled using the November GDP deflators (Table 6). This provides a new estimate of the real losses to public spending by the NI Executive, moderating the Treasury cuts to N. Ireland summarised in Table 4. Next year (2011-12) sees a 5.5 per cent cut in resource and capital spending by the Executive. The cut rises to 10.1 per cent by 2013-14 and is planned to be 9.6 per cent in the final year. By 2014-15 the aggregate loss amounts to £4.0bn. Cuts in welfare benefits bring the total aggregate loss to an estimated £5.2bn. All of these figures refer to real change compared to 2010-11 spending.

Table 6: N. Ireland *Draft Budget, estimates of change over planning period*

	Resource	2010-11	2011-12	2012-13	2013-14	2014-15
1	NI Draft Budget resource (£bn)	9.8867	9.8367	9.8589	9.9271	9.9854
2	Value of 2010-11 resource using November 2010 index (£bn)	9.8867	10.1339	10.3573	10.6371	10.9238
3	Real change (R1–R2) (£bn)	0	-0.2972	-0.4984	-0.7100	-0.9384
4	Running total of R4		-0.2972	-0.7956	-1.5056	-2.444
5	Percentage change		–2.93	–4.81	–6.67	–8.59
	Capital					
6	NI Draft Budget net capital (£bn)[1]	1.4881	1.1839	1.1249	1.0786	1.3738
7	Value of 2010-11 net capital using November 2010 index (£bn)	1.4881	1.5253	1.5589	1.6010	1.6442
8	Real change (R6–R7) (£bn)	0	-0.3414	-0.4340	-0.5224	-0.2704
10	Running total of R9		-0.3414	-0.7754	-1.2978	-1.5682
11	Percentage change (R8/R7)		-22.4	-27.8	-32.6	-16.4
	Resource + Capital					
12	NI Draft Budget resource + capital	11.3748	11.0206	10.9838	11.0057	11.3592
13	Value of 2010-11 using November 2010 index	11.3748	11.6592	11.9162	12.2381	12.5680
14	Real change (R12–R13) (£bn)	0	-0.6386	-0.9324	-1.2324	-1.2088
15	Running total of R14		-0.6386	-1.5710	-2.8034	-4.0122
16	Percentage change		-5.5	-7.8	-10.1	-9.6

1. Source: Table 4.2 of Draft Budget 2011-15. Gross capital spending will be about 10% more than this: +£126m (2011-12), +£113m (2012-13), +£104m (2013-14) and +£104m (2014-15) (in cash terms).

[11] The Spending Review states: *‘The Government agreed that as part of the £6.2bn cuts to 2010-11 budgets the Devolved Administrations could defer their cuts to 2011-12. The settlements presented here assume the Northern Ireland Executive take their cuts in 2010-11, the Scottish Executive take their cuts in 2011-12, and the Welsh Assembly Government split their cuts equally between 2010-11 and 2011-12. These settlements are subject to change as the Devolved Administrations finalise when (sic) their spending plans.’*

Departmental Budgets

The planned changes in N. Ireland's public spending are not evenly distributed across the Departments. In Table 7 the first line of data for each Department (in order of size of budget) is taken from the Draft Budget. These are cash figures for current spending and the percentages in brackets represent the change on the previous year, making no allowance for inflation. On this basis it appears for example that HSSPS current spending increases in every year and is £326.3 million ahead of the 2010-11 level by 2015-15, an increase of 7.6% over the planning period. The second line of data for each Department shows the change in real terms from 2010-11 funding, based on the latest estimates of GDP deflators published by the Office for Budgetary Responsibility. On this basis, DHSSPS has a cut of £62.4m for 2011-12 and £80m for 2012-13. Over the entire period, we estimate that DHSSPS loses an aggregate of £353.8m in funding and that by 2014-15, funding is 2.6 per cent *below* 2010-11 levels in real terms.

The largest cut to 2014-15 budgets by volume is to Education (–£268m), followed by Justice (–£176m), HSSPS (–£125m) and Regional Development (–£118m). Proportionately, the largest cuts are to Regional Development (–20.6%), Culture Arts and Leisure (–17.7%), OFMDFM (–16.8%) and Environment (–15.2%). Two of the biggest departments, Justice and Education lose 13 and 12.7 per cent respectively. As we have seen, the smallest cut is to HSSPS followed by Employment and Learning (–6.8%) and Enterprise, Trade and Investment (–6.8%). By 2014-15, Social Development will be spending 9.1 per cent less than in 2010-11, a cut of £52m.

Regarding capital spending plans, Table 4 shows the Treasury's radical reduction in support for N. Ireland's capital programmes – the allocation is 40 per cent below the 2010-11 level by 2014-15 and an aggregate of £1.85 billion will have been cut from the Treasury's support of capital spending (Table 4a). The Draft Budget addresses these losses in a number of ways. First, £200 million per year is to be borrowed under the Reinvestment and Reform Initiative. This is the maximum allowed by the Treasury and it compensates for more than half the £350 million cut in Treasury capital funding for 2011-12 (Table 4a). A further £80.5 million will come from various sources including the Irish Government (£14 million), from switching current expenditure to the capital programme and an under-spend (£23 million, mainly by NI Water) on the 2010-11 budget. The Draft Budget also includes assumptions about capital receipts – a total of £547 million (in cash terms) is expected to be raised in this way over the planning period.

The Draft Budget reduces net capital spending in cash terms for the first three years and increases it by more than a quarter in the final year. Table 8 estimates the real changes in net capital budgets across Departments for the whole planning period (ranked by size of capital budget). The last two columns quantify the reductions in aggregate net capital spending plans. The change is in terms of what spending would have been over the whole period had it remained at 2010-11 levels. Regional Development, with the biggest capital programme, loses £402m (a cut of 13.8%). The hardest hit Departments (excluding Agriculture and Rural Development, and Environment which have anomalous 2010-11 baselines) are Social Development (–41.4%) which is the second largest programme, Enterprise, Trade and Investment (–39.2%), Culture, Arts and Leisure (–35.9%), and Education (–28.3%). The 35% cut in annual net capital spending on Justice is reversed sharply in the final year, softening the overall cut to £64m (–15.2%).

Table 7: *Real change in Departmental and other current expenditure*

£ million	2010-11	2011-12	2012-13	2013-14	2014-15
Health, Social Services and Public Safety	4,302.9	4,348.1 (+1.0%)	4,427.7 (+1.8%)	4,543.2 (+2.6%)	4,629.2 (+1.9%)
Real change from 2010-11 budget	0.0	–62.4 (–1.4%)	–80.0 (–1.8%)	–86.3 (–1.9%)	–125.1 (–2.6%)
Education	1,914.8	1,852.2 (–3.3%)	1,857.3 (+0.3%)	1,861.6 (+0.2%)	1,847.7 (–0.7%)
Real change from 2010-11 budget	0.0	-110.5 (–5.6%)	-148.6 (–7.6%)	-198.5 (–9.6%)	-268 (–12.7%)
Justice	1,223.7	1,213.1 (–0.9%)	1,189.0 (–2.0%)	1,166.7 (–1.9%)	1,176.4 (+0.8%)
Real change from 2010-11 budget	0.0	–41.2 (–3.3%)	–92.9 (–7.2%)	–149.9 (–11.4%)	–175.7 (–13.0%)
Employment and Learning	798.9	775.4 (–2.9%)	767.4 (–1.0%)	785.6 (+2.4%)	813.8 (+3.6%)
Real change from 2010-11 budget	0.0	–34.2 (–4.2%)	–60.1 (–7.3%)	–64.3 (–7.6%)	–59 (–6.8%)
Social Development	521.1	516.7 (–0.8%)	532.0 (+3.0%)	543.0 (+2.1%)	523.4 (-3.6%)
Real change from 2010-11 budget	0.0	–17.4 (–3.3%)	–13.9 (–2.5)	–17.7 (–3.2)	–52.4 (–9.1)
Regional Development	517.3	500.3 (-3.3%)	487.2 (-2.6%)	459.6 (–5.7%)	454.0 (-1.2%)
Real change from 2010-11 budget	0.0	–29.9 (–5.6%)	–54.7 (–10.1)	–97.0 (–17.4)	–117.6 (–20.6)
Agriculture and Rural Development	224.9	224.9 (0.0%)	236.0 (+4.9%)	222.6 (–5.7%)	219.0 (–1.6%)
Real change from 2010-11 budget	0.0	–5.6 (–2.4%)	+0.4 (+0.2%)	–19.4 (–8.0%)	–29.5 (–11.9%)
Enterprise, Trade and Investment	199.5	204.9 (+2.7%)	211.6 (+3.2%)	203.5 (–3.8%)	205.5 (+1.0%)
Real change from 2010-11 budget	0.0	+0.4 (+0.2%)	+2.6 (+1.2%)	–11.1 (–5.2%)	–14.9 (–6.8%)
Finance and Personnel	182.9	190.5 (+4.2%)	187.1 (–1.8%)	179.9 (–3.9%)	180.9 (+0.5%)
Real change from 2010-11 budget	0.0	–4.8 (–2.5%)	–4.5 (–2.3%)	–16.9 (–8.6%)	–21.2 (–10.5%)
Environment	129.6	121.8 (–6.0%)	123.6 (+1.4%)	121.0 (–2.1%)	121.5 (+0.4%)
Real change from 2010-11 budget	0.0	–11.0 (–8.3%)	–12.2 (–9.0%)	–18.4 (–13.2%)	–21.7 (–15.2%)
Culture, Arts and Leisure	113.3	112.5 (0.7%)	113.2 (+0.6%)	110.0 (–2.9%)	103.0 (–6.3%)
Real change from 2010-11 budget		–3.6 (–3.1%)	–5.5 (–4.6%)	–11.9 (–9.8%)	-22.2 (–17.7%)
Office of the First Minister and Deputy First Minister	80.2	79.0 (–1.4%)	80.2 (+1.6%)	77.0 (–4.1%)	73.7 (–4.3%)
Real change from 2010-11 budget		–3.2 (–3.9%)	–3.8 (–4.5%)	–9.3 (–10.8%)	–14.9 (–16.8%)
Non-Ministerial Departments					
NI Assembly	48.4	46.0 (–5.0%)	43.7 (–5.0%)	41.5 (–5.0%)	39.4 (–5.0%)
Real change from 2010-11 budget	0.0	–3.6 (–7.3%)	–7.0 (–13.8%)	–10.6 (–20.3%)	–14.1 (–26.4%)
Public Prosecution Service	37.4	37.0 (–1.0%)	36.0 (–2.6%)	35.2 (–2.3%)	33.9 (–3.6%)
Real change from 2010-11 budget	0.0	–1.3 (–3.4%)	–3.2 (–8.1%)	–5.0 (–12.5%)	–7.4 (–18.0%)
Other[1]	21.2	20.5	20.0	19.5	19.0
Real change from 2010-11 budget	0.0	–1.2 (–5.7%)	–2.2 (–10.0%)	–3.3 (–14.5%)	–4.4 (–18.9%)

1. Includes Assembly Ombudsman/Commissioner for Complaints, Food Standards Agency, NI Audit Office and NI Office for Utility Regulation.

Table 8: *Real change in capital spending 2010-11 to 2014-15*

Net Capital planned expenditure £millions	2010-11	2011-12	2012-13	2013-14	2014-15	Real change in 2010-11 to 2014-15 aggregate	% real change
Regional Development	556.2	438.3	425.3	540.9	558.8	-402.4	-13.8
Social Development	269.6	150.3	120.6	99.0	190.3	-586.5	-41.4
Health, Social Services and Public Safety	201.7	214.8	278.8	184.9	163.3	-16.1	-1.5
Environment	182.4	6.1	5.9	4.0	7.6	-752.2	-78.5
Education	169.3	127.4	100.4	101.5	139.4	-251.4	-28.3
Justice	80.0	78.3	64.5	51.8	82.0	-63.7	-15.2
Enterprise, Trade and Investment	73.5	71.7	44.9	16.0	28.8	-151.2	-39.2
Culture, Arts and Leisure	59.9	11.8	21.9	22.2	85.8	-113.1	-35.9
Employment and Learning	37.6	41.2	32.3	18.5	28.3	-39.6	-20.1
Finance and Personnel	15.2	16.5	12.1	10.6	28.4	2.9	3.7
Office of the First Minister and Deputy First Minister	12.0	9.1	3.8	8.8	25.6	-3.7	-5.9
Agriculture and Rural Development	-173.5	16.4	13.9	20.0	29.3	817.6	-89.7
Non Ministerial Departments	4.3	1.9	0.4	0.6	6.2	-9.2	-40.7
Total Net Capital •	1,488.1	1,183.9	1,124.9	1,078.6	1,373.8	-1,568.3	-20.1

Given the delays in publishing the spending plans of individual Departments, no attempt has been made to take the analysis to sub-Departmental level. We note, however, the significant discrepancies between the Draft Budget current and capital allocations and the plans of some Departments (for example, Justice).

2. Impact on Employment

The Draft Budget acknowledges that the Spending Review 'will have significant negative consequences for economic growth and employment', given the economy's reliance on the public sector, but provides no estimate of job losses. Historically, N. Ireland has had a low employment rate, lower than any region in Great Britain. Prior to the onset of the 2007 recession, the employment rate reached a high of 69.3 per cent. By the autumn of 2009 it had fallen to 65.4 per cent. For the latest quarter (September to November 2010) the employment rate remains a stubborn 65.3 per cent.[12] Prior to the recession, unemployment (Labour Force Survey measure) in Northern Ireland was below the UK average. While this remains the case, LFS unemployment in Northern Ireland continues to rise, unlike most areas in Great Britain. N. Ireland's unemployed claimant count rose by 8.5 per cent in the year to the August-October 2010 quarter compared to a 10 per cent decrease across Great Britain. Almost half the unemployed (48%) in N. Ireland have now been out of work for more than a year and the unemployment rate for 18-24 year olds is 21 per cent. Therefore the cuts in public spending are occurring in a context of a stagnant employment rate, rising unemployment and restricted opportunities for younger people.

Almost a third (31.6%) of employee jobs are in the public sector in N. Ireland and this is the highest proportion for anywhere in the UK. Half of the 220,000 public sector workers are classified as 'central government' which currently includes those working for the Health Service. Local councils employ 65,000 people. Two-thirds of all public sector workers are women and the public sector accounts for 40 per cent of female employment,

[12] Department of Trade and Investment, Monthly Labour Market Report. January 2011.

compared to 23 per cent of male employment. Four-fifths (79%) of local council employees are women. In terms of community background, 46 percent of public sector employees are Catholic and 54 per cent Protestant.[13]

Most of the increase in employment that occurred between 1998 and 2008 was in low paid part-time employment in the service sector[14]. This sector has been severely affected by the recession: the service sector accounts for 72 per cent of total private sector employment and for the first time since 2002, the private sector is decreasing in size.[15] This situation is forecast to worsen as the decline in public spending takes effect.[16]

In assessing the impact of the Draft Budget on employment, three factors need to be considered. First, there will be direct job losses as it will not be possible to reduce spending on the required scale without reducing the number of public sector employees. In two of the largest spending areas, HSSPS and Education, the pay bill is about 60 per cent of current spending (about 58% for Health and 62% for Education). In some of the agencies that come under Justice, the pay bill is considerably higher (e.g. the Prison Service). The second consideration is that with lower budgets, public sector organisations purchase less goods and services from the private sector. The reductions in capital spending are particularly damaging in this respect and will mean even less employment in the construction sector which has already seen a 28 per cent decline in employee jobs since December 2007. (Self-employment in construction and production has declined by one-fifth in the last four years.) Thirdly, the reduction in people's disposable income and spending, either because they are being taxed more, have lost work or have less income from benefits, will reduce demand in the economy with particular impacts on local shops and services. For all these reasons, the public sector is estimated to be responsible for around 70 per cent of N. Ireland's GDP.

In previous UK recessions the public sector has tended to protect regions with declining industries and weak private sectors. On this occasion, argues the Work Foundation, the private sector is unlikely to contribute sufficiently to employment growth. This is because the strategy of many businesses during the latest recession has been to avoid redundancies by keeping staff on shorter hours and through pay cuts. There is therefore considerable employee capacity to draw on in any economic upturn, avoiding the need to recruit new staff. A further factor limiting employment growth in the private sector is the reluctance of banks to invest in local productive activity. Over the last ten years, only 3 per cent of all UK bank lending has gone to manufacturing.[17] With disinvestment in the public sector on the current scale, there is less prospect of private sector employment expanding as the UK economy – now officially out of recession – grows.

Regions with higher levels of public sector employment are unlikely to experience significant employment growth as the economy expands. Assuming the UK economy grows in line with the Government's expectations, London and the South East will experience employment growth. However, 'labour markets in the North of England, Wales, and Scotland are likely to perform poorly during any recovery' (N. Ireland is not included in the analysis). Overall, 'the labour market in much of the country is likely to remain in very poor shape'.[18]

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[13] Equality Commission for Northern Ireland (2010) *A profile of the Monitored Northern Ireland Workforce, Summary of Monitoring Returns 2009*. Monitoring Report No. 20.
[14] Department of Enterprise Trade and Investment NI, Northern Ireland Quarterly Employment Survey Historical Data
[15] Department of Trade and Investment, Monthly Labour Market Report. January 2011.
[16] PricewaterhouseCoopers, Northern Ireland Economic Outlook, July 2010.
[17] Work Foundation (2010) *The Jobs Gap*. London. p. 15.
[18] Op. Cit. p. 10.

This conclusion is supported by PricewaterhouseCooper's sectoral and regional analysis of the Spending Review (which does include N. Ireland).[19] Initially the Office of Budgetary Responsibility estimated that 490,000 public sector jobs would be lost by 2014-15 and 600,000 by 2015-16. In November it revised the estimate downwards to 330,000 (2014-15) and 'just over 400,000 between 2010-11 and 2015-16'.[20] The PwC analysis uses the first set of estimates.

According to the PwC analysis, N. Ireland will lose 5.2 per cent of all jobs by 2014-15: an estimated total loss of 36,000 jobs. This compares to 4.3 per cent in Wales and 4.1 per cent in Scotland. About 18,000 are direct losses from the public sector and the remainder arise from the reduction in demand for goods and services and from reduced consumer spending. Private sector employment will need to grow by one per cent each year in order to compensate.

The PwC estimate of public sector job losses is based on distributing the OBR 490,000 job loss according to the share of jobs in each place – 3.6 per cent for N. Ireland, 5.5 per cent for Wales and 9.7 per cent for Scotland. It makes no allowance for differences in the structure of public sector employment from place to place, or, for example, for differences in average public sector pay. (Scotland has the highest average public sector pay of anywhere in GB outside of London). Given the revised OBR figure of 330,000 job losses, the estimate for N. Ireland would need to come down to 12,000 (rather than 18,000). Such a reduced figure, however, is not credible given the cuts to be made to current spending outlined in the Executive's current spending plans (Table 7). By 2014-15, the Executive will be spending £948 million less in real terms than in 2010-11. Using a conservative assumption that 58 per cent of this resource is spent of employment, some £550m will be covered by job losses. Assuming an even distribution across the public sector workforce, one-third of this will impact on men (£183m) and two-thirds on women (£367m). The average public sector wage in Northern Ireland is £24,383, £30,031 for men and £21,066 for women, to which must be added the costs to employers (such as National Insurance, pensions, training) of approximately 25 per cent.[21] On this basis, the cuts in current expenditure will mean 13,954 less jobs (public sector) for women and 4,880 less jobs for men by 2014-15: a total of 18,834 jobs lost. In addition approximately 12,250 jobs will be lost through indirect affects on the private sector and a further 6,600 through the affect of lost consumption – a total loss across public and private sectors of just under 38,000 jobs.

The Draft Budget is to be subject to 'a strategic level Equality Impact Assessment', the timing and consequences of which are unclear. It is immediately apparent that the Budget cuts will have a disproportionate affect on women but there is no attempt to get to grips with this. The Executive would therefore appear to be open to legal challenge for failing to have due regard to equality of opportunity.[22]

[19] PricewaterhouseCoopers (2010) *Sectoral and Regional Impact of the Squeeze*.
[20] Office of Budgetary Responsibility (2010) *Economic and Fiscal Outlook*, November 2010. pp. 62-66.
[21] Annual Survey of Hours and Earnings, 2010.
[22] The Fawcett Society sought a judicial review of the June Emergency Budget on the grounds that "the government should have assessed whether its budget proposals would increase or reduce inequality between women and men". (www.fawcettsociety.org.uk) Mr. Justice Ouseley dismissed the case but acknowledged that the impact of the budgetary cuts deserved further scrutiny, best carried out by the Equality and Human Rights Commission.

3. Impact on living standards

The loss of jobs as a consequence of Treasury reductions in funding to N. Ireland will have the immediate impact of reducing living standards for those affected. As yet, the Executive has not developed a strategy to reverse these affects so N. Ireland must live with reduced living standards and a higher rate of poverty. Compounding the job losses are major cuts in the value of key benefits to those who do not receive an income from paid work for whatever reason. These changes will also reduce living standards and increase poverty. While the Executive has limited powers to raise revenue and to tackle the decline in living standards, a number of proposals are under discussion and a Ministerial Budget Review Group has been established to come up with revenue raising ideas. No principles or priorities appear to have been agreed to guide the work of this group.

The main hope for raising living standards lies with the new economic strategy being developed by the Executive which the Draft Budget outlines as follows:[23]

> The challenge for the Northern Ireland Executive (…) is to both rebuild the economy in the aftermath of the recession and to rebalance it towards the private sector in the context of the constrained public expenditure position.

The strategy for achieving this will not be agreed until the Executive has considered a UK Government paper on 'rebalancing' the Northern Ireland economy, the central issue of which is the proposal to reduce the rate of corporation tax, a proposal rejected by the Varney Report in the following terms:

> [A] clear and unambiguous case for a 12.5 per cent rate of corporation tax cannot be made. It is clear from this initial assessment that there would be an up-front cost of near £300 million per annum in lost corporation tax receipts, with no cost recovery in terms of tax receipts in a reasonable period of time.[24]

Yet lobbying on the issue continues, partly fuelled by the assumed attractions of tax varying powers and partly by a group of economists and business leaders centred on the Northern Ireland Economic Reform Group.[25] The CBI regards the proposal as 'transformational'.[26]

The Economic Reform Group describes Ireland as 'one of the world's best performing economies' and attributes this to a long-term policy of tax cuts and 'economic freedom', and certainly GDP has grown impressively. But as Stiglitz *et al* argue, an excessive focus on GDP as a measure of success is no longer tenable and sustainable, either in terms of economic and social progress, or the environment.[27] A simple illustration of this in the case of Ireland is that GDP growth does not always translate into corresponding improvements in living standards (Figure 1).

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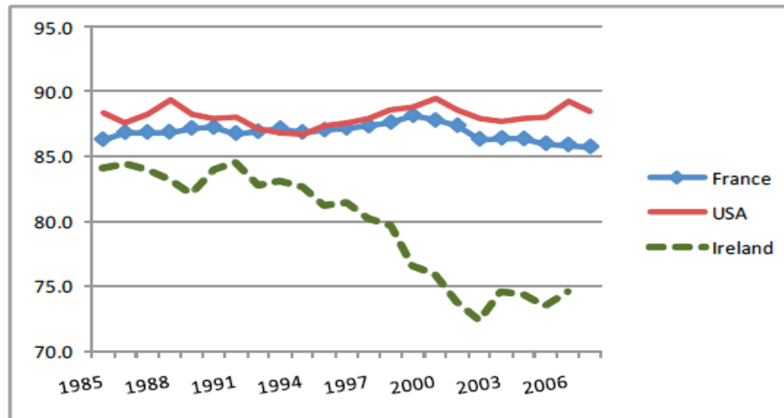
[23] Draft Budget, para. 2.30.
[24] The Varney Report (2007) *Review of Tax Policy in Northern Ireland.* p. 4.
[25] Northern Ireland Economic Reform Group (2010) *The case for a reduced rate of Corporation Tax in NI.* See also Hewitt, V. (2007) 'Differential Corporation Tax in Northern Ireland: Analysis and Policy', *Northern Ireland Economic Bulletin*, pp. 36-43.
[26] Evidence to Northern Ireland Affairs Committee, 20 September 2010.
[27] Stiglitz, J., Sen, A. and Fitoussi, J-P. (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress.* http://www.stiglitz-sen-fitoussi.fr

Figure 1: *National disposable income as a proportion of GDP*



Source: Stiglitz, J., Sen, A. and Fitoussi, J-P. (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress*. p. 25.

Not all opinion is lining up behind the Economic Reform Group: there are some cautionary voices as well as outright opposition. Much in keeping with the Varney Report, a PricewaterhouseCoopers' report concludes:

> While a competitive level of Corporation Tax is desirable to ensure UK competitiveness, in our research for this paper we could not find any clear evidence of a simple correlation between low Corporation tax *per se* and high levels of FDI [foreign direct investment].[28]

PwC estimate that a reduction of the rate of Corporation tax to 12.5 per cent would now cost £278 million p.a. in lost revenue. The Treasury would remove this amount from the Block Grant. Whatever can be said about the long-term prospects of benefits to the N. Ireland economy from a reduction in Corporation Tax, in the short-term a significant resource would be removed from the public sector to the benefit of shareholders in the few public companies registered in N. Ireland that pay the full rate of Corporation Tax. N. Ireland's economy can ill-afford to lose this resource and the 8,000 jobs that are likely to be lost initially. This is one of the arguments put forward in a paper rejecting the Corporation Tax proposal.[29] But the main one is that N. Ireland should not try to compete with the Irish Republic's regime of corporate taxation and governance, a regime which facilitates tax avoidance,[30] encourages 'brass plating' and provides a gateway to tax havens:

> The Republic […] has no controlled foreign company laws or thin capitalisation rules, a relaxed approach to the taxing of foreign dividends and to transfer pricing regulation, relatively easily achieved corporate secrecy and (perhaps crucially) membership of the Euro to add to its appeal.[31]

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[28] PricewaterhouseCoopers (2011) *Corporation Tax: Game Changer or Game Over?* p. 6.
[29] Murphy, R. (2010) *Lowering Northern Ireland's Corporation Tax: Pot of Gold or Fool's Gold.*
[30] In December 2008, Lord Oakeshott famously referred to Dublin as 'Liechtenstein on the Liffey': "Ireland is a small country with a very large financial sector. It promotes itself as a low-tax zone off north-west Europe, a kind of Cayman Islands in a cold climate, and aggressively chases footloose financiers and less scrupulous British companies to move to Dublin to dodge tax. British taxpayers suffer twice from that because it also makes it much more difficult for our Revenue and Customs to make British-based multinationals pay their fair share. Dublin does not need to be Liechtenstein on the Liffey. If you set out to attract mobile money from around the world, you run much bigger risks when things go wrong." House of Lords debates, 8th December 2008. See also Fintan O'Toole, 'Liechtenstein on the Liffey': State policy has turned Dublin into a wild frontier of cooked books and dodgy transactions. *The Guardian*, 27th February.
[31] Murphy (2010) p. 4.

Corporation Tax in this context is a relatively minor consideration. Where it becomes a major problem is in affecting trade between N. Ireland and Britain if differential rates were applied. To prevent companies falsely pricing goods as a means of transferring profits into a lower tax regime, the Treasury would require the application of transfer pricing rules which, argues Murphy, would place an added administrative barrier for the distribution of goods between Britain and N. Ireland:

> No supermarket would ever again be able to transfer baked beans from its warehouse in Scotland to its supermarkets in Northern Ireland without having established a procedure to set an arm's length price for the transaction, which is no straightforward matter. The resulting cost for UK business would be considerable.[32]

Even if the EU legal hurdles can be overcome, a Corporation Tax rate of 12.5 per cent for N. Ireland would appear to be a poor use of £280 million per annum. In the short-term jobs would be lost and there is no certainty of job creation.[33] This is not to argue that the Executive should not pursue all possibilities for revenue raising including tax varying powers, but to make the point that better strategic use can be made of such a resource in growing the type of private sector activity which will be of long term benefit to N. Ireland.

The Executive has set Departmental allocations for the next four years before agreeing and adopting a new economic strategy. If key Departments are to support a strategic approach to business development and private sector employment growth, there needs to be flexibility in current and capital allocations. No such strategic private sector employment growth funding is earmarked in the Draft Budget.

The new economic strategy will need to consider the role of the banks operating in N. Ireland which have been substantially affected by the UK and Irish banking crises. The Ulster bank is part of the Royal Bank of Scotland group which is now 84 per cent owned by HM Treasury. The Allied Irish Bank and the Bank of Ireland received around €7 billions of support from the Irish Government in 2009 which in the case of AIB was not sufficient to stave off the bank's rescue by the Irish Government in 2010 (AIB is now 90% owned by the Irish Government). Only the Northern Bank (owned by Danske Bank since 2005) has remained relatively unscathed from the banking crisis. While some initial work has been done on the role of the banks in N. Ireland,[34] it remains unclear what the banks, in particular the quasi-nationalised British and Irish banks, are actually contributing to Northern Ireland's economy.

In many respects, the Executive is constrained by the consequences of the application of the Barnett formula. If the UK Government decides to increase funding for Health then the consequence for N. Ireland's Block Grant is to increase Health funding for comparative areas. Likewise, a decision to cut Higher Education funding for England will result in a cut for N. Ireland. This does not prevent the Executive making strategic decisions to re-shape the Treasury allocations and in departing from aspects of UK Government economic and social policy, though it makes it much more difficult. The Draft Budget makes no such departures and appears to mirror Treasury allocations so that, for example, the 'health' element of the DHSSPS allocation is 'protected' but personal social services and public

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[32] Murphy (2010) p. 20.

[33] O'Toole notes that "in return for housing these front companies and allowing their parents to avoid taxes in their home countries, Ireland got no jobs but it did get the tax revenue. Essentially the deal was that the front companies would pony up 12.5 per cent of profits in corporation tax and the state would neither look too closely at its activities nor listen to the complaints of the foreign governments whose exchequers were losing out." O'Toole, Fintan (2009) *Ship of Fools*. London: Faber and Faber, pp. 132-3.

[34] Northern Ireland Assembly, *Meeting with Local Banks*. Research and Library Service Briefing Paper no. 97/10, 16 September 2010.

safety are not.[35] The Draft Budget does, however, set aside £20 million for a Social Investment Fund, under the control of OFMDFM, to address disadvantage ‘in those interface communities where the problems are many and complex’. Similarly a £20 million Social Protection Fund has been established to ‘assist those most in need within our wider community’. There is no indication as to how this might be targeted but given the legal obligations to address child poverty, the children worst affected by benefit cuts are an obvious priority.

The Draft Budget states that the Executive ‘has agreed in principle’ to engage with the Green New Deal. The potential of this to reduce household energy consumption and costs, to create employment and to reduce N. Ireland’s carbon emissions is widely accepted. While £4 million is in the budget each year for the next four years, the Executive has yet to articulate a strategy for implementing key elements of Green New Deal. In terms of benefiting the worst off households, interventions need to be appropriately prioritized and targeted.

The most serious impact on living standards in the foreseeable future stems from changes in taxation and welfare benefits. Some of these changes were commitments made by the previous government and the Coalition Government has more than doubled the impact on households through the June 2010 emergency budget and latterly through the Spending Review.

All of the changes have been modelled by the Institute of Fiscal Studies for two periods.[36] For the years 2010-11 to 2012-13, households in N. Ireland will lose on average 2.8 per cent of disposable income. The richest quintile lose 3.4 per cent while the poorest loses 2.7 per cent. When the whole Spending Review period is considered (2010-11 to 2014-15), the picture changes. Households in the richest quintile stand to lose 3.8 per cent while those in the poorest quintile lose 5.5 per cent. If the calculation is done on a N. Ireland basis only, the average loss for households in the lowest income quintile is 5.4 per cent and 3.8 per cent for the richest. Whichever method is used for modelling the changes, the affects are worse for lower income groups.

Table 9: *Proportion of households (benefit units) receiving tax credits and benefits*

State support received	England	Wales	Scotland	**Northern Ireland**	United Kingdom
Working Tax Credit	5	5	5	**7**	5
Child Tax Credit	14	15	13	**15**	14
Retirement Pension	25	28	25	**21**	25
Child Benefit	22	24	21	**26**	22
Income Support	5	6	5	**8**	5
Incapacity Benefit	3	6	5	**5**	4
Severe Disablement Allowance	1	1	1	**1**	1
Attendance Allowance	3	3	3	**3**	3
Carer's Allowance	1	2	1	**2**	1
Disability Living Allowance (care component)	6	9	7	**10**	6
Disability Living Allowance (mobility component)	5	9	7	**10**	6

Source: *Family Resources Survey 2008-09*, Department of Work and Pensions. p. 30.

[35] Draft Budget, para. 3.44.
[36] Browne, J. (2010) *The Impact of Tax and Benefit Reforms to be Introduced between 2010-11 and 2014-15 in Northern Ireland*. London: Institute for Fiscal Studies.

The second reason is that a higher proportion of total household income is sourced from welfare benefits, especially benefits subject to the planned changes: 10 per cent for Northern Ireland compared to the UK average of 6 per cent. Table 9 provides the details for benefit receipt. Overall, 3 per cent of total household income in Northern Ireland comes from disability related benefits which are a particular target for change.[37] Five per cent of children aged 15 and under have a disability or long-standing limiting illness and a fifth of households have one or more disabled adults below pension age (17% for the UK as a whole). As Table 10 shows, not only is a higher proportion of Northern Ireland's population in receipt of Disability Living Allowance, but the average amount of benefit is higher.[38] Moreover, receipt of particular levels of care and mobility components can act as a trigger for other forms of help including entitlement of the recipient's carer (if they have one) to claim Carer's Allowance. Thus, loss of DLA can have unforeseen implications for more people than the sole claimant.[39]

With the exception of London, N. Ireland households will lose the most from the changes. There are two main reasons for this. The first is demographic: N. Ireland has a relatively high proportion of households with children, a group that 'will particularly lose out from tax and benefit reforms to be introduced over this period irrespective of their position in the income distribution'.[40] As Table 9 shows, 26 per cent of households in N. Ireland receive Child Benefit and a relatively low proportion receive retirement pensions.

The second reason is that a higher proportion of total household income is sourced from welfare benefits, especially benefits subject to the planned changes: 10 per cent for Northern Ireland compared to the UK average of 6 per cent. Overall, 3 per cent of total household income in Northern Ireland comes from disability related benefits which are a particular target for change.[41] Five per cent of children aged 15 and under have a disability or long-standing limiting illness and a fifth of households have one or more disabled adults below pension age (17% for the UK as a whole). As Table 10 shows, not only is a higher proportion of Northern Ireland's population in receipt of Disability Living Allowance, but the average amount of benefit is higher.[42] Moreover, receipt of particular levels of care and mobility components can act as a trigger for other forms of help including entitlement of the recipient's carer (if they have one) to claim Carer's Allowance. Thus, loss of DLA can have unforeseen implications for more people than the sole claimant.[43]

Table 10: *Disability Living Allowance by population and average award*

	DLA allowances current at 2009 (% population)	Average weekly amount of benefit
Great Britain	5.2	£70.54
England	4.9	£70.02
Wales	8.5	£71.92
Scotland	6.5	£72.14
Northern Ireland	10.2	£77.81

Source: Department of Work and Pensions.

[37] *Family Resources Survey 2008-09*, p. 21.
[38] DLA awards vary depending on whether a person is in receipt of low, middle or higher rate of the care component and/or higher or lower rate mobility component.
[39] Thomas, A. and Griffiths, R. (2010) *DLA and Work: Exploratory research and evidence review*, Department for Work and Pensions Research Report Number 648.
[40] Browne, J. (2010) p. 13.
[41] *Family Resources Survey 2008-09*, p. 21.
[42] DLA awards vary depending on whether a person is in receipt of low, middle or higher rate of the care component and/or higher or lower rate mobility component.
[43] Thomas, A. and Griffiths, R. (2010) *DLA and Work: Exploratory research and evidence review*, Department for Work and Pensions Research Report Number 648.

The conclusion is clear: a proportionately larger number of households in N. Ireland will see their income diminish as the £18 billion in benefit cuts are implemented. The equality impact of the benefit changes also needs to be looked at carefully, particularly in relation to disability, gender, those with dependants and those from different community backgrounds – 13 per cent of Catholic household income is sourced from social security benefits compared to 9 per cent of Protestant household income.

Conclusion

The main point that emerges from this paper is that the living standards of the worst off will decline as a result of the Spending Review. Economic and social marginalization will continue to increase in the absence of compensatory strategies and employment growth. The real scale of the Treasury reduction in Northern Ireland's budget is such that great imagination will be required both in the development and protection of key services, and in devising new revenue streams.

Clear principles and priorities are required for this, enabling the integration of strategies across Departments and policy areas. The thinking behind Green New Deal provides a model for the type of approach required, even if implementation lags far behind the vision. This submission argues that the priority for the Budget and subsequent actions is two-fold:

a) to *protect* the living standards of those at the lower end of household income distribution, and especially the prospects and opportunities for the children in those households;
b) to *improve* the quality of life in households and communities most affected by the recession.

One way to further these aims is in the design of new revenue streams, whether these involve charges, investment funds, rates, or tax varying powers (both tax reliefs and impositions). The implication of this is that revenue raising should either be progressive (with the better-off paying more relative to income) or should have an identifiable social or environmental objective. In the case of water services, both objectives could be achieved. Raising the price of alcohol could be done in such a way as to provide a revenue stream *and* reduce alcohol consumption and the attendant harms in relation to health and public safety. A variation of congestion charging (eg charging for road access to retail centres and other facilities) provides a revenue stream but may also encourage people to use their cars less. Charging can be used to deter parents from taking children to school by car, encouraging the proven benefits of walking and biking to school.

Transport lends itself to progressive taxation because the proportion of household income spent on transport goes up as income rises. It is also environmentally desirable that people use smaller cars. So there is potential to address vehicle registration and road tax charges. Annual boat registration could be looked at. Air passenger charges for local flights (Ireland and Britain) for exit and entry could be introduced.

Another possible revenue stream is a land value tax. Several countries apply such a tax and the Irish Government will introduce a site value tax on non-agricultural land from 2013. In the UK context, the case for a land tax has progressed furthest in Scotland.[44]

Finally there are a number of established policies and funding arrangements that are candidates for review. Capital projects developed under the widely-discredited and costly Private Finance Initiative are one example.[45]

[44] Wightman, A. (2010) *A Land Value Tax for Scotland.* http://www.andywightman.com/docs/LVTREPORT.pdf
[45] See Daily Telegraph 24th and 29th January 2011.