



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

**‘Time for action: Northern Ireland —
delivering public services in a time of
austerity’**

3 November 2010

NORTHERN IRELAND ASSEMBLY

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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 Daithí McKay

Mr Mitchel McLaughlin

Ms Dawn Purvis

Witnesses:

Mr Terence Brannigan)

Mr Richard Moore)

Mr Nigel Smyth)

Confederation of British Industry

The Chairperson (Ms J McCann):

I welcome Terence Brannigan, the chairman of the Confederation of British Industry (CBI), Nigel Smyth, the director of the CBI, and Richard Moore, who is also from the CBI. I invite the witnesses to make some opening remarks on their report, and I will then open the evidence session up to questions from Committee members.

Mr Terence Brannigan (Confederation of British Industry):

I want to give the Committee a broad sweep, but I will try to keep my contribution reasonably succinct. We welcome the opportunity to give evidence to the Committee and thank the Committee for its invitation.

I will focus on our report, which is called ‘Time for action: Northern Ireland — delivering public services in a time of austerity’. In the report, we considered five areas: immediate cost savings, thus “Applying the brakes on existing costs”; opportunities for efficiency savings, thus “Every pound well spent”, and improving productivity and value for money; “Re-engineering public services”; “Structural reform”; and “Bridging the funding gap”, by looking at alternative funding streams, alternative sources of debt and asset sales.

The CBI has an active public services directorate. We tried to leverage that experience and aim it at Northern Ireland by looking at it how it would apply here. We drew on best practice, benchmarked information and explored the evidence. We also looked at many local ideas and things that had been done successfully, particularly in the Civil Service, such as the shared services model. We got a great deal of information from government itself to inform the report, and we looked at the experiences of businesses through the recession.

Our overall aim was to protect services and service outcomes — core services in the public sector. We put together a steering group of senior members of the CBI in Northern Ireland. I chaired that steering group, and we had a number of significant meetings and gathered a significant amount of evidence. We published our report on 22 September, and, although it was offered as a solution or a series of solutions to the Budget challenges that we saw coming, it was not designed to be a definitive blueprint.

Public sector expenditure has doubled during the past decade, with an increase of more than 40% in real terms, while productivity has fallen during the same period. Public sector employees have increased by more than 20,000 since the 1990s to around 225,000, and, taking account of the Department of Justice, the Executive have approximately £10.2 billion in current revenue expenditure and £1.4 billion in capital expenditure.

That was the backcloth to the report. Therefore, the recommendations made in it had to do with applying the brakes. We are looking to save £340 million per annum by 2014-15 through freezing the pay bill, reducing overtime, increasing pension contributions, and so on. That would include things such as reducing the legal aid bill, which is significantly out of step with other parts of the UK, and reducing school transport costs, which have grown to around £80 million a year.

We then looked at what we termed “Every pound well spent”, which is the better value-for-money aspect. That includes opening up public sector markets to competition and taking the shared services model that the Civil Service has employed very successfully and putting it across the whole of the public sector. We looked at outsourcing, which lags significantly behind the rest of the UK, at streamlining our procurement structures, better management of the government estate and cutting public sector absenteeism.

We estimated that we could save around £570 million per annum by 2014-15 through the re-engineering of public services. That could be done through cutting costs, waste and duplication. We looked at the better use and rationalisation of the health estate. We looked at treating more people in their homes and at the better use of technology. We looked at the administration of education. We looked at the number of schools and considered the fact that 54,000 places in our education system are empty. We looked at how we could re-engineer the financing of housing in Northern Ireland and at what would be the best use of the £4.1 billion in assets in that sector. That, plus the rental income, could be used to borrow and invest in rebuilding and refurbishing our housing stock. We looked at the justice remit and at the need to re-engineer prisons, the police and, as I said, the legal aid system. We felt that an overall better use of technology would improve productivity.

We looked at the need for structural reform. Existing governance arrangements do not deliver efficient public services. Although some savings would be modest, such as £20 million per annum from having fewer Departments, fundamental changes could be made to help overcome the silo mentality that exists in some Departments.

Owing to excessive management layers, the private sector has had to significantly de-layer its

management over the past four years. We are looking to do the same in the public sector. Stronger, more robust performance management arrangements should be introduced. A cultural change is necessary, with clear vision, accountability, more collective interests and more flexibility, the real focus of which would be delivery.

Our revenue savings were around £1.1 billion against a backcloth of the need to save around £1.6 billion. As we have seen, we were left with a funding gap of around £500 million. We looked at ways in which we could generate further revenues as an Invest to Save measure, because we recognise that some of the recommended changes would require some investment. Therefore, we would seek to raise revenues through options such as water charges and rates; asset sales and strategies, such as land and property sales, franchise models and mutualisation; and, in particular, alternative sources of debt finance. We looked specifically at the Northern Ireland Housing Executive and, as I said, at how we could leverage its assets to get private sector moneys into the public sector.

Those are the key areas that we looked at. Overlaying that was a sense of urgency, and we are concerned that we see some significant movement. We would like to see a Programme for Government, a strategy and a Budget delivered by the end of the year. We recognise that that is a very tough ask; nonetheless, we believe that that is important for reinvigorating confidence in the private sector and, indeed, in the public sector. That will be necessary over the coming weeks and months.

Mr McNarry:

I congratulate you on your paper, presentation and, indeed, work. I am sure that you will not mind my saying that the paper is worthy of being a party political manifesto. People in some circles will be relieved to know that you are not a branch of the Tea Party movement or any other organisation and that you are not going into the party political business. If you were, you would scare the hell out of us and shake us up, and that would probably be your intention.

I share your views on the Budget, which you set out at the end of your presentation, and I welcome your use and initiation of the term “leverage”. That is extremely important in what you are bringing to the table.

We know from what we see around this table and outside the Senate Chamber that there is growing frustration. That has been demonstrated by the gathering of a plethora of ideas and suggestions, all of which are equally important to us, from all sorts of key sources. However, nothing has been co-ordinated as yet. I do not know whose fault that is — perhaps it is ours. Nothing has been co-ordinated to bring together a workable and agreed approach for politicians such as us, key stakeholders such as you, and the other people of whom we are aware.

As you mentioned, there is an uncertainty about whether there will be a Budget by early next year, and the Committee discussed that earlier today. Most of us will take that matter extremely seriously. The main parties represented around this table are on the Executive, with the respectful exception of Dawn Purvis. If the Executive cannot agree a Budget by the end of this year, they will need to explain the reasons for that. If they cannot agree — this is a natural phenomenon — individual parties are unlikely to go outside the Executive box, and therein lies the problem. Sinn Féin recently presented a party paper. My party presented a paper a couple of weeks ago, and the DUP presented one this week. Others have presented papers before, and I am sure that more papers will be forthcoming.

My question arises from wanting to know what can be done to help — if that is the right word. Gentlemen, do you see any merit in trying to find mechanisms that may be used to take forward a co-ordinated outcome that is capable of going a long way towards satisfying the frustration that I know, you know and we all know is out there and that we have mentioned? It is unlikely that we will get total agreement; in fact, that will never happen. However, there must be a consensus from which we can start or even build on, and there must be something tangible that we can get to grips with. We must frustrate you immensely, given the way in which we go about our business, the systems that we must operate through and the bureaucracy that we must cut through. However, at the end of the day, Northern Ireland's decisions about budgets and the control and usage of our finances is dependent on the Executive.

I am sure that you agree that there is a challenge to be faced. However, on the basis of what you see and who you talk to, is there an ability to co-ordinate the action that you and others talk about? Many of us around the table would readily sympathise with your position, but it is unable

to be worked through because of the political nuances.

Mr Brannigan:

I will pick up on that in several parts. We have engaged with our colleagues in the other major business organisations; namely the Institute of Directors, the Northern Ireland Chamber of Commerce and Industry, small business, the Centre for Competitiveness, and so on. As a result, we have the Business Alliance, and we engaged with our colleagues to get our act together first of all, which is important. From a business perspective, we have tried to pull together a single direction and common agenda. We have done that recently by coming up with five key initiatives that we believe can be addressed.

Secondly, we have engaged with various parties that are represented here. We have not engaged with them all as yet, but we would welcome meeting with everyone. That dialogue has been ongoing for some time. It would be easy to be cynical. Indeed, I have to say that I was cynical at the beginning of the process. However, I have been genuinely encouraged by the dialogue that I have had with politicians here on the hill. I detect significant accord and an understanding that we are all in this together, that the issue to be addressed is serious and that, unless we work together, we will not solve the issues and give the leadership that people have the right to expect, whether that be in business or in politics. Much of my cynicism has genuinely disappeared over the past few weeks. There is an opportunity for us in business to get together with political parties and the political leadership to form a common agenda.

We are keen to stress, however, that dialogue has to be action-centred. It would be a waste of our time and yours to sit and engage in ongoing dialogue that has little outcome. We are not prepared to do that. We need a common agenda that is short, to the point and action-centred. It would have, say, a maximum of five points. We could take those points one at a time and agree a timescale for the outcomes of each. That would ensure that there is an agenda that is driven to create outcomes for the common good of all citizens in Northern Ireland. I genuinely believe that there is an opportunity to do that. There is only a short time in which to do it. Along with our colleagues in the other business organisations, we are keen to engage with you to drive that forward.

Mr McNarry:

I do not want to put you on the spot. However, experience tells us that you need a catalyst — someone to do all that. Do you think that it would be prejudicial to the confederation’s independence, for which you are respected, for someone from your circle to make those overtures? Do political parties need to get into a powwow and agree or agree to disagree? Do you think that, given the shared circumstances, it would not be wise for a political party to ignore an invitation from people who are as serious as it but who have a share in the same agendas? I, and, indeed, all people who have a background in business, like the term “short agendas”, because those enable us to find out quickly whether we are going in the right direction.

I do not wish to put words in your mouth; I am just trying to say that there seems to be a problem with bringing that agenda to fruition in the sense of it being on the table for people to talk about. Will getting people around a table be part of the action?

Mr Brannigan:

Yes, because of some of the conversations that we have had during the process. There have been signs of encouragement for us to engage and draw up what we see as five key issues that would be action-centred and put those forward as a suggested agenda for us coming together. Nigel is writing on behalf of Business Alliance to suggest the agenda and approach, which, as I said, is taking one issue at a time and driving it through. The issue is agreed and the interested parties, including us, meet around a table and agree a tight timescale and an action-centred agenda, and we deliver an outcome to which we can all append our name. We have been encouraged, from the conversations that we have had, to take that kind of approach and we would be very positive in doing so.

Mr Nigel Smyth (Confederation of British Industry):

We are at the early stages of the process, which is why we are a bit cautious about what we say. The private sector has lots of ideas in the area of alternative sources of financing. We are keen to develop a paper, engage with all the political parties and see whether we can get broad buy-in to try to take that forward.

That is only one aspect. At an Executive level, we understood that a ministerial subgroup was

set up. We understand that, politically, nobody will shout to increase something or take a particular action, but some tough decisions have to be made. Those will have to be made around a table, so we would have thought that a subgroup of the Executive would try to take forward some of the broader ideas or themes at the same time. We can adopt a bottom-up approach on particular issues. We will take advantage and do as much as we can. I would have liked to have thought that, on the political side, there would have been some work coming from a top-down approach also.

Mr McNarry:

I accept that. The private sector has valuable but unfortunate experience of turbulence. We have that experience in our minds as we consider similar turbulence that is likely in the public sector.

This suggestion is off the wall, Chairperson; I know that we have a substantial work programme. Perhaps it is not for answer now but when the gentlemen leave. On the basis of what we are hearing, and without hearing the views of other members, which is important — I would like to hear those — is there a role for this Committee? The parties are represented here. We are the people who take on the responsibility of scrutinising the money side of government. Is there perhaps a role that we might consider getting involved in as a Committee or being the respondent to anything that may come from a group such as what is before us? Perhaps we could come back to that.

The Chairperson:

We could also ask DFP to provide an estimate of the potential income costs that are associated with some of the proposals as well as the options for the local charges that were listed. We could follow up on that as well.

Mr McNarry:

We must not believe everything that we hear. It would be far from us to take all of that on board. I am aware of some salesmen who sit up there who could sell ice cream to Eskimos, but we have to be a bit more careful. That is helpful. Thank you.

Ms Purvis:

I agree with David. When I first looked at the document, I thought that it was a manifesto. I thought that it was 'Back to the Future' to 1983 and a Margaret Thatcher manifesto, but I had to remind myself that it is a business manifesto. Obviously, you come at it from what is good for business and not necessarily what is good for public services.

I have difficulties with the paper on a lot of fronts, particularly the parts about selling off public services, privatisation of public services and the introduction of local charges. I am fundamentally and ideologically opposed to a lot of it, particularly given that the Assembly is already addressing some of the issues in the paper, such as reducing the level of sickness, improving management of government estates and establishing a better community health service. When I looked at the part about local charges, I could not help but think that many of the suggestions in the paper will impact on some of the poorest and most vulnerable in our society. In particular, the suggestions on Housing Executive rents, the increase in MOT test charges and the introduction of a range of charges for specified services will lead, in my opinion, to social exclusion of the most vulnerable in society.

I am particularly disturbed by the suggestions on the Health Service. Our public services are in great demand from some of the most vulnerable in our society. That is where the bulk of public services are gained and where the demand for public services is, and there is absolutely no mention in the paper of addressing the inequalities that exist in our society. Those inequalities lead to the demand for public services and the increasing cost of public services. For example, the cost of domestic violence and of providing health and housing services runs into millions of pounds every year because of the inequalities that women face in our society. It runs into billions of pounds when we consider the criminal justice system. I would have loved the paper to focus on trying to address the inequalities, because, by addressing those inequalities, we will reduce the demand for public services and, therefore, the cost of public services. That is not addressed anywhere in the paper.

Some parties may congratulate you on the paper, but I have to keep reminding myself that you are a business organisation and that the paper proposes a business approach. Therefore, to my mind, a lot of the suggestions in the paper, such as those on privatisation and franchising, seem

designed to enable business to get rich from public services. I wonder how that fits with the notion that we have to rebalance our economy and encourage growth in our private sector. The paper suggests to me an approach of growing a private sector that will become more dependent on the public sector by franchising public services so that business can grow. That was more of a rant than a question.

Mr Brannigan:

As Ms Purvis says, that came across as an ideological pitch rather than a question, and I am not sure where to start. However, I will start with Housing Executive rents. My understanding is that, because of social inequality, 83% of Housing Executive rents are paid for by government. I come from east Belfast and was brought up in a working-class area in Paxton Street and, therefore, have seen and suffered inequality and have first-hand experience of it.

Our suggestion is to increase the rents for Housing Executive properties by £2 a week. Of those who would be affected by that increase, 83% would have it paid for them and the moneys obtained could be used to improve the infrastructure and stock of Housing Executive homes by, for example, investing in more environmentally friendly heating, which would bring costs down. Indeed, we calculated that by increasing rents by £2 a week, the tenants in those properties would save £5 each week.

Therefore, if you look behind some of your own headlines and at how we see some of those things working, you will see that we have taken their impact on people into consideration. Indeed, if you return to my introduction, I said that the first thing we looked at was how we could protect core services, because the most vulnerable in our society depend on them. I understand that, because that is where I come from and where we started. However, to have a situation in which the public sector doubles its costs in 10 years is no way to protect core services or the most vulnerable in our society. I would contend that it is actually quite the opposite. We must address that fundamental point and stop wasting money. It is that waste that angers me, and I say that not just as a businessman in Northern Ireland but also as a citizen and a taxpayer.

It is through the work of the private sector that we generate the wealth that pays for those things. Unless that money is spent properly, and for the good of all the citizens of Northern

Ireland, I have a right to make the type of comments that I did. I resent some of the remarks that were made about where our approach came from, especially since you did not discuss them with us.

Ms Purvis:

You are entitled to your opinion and I respect it, but I am also entitled to mine. We probably agree about the issue of waste and how to address that. It is the role of the Assembly, through its Statutory Committees and the Public Accounts Committee to highlight how public money is spent and to make improvements. It is for the Departments to carry that through.

I do not believe that the privatisation of public services is necessarily good, or that many of the things that you proposed in the paper are good for public services. We can reduce waste and improve services and outcomes for the most vulnerable in our society by reducing inequalities. I respect your right to have a view, but I am also entitled to mine.

Mr Brannigan:

Of course you are. I did not suggest for one moment that privatisation is either good or bad. Privatisation of some things is good and other things remaining in the public sector is good. It is about taking an objective approach to what is the best and most efficient way of delivering services to give real value for money for those who live in Northern Ireland. Neither of us should take an ideological stance as to whether it is automatically a good thing or a bad thing to privatise public services. Rather, we should consider what the most efficient way of delivering public services. We should all look at that.

Ms Purvis:

I happen to believe that it is the wrong way, and I am entitled to have that view.

Mr Brannigan:

Of course you are.

Mr Smyth:

Inequality in our education system is one of the biggest areas. In the report, we identified a

massive amount of waste and inefficiency, whether in administration or in the excess number of schools. A CBI report that was produced last week shows how they are increasing standards in Great Britain through a significant use of the private sector. At the end of the day, we and they are interested in outcomes, and 43% of our pupils left school this year without an A to C grade in maths and English at GCSE. Prospects for them are not good in a difficult environment.

Our interest is in improving outcomes. It is not a case of the public sector being good and the private sector being bad. There are significant opportunities for the private sector and, indeed, the community and voluntary sector, quite often in partnership with the private sector, to provide a much-enhanced service much more efficiently. There are Departments that are trying to reduce absenteeism to 15 days a year — the private sector would be broke with such figures. The private sector could run those things, make a profit and deliver better outcomes in certain cases.

Ms Purvis:

If we want to get into a debate on education, there are 77,000 empty school desks in Northern Ireland. There are 1,200 schools when we probably need around 600. I am up for that debate, and I am up for one education system, but other parties have a different policy agenda. I am acutely aware of the tail of underachievement. In fact, Protestant working-class boys are the major group of non-progression in the education system, and academic selection has a lot to do with that. That is another ideological discussion that is probably for another day.

Mr McLaughlin:

We started this discussion by comparing your document with a manifesto, which, obviously, it is not. People might focus on the local charges section of it. There is a reality to what the political parties here will agree to and disagree on, and there will be quite a range in each case. There may be more significant agreement than is generally acknowledged, but, clearly, there are significant political, ideological and social perspectives that mean that agreement on other issues may elude us for a time yet.

Obviously, there are inefficiencies, and you have done the service of pinpointing those. No party here will defend the current profile of the numbers of MLAs and Departments as the optimum and most sensible arrangement that we can arrive at. However, it reflects the position

that we have started from, and we are about to complete the first full mandate of the Assembly having achieved the situation in which every party in the Assembly supports the power-sharing arrangements. We have achieved a significant milestone in that policing and justice has been devolved, and all of that brings benefits in a strategic way. We can address issues such as inclusivity in a different way. We can do that in a more inclusive way and in a way that does not necessarily threaten to destabilise the progress that is being made in the arrangements that exist.

You also identified issues that the Assembly is prepared to deal with despite the kind of dynamic that I described. Perhaps with your perspective, you could be of some assistance to us, because we are not necessarily dealing with those issues, particularly asset disposal, in the most effective way. Perhaps concern about the fall in property prices has meant that people have not only recast their calculations but their views on whether this is the time to move forward. My party takes the view that we should not abandon the potential to raise revenues. We do not by any means suggest a fire sale but carefully judged interventions and disposal of assets that could address some of the pressures that we face.

Your ideas on reconfiguring the Housing Executive do not coincide with my party's approach, but neither are they a million miles away. It would be useful perhaps to develop that as a discussion document, and it might help the parties in their business of coming together and making decisions, given the short and fairly intense period that is ahead of us.

Furthermore, if you have to make a judgement on that, as the parties will, and you believe that the private sector can address certain issues better than the public sector, shape that out. People can take a look at it without prejudice and reject it or otherwise on ideological or other grounds. We should not, however, be afraid of that engagement. I strongly encourage you to identify those issues.

Your document covers a range of topics, some of which, in your heart of hearts, you must know will not get through the Executive as they are comprised at present. I suggest, respectfully, that, in the time that we have left and given the urgency of the situation, you do not waste your time. Where you think you can get purchase and a response, and the useful, for all sides, experience of working together, let us aim for results. You have given us some headings. I have

had some discussion with you, and we intend to follow up on it. My party is interested in some of the report's content but would tell you straight up that there are other parts of it that you can forget about as far as Sinn Féin is concerned.

However, we are coming to it with common purpose. We are dealing with a situation in which we need to identify additional revenues. We need to identify efficiencies. We need to give hope and expectation that we can manage the downturn and invest in the recovery. That will require us all to work together. It means challenging all of our perspectives on what is doable and possible. Therefore, your report is a useful contribution. That is how I would approach it.

Dr Farry:

Welcome, everyone. I apologise for missing your opening remarks. However, I will catch them in the Official Report. I have read the entire document. I warmly commend the CBI for its contribution. Its launch at the end of September was timely.

I do not want to make a long speech. However, I will ask a couple of questions. I do not believe that what you have set out — accepting that it is a snapshot from a business perspective — is mutually exclusive with regard to the wider agenda of addressing inequalities and investing in early intervention and preventative work. That is all consistent with reducing cost pressures in government. In some respects, what you suggest is consistent with that and would reinforce much of it.

I have two questions, one of which, hopefully, will be challenging because I do not want to simply accept the report and congratulate you, but try to push you as much as possible. First, the exercise cannot simply be about trying to find the best way to address the need to find 8% revenue cuts and 40% capital cuts just by paring back. There must also be an agenda for reallocating resources. It is not simply a case of finding savings of 8% or 40%. It is about striking a budget that, in light of the resources that are available, meets needs as well as possible over the next four years.

Accepting that you are coming from a business perspective, and in view of the economy's drivers, where do you currently see the Executive's priorities in supporting Northern Ireland's

economic transformation?

Mr Brannigan:

First, I want to underline what you have said: our report is not meant to be a business manifesto. However, it is, certainly, a business perspective. There is no getting away from that. Obviously, when we started it, the CSR had not been completed. The Chancellor had not stood up and given us our medicine. What surprised us was the balance between revenue and capital. We did not expect the significant cut in capital of 37%. Therefore, our report was on a different premise.

In light of that, and from our perspective, we see a need to take money from the revenue budget into the capital budget. There is an opportunity to do that. Although no cut is welcome, the cut on the revenue side was not as draconian as we may have expected. Therefore, there is probably room to transfer funds from revenue into capital and still be able to meet the revenue budget and target by using some of the mechanisms in the menu. As I said earlier, this is a menu; it is not meant to be a definitive blueprint.

Undoubtedly, the capital side is one Northern Ireland's exceptionally important areas for two reasons. First, it generates jobs. The construction sector has been hit particularly dramatically, with the loss of 20,000 to 30,000 jobs over the past couple of years. Hence, there is an opportunity to kick-start that sector again and to create employment through a capital programme. Secondly, there is no doubt that our infrastructure is lagging behind. If we are to come out of this recession and hit the ground running, we need to have an infrastructure that allows us to do that. Here is an opportunity to put money into the capital budget to allow us to develop an infrastructure that will allow us to move the economy forward when we emerge from recession.

For those reasons, and in light of the CSR, we have looked again at some of the proposals that we had put forward. We certainly see a need, which I accept is from a business perspective, to move moneys from revenue into capital.

Dr Farry:

Along similar lines, if we look at the UK Budget as a whole — particularly in England and Wales — we see that some of the economic drivers have, perhaps, been particularly hard cut. For

example, the Department for Business, Innovation and Skills has taken a disproportionate hit. There is a lot of attention, and the natural tendency for us, as public representatives, is to get sucked into the high-spending public service Departments rather than the economic driver Departments. What is the CBI's view on how the Assembly should balance its approach to that, rather than salami-slicing down the line? Does the CBI believe that areas, such as skills investment by the Department for Employment and Learning (DEL), should be given not full but more protection on the economic side?

Mr Smyth:

You are absolutely right. This document is very much focused on the whole public sector and on having some money to spend. We are inputting to the regional economic strategy that is being delivered. Clearly, we need to support areas of foreign direct investment (FDI) exports, so we believe that agencies such as Invest NI provide important support. The same applies to science and R&D on the skills side.

Terence Brannigan made the important point that we need to get agreement. Nationally, the sums are done and the focus is now on the growth agenda. That is where Northern Ireland must move to and that is what we need to debate. There are growth sectors out there, including the food sector. The ICT sector is doing extremely well. I would say that ICT is almost booming again; it probably has almost 800 vacancies. Health technologies, the pharma sector, the low-carbon green industries need to be supported. Going forward, business will be export-driven. Consumer demand will be fairly soft for several years, so we need to focus on the areas that I have mentioned and areas that support them by providing transport and skills.

Dr Farry:

Does that mean that the CBI strongly endorses the green economy and housing initiative launched yesterday?

Mr Smyth:

Absolutely, and there were a couple of smart elements in that, particularly around leveraging a certain amount of government money up front by a factor of about 3:1. That achieves a bigger bang for your buck, which particularly interests construction. There is a wide range of benefits

and a more innovative payment scheme, but everybody will benefit from day 1, and, once it is paid off, they will get a much bigger benefit.

Dr Farry:

My final question is the challenging one, but it needs to be raised and I will push the CBI to answer. There is a probably a less than 50:50 possibility of Northern Ireland being granted a lower rate of corporation tax. The CBI was part of the Economic Reform Group report on that. Under the Azores ruling, it will fall on the Executive to decide whether to use the block grant to fund the lost income in the short-term, before the anticipated uplift in returns. That resource must be found from somewhere. Perhaps, from your perspective, in an ideal world, that money would be found by making savings in other areas or through non-economic activities. However, if it comes down to the Executive having to cease or reduce some of their investments in economic drivers to fund corporation tax shortfall, is the CBI prepared to live with that?

If we are serious about a step change in corporation tax being the key issue, is there a justification for shifting resources from lower-efficiency forms of economic support to what have been presented as higher-efficiency means of economic support?

Mr Brannigan:

You are absolutely right about corporation tax. We are very supportive of the need to reduce corporation tax, to at least in line with the rate in the Republic, in order to become competitive in attracting FDI. At the moment, we are a cost centre, in that we offer a low-cost economy — for labour, and so on — for companies coming in. Anyone can compete on a cost base. If costs are cut elsewhere, we will suddenly find ourselves uncompetitive again.

Instead of becoming a low-cost economy, therefore, we have to become an income-driven economy. There is no doubt that varying the rate of corporation tax can enable us to do that. Whatever way we look at it, experience says that that is the case. It is interesting that, despite all the Republic's travails with its economy, which is arguably in a worse state than ours, it has protected its corporation tax rate absolutely. In 2010, the Republic is still attracting significant numbers of companies and significant investment, which is creating significant numbers of jobs. Therefore, this is about trying to create worthwhile and well-paid jobs for the people of Northern

Ireland.

There is no doubt in the mind of the Business Alliance that varying the rate of corporation tax is the single most important lever that we could put into the hands of government here to create real growth in real jobs to create real wealth for all the people in Northern Ireland. You can argue about whether it is a silver bullet, but I have no doubt whatsoever that varying the corporation tax rate is the single most significant tool that can be used to create that growth. Therefore, you should think long and hard about how to create the opportunity to do it.

We understand that a reduction in corporation tax would have an impact on the block grant. As yet, no one has been able to say by how much: some people say £100 million, while others say £300 million. Once we have a definitive answer, we can truly make up our minds about how — not if — to introduce this important tool, which we should and could use. It will then be a case of deciding whether to introduce it gradually or as a big bang. We will know the real answers only when we understand the true implications. However, we are very supportive of a significant reduction in corporation tax.

Mr Hamilton:

I welcome the production of the report. Terence, you said that it is a menu. It is not an all-you-can-eat buffet but an à la carte menu from which to pick and choose. I very much welcome the fact that the report challenges us in the job that we are doing and stimulates debate. Like others, I do not support absolutely everything in the report, but I see a great deal of merit in a substantial amount of it.

There has been discussion about the privatisation, outsourcing or alternative delivery of public services. However, that is not new, because it is happening today. It is not always private companies that do it; it can be community organisations and the voluntary sector. It has been independently verified that the saving delivered to the public purse can be between 20% and 30%. Indeed, in-house bidding in the public sector almost always delivers a higher standard of service. One thing that I have detected from discussions with those in the community and voluntary sector is that there has already been a retrenchment at the centre. Rather than Departments and agencies tendering and going out to procurement, they are delivering by themselves. I understand the

reasons that they are doing that, although I do not agree with them. It is a false economy, in that they are retaining staff in their Department and not wanting to let them go because of the difficulties that that poses, instead of going for the potential saving and a higher quality of service delivery. In your sector, do you detect any similar retrenchment among organisations that are members of the CBI for services that they were delivering previously? It is not that they are losing services but that that delivery is going back to the centre.

Mr Brannigan:

I will pick up on that in two parts. Earlier, I said that not all in the private sector is good and that not all in the public sector is bad, and Nigel reinforced that opinion. It is about using the most appropriate tool to drive the greatest efficiency. Indeed, as you say, the voluntary sector does some significant work in that area and does so very efficiently. Undoubtedly, there has been retrenchment. That is regrettable from two perspectives. First, it damages the voluntary sector, never mind the private sector, which, of course, it also damages. I preface the second perspective by saying that I have not lost all my cynicism — some of it remains. If I were to be cynical —

Mr Hamilton:

You sound cynical when you say that.

Mr Brannigan:

Yes, let me display some of that cynicism. I happen to think that some of that behaviour is about protecting jobs rather than about protecting services and delivering efficiencies. Doing that is cynical in itself, and it is not in anyone's interests.

The Committee talked earlier about taking jobs out of the public sector and putting them into the private sector to generate profit. That is an important point, and you are right to say that that happens. Let me give you a simple and easy example of how you can leverage the public sector into the private sector and grow jobs significantly. That happened when the Ministry of Defence (MOD) in England outsourced services to the private sector. A business that started off with an annual turnover of £3 million ended up, within seven years, turning over \$1.7 billion a year. That outsourcing created an export business, because the vast majority of that money was generated abroad. Therefore, a business was created out of a public sector service that became a highly

successful business. Yes, it generated profit, but it generated tax and created massive employment — more than 100,000 jobs.

The issue is not only about transferring people out of the public sector into the private sector. Your point is well made, and we know that there are examples not only of the private sector being damaged in that way but, importantly, the voluntary sector being similarly damaged because work is being taken off it and given to the public sector at, I stress, greater expense to the public purse. That cannot be right.

Mr Smyth:

Most of our experiences have been with the Health Service and probably more in its use of the community and voluntary sector. The issues in the private sector are more to do with delays owing to budgetary uncertainties in various areas. That is where the frustration lies. At Invest Northern Ireland, there has been a tendency over the past couple of years to bring services back in-house rather than use outside bodies to deliver services.

Mr Girvan:

Like other Committee members, I welcome the report. Parts of it are easy to swallow and will work well, but other areas of it will result in a kickback from the public sector because of how its proposals would impact on it. I appreciate that the cuts that were announced in the spending review will have a greater impact on the private sector than on the public sector. I know that a lot of people may disagree with that, but, because of the capital aspect of the spending review, it will have a greater impact on the private sector.

We need to ensure that every pound is accounted for and well spent. Your report identifies areas in which that can be done. When the announcement was made, we saw the unions' response to the cuts and the impacts that they will have. They made representations about jobs in the public sector alone. The unions may well see areas in which the report's proposals are completely against their ideology of a socialist state. How can there be buy-in? At the end of the day, the proposals could be a way in which to generate wealth in the economy. Have you engaged the unions in any way?

Mr Brannigan:

I sometimes do not understand. We, rightly, are focusing on the public sector, but it is almost as if the private sector has somehow not been touched in Northern Ireland over the past two to three years. It is almost as if unions do not exist in the private sector — of course they do, and so they should. My grandfather headed up the unions in the Belfast shipyard. I like to think that he did a very good job, although, at that time, it employed 40,000 people. Perhaps he did not do a good job, because there are not too many there now. Nonetheless, it is essential that management and unions, whether in the public sector or the private sector, work together. If they do not, there will be mayhem and the service will not be efficient. No services are protected when there is that kind of discord.

In the past two to three years, there has been significant downsizing, reorganisation and re-engineering in the private sector. That has been able to happen through unions' co-operation and support. Indeed, jobs have been saved because that has happened. Michelin, for example, invested significant amounts of money in retraining and upskilling its people during a period in which it was down to around 25% or 30% of production. Michelin worked with the unions to try to retain jobs and to use the time and money to upskill its workforce at a time when the company was losing money in Northern Ireland. That is good behaviour. Unions and management can work together to generate or retain and support jobs in Northern Ireland.

This is not about kicking the public sector because the private sector has already had it pretty tough. Not everything about trade unions is bad. They do an important and good job in protecting their membership. At the same time, however, they have a responsibility, as we all do, for the Northern Ireland economy and their part in it. They have to take that responsibility seriously. We have said in the report that they must play an important part and must be engaged in the process, which will not work unless politicians, unions, the private sector, and so on, get together and formulate a plan that we can all deliver. That is an exceptionally important part of the process.

Mr Smyth:

If I might add to Paul's comments, the biggest hit that people will take overall will not occur in

the public sector. That should be managed through natural wastage and various other things. It is a relatively small minority of the total number. Numbers in the public sector will have to shrink from 225,000 to about 200,000, the vast majority of which could and should be done through natural wastage. The big hit will come in the construction sector when the cuts in capital funding are implemented. That is why there is an urgency to see how we can increase some revenues by whatever means. There are a number of options; for example, I see a lot of opportunities to build the capital base a little bit. Young people will be particularly affected. We expect the public sector, like the Civil Service has done, to have a recruitment freeze. That is where the real challenges will be. That comes back to the point that we need to do absolutely everything now to grow the private sector at a faster rate.

I have done various interviews, and the trade unions do not want to engage. They did not believe that the cuts were necessary and they now oppose them, so it has been very difficult to engage constructively with them.

Mr Girvan:

The CBI has found it difficult to engage trade unions on some of those elements in the report. The unions view the private sector as being in direct competition with some of their members' work. I, for one, have been involved in the private sector, and I know about the difficulties. For example, I know that many people in the private sector have taken up to a 40% pay cut just to keep the business going. That is endemic throughout that sector. I also know that pay cuts would not be tolerated in the public sector.

You have tried to engage the trade unions, but the feedback is that they are not willing to engage positively. There is now an opportunity to buy in and a necessity to focus on making savings, but everybody has to buy in to that. People cannot simply dip in and out. We all have to endure the pain together.

Mr Brannigan:

Absolutely. The situation that arose when the comprehensive spending review (CSR) became public and everybody began to understand its potential repercussions was not helped by the unions and the private sector being painted as diametrically opposed, with the unions in the red

corner and the CBI in the blue corner. It should not be like that. In fact, it is not like that in the private sector, where management and the unions have been working together. As you say, the private sector has had to take pay cuts, pay freezes, and so on, and it is no surprise, therefore, that the average wage in the public sector is 28% higher than it is in the private sector. That is not sustainable in the longer term, and we must manage that. However, we should be managing it in conjunction with the unions to ensure that we best protect our core services, as we said earlier. That is what we should both be focused on.

Mr Frew:

Thank you for your report and paper. I am not making light of the recession or the economic downturn, but the good thing about it — if there is a good thing about recession — is that it forces politicians and businesses to do something that they should have been doing anyway. What I mean by that is that politicians should always be looking at how they can do things better. Perhaps we should have been looking at absorbing people into the private sector 10, 15 or 20 years ago, when that sector was much healthier.

There is fear out there. This time last year, I was working as a foreman electrician, and I, along with everyone else whom I worked with, had to take a 12.5% pay cut just to try to save the company, which was of a good size. However, that was all in vain, because we went into administration in January, so I understand the fear, hurt and pain that people out there are feeling. How should the House manage that fear? Should we ease it or enhance it? In some quarters, people are optimistic, because they think that the actions that we will be forced to take here will mean that, when we come out of recession, whenever that is, we as a country and as a business community will be in a better place, or that we will be able to take off to a higher and better place. I will flip my question: how well are we managing optimism?

I want to get down to the nitty-gritty of the paper. It states that we should increase MOT charges. Do you think that public service vehicles (PSVs) should be included in the proposal or not? In the paper, you also talk about the introduction of congestion charging and tolling. Do you not feel that that would hurt businesses even more at this time, especially the haulage and construction industry, and even the service industry, given how important deliveries are and how much people rely on them? How will that be managed? I recognise that roads are the veins of

the country and that haulage is the blood. That is what makes businesses work. I am interested to hear your comments on that.

The last page of the executive summary of your report states:

“Prior to the next Assembly elections, determine the size and shape of Government departments, so that it is clear in advance which positions new ministers can be appointed to;”.

Given that we use a mandatory coalition system, that suggestion will not be easy to achieve. Moreover, we have a tremendous workload as it is. We must try to agree a Budget as quickly as possible, and the Bills that are going through the House at the minute result in an incredible workload. How would that proposal take shape and how would we get to that position? I do not know whether I would support a voluntary coalition, but it is bound to be very close.

Mr Brannigan:

I will address the point about confidence outside these four walls. None of us is insulated from the fact that there is a lack of confidence and significant concern out there among consumers in the private sector workforce, and in the public sector workforce absolutely, about what may come down the line. How do we deal with that? Again, I can give only a private sector perspective. I have dealt with significant change. I built a business in Northern Ireland that ended up employing 15,500 people, and I ran a business in 48 countries around the world that acquired companies and blended them together, and so on.

What lessons have I learnt? When significant change is coming down the line, leadership, decisiveness — one cannot win unless one is decisive — and speed of action are exceptionally important, and I commend those three principles to anyone. My experience tells me those are the three skills that people require of others. It may be necessary do distasteful things, but if those things are done quickly and decisively, the pain will be out of the way and it will be possible to start to move forward again in a positive manner. I say that from bitter experience. There is nothing worse than losing workforce and having to make people redundant. I have had to do that at times in my life. It is most painful for the people who are made redundant, and it is exceptionally painful for the people who have to do it. However, people earn respect through leadership, decisiveness and speed of action, and rightly so. That is why I said at the beginning that we want the Executive to act decisively, show leadership and arrive at a Budget quickly.

The final part of your question was about the size and shape of government. That is not for us

to determine, nor should it be. Nonetheless, government must be fit for purpose, and you must decide how that is shaped. We find that a silo mentality can occur. Protectionism of individual departmental budgets is neither healthy nor helpful. However, it is understandable, and, given the mandatory coalition, it is not easy to manage that situation. More of a collective responsibility is needed for the situation that we are in, for the decisions that need to be taken, for the Budget that needs to be struck and for the repercussions from that. There are certainly things that need to be done.

Mr Smyth:

As far as Departments are concerned, the wording in the report is not perfect. We are not suggesting that there should be any interference with d'Hondt; rather, we thought that it would be better if all parties could agree to go to six or eight Departments in advance of the elections instead of holding elections and then start to battle it out. It would be far better to have agreement on that issue beforehand.

The suggestion about MOTs was focused on cars rather than on PSVs. We thought about broader policy issues, particularly to do with the environment. Likewise, on congestion charging, there are options on car parking levies, for example, that we do not think will change behaviour. Congestion charging would probably be limited to some of the main roads into Belfast. That is about changing behaviour. It could be time-limited, or it could be that freight vehicles do not pay at all, as is the case with the Dublin tunnel. It costs a lot more for cars to use it. We are conscious about the competitiveness aspect. If we can guarantee that a lorry will be able to drive straight into the port at no cost, it is probably worth a 50p or £1 charge. With new technology, those things can be designed at a far lower cost than would have been the case 10 years ago.

Taking all those suggestions together, we believe that the Executive need to think about raising £400 million from the range of options that was set out. The trade unions would probably agree that rates should go up; that might be the easier option, rather than battling it out on water charging. As we make clear in our paper, rates here are the lowest in the UK. If they were brought into line with Scotland, where wage levels are similar, around £300 million would be realised. Many people, particularly well-off people, in Northern Ireland do very well and have very good disposable incomes because we do not have water charges and rating costs are very

attractive.

The Chairperson:

Thank you very much. If we need clarification, we will write to you.