



**Consultation on draft Programme for Government,
draft Budget and draft Investment Strategy**

Comment by Ulster Society of Chartered Accountants

January 2008



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Introduction

The Ulster Society of Chartered Accountants is pleased to submit its comments on the Programme for Government and on the Draft Budget published by the Northern Ireland Executive.

The Ulster Society represents some 2,800 chartered accountants in business, private practice and in the voluntary and public sectors. For the purpose of this submission we have confined the majority of our comments to judging the Executive's Draft Budget and PfG documents against the criterion: are the proposals an enduring boost to the private sector? We have not gone into any detail regarding observations that we might otherwise make in relation to the non-business elements of the documents.

Firstly, the Ulster Society welcomes the fact that this is a Budget made in Northern Ireland by a Northern Ireland administration. We also applaud the Executive's declaration that the focus of its budgetary and investment intentions is on the economy. There are many demands on the public purse – all with their own merits - but the benefits of a thriving economy accessed by all would be eventually felt across every economic and social quarter.

In particular, we support the twin goals of halving the private sector productivity gap with the UK average (excluding the Greater South East) by 2015 and increasing the employment rate from 70% to 75% by 2020. As 2015 and 2020 are some time away it is important that all such targets are kept under review to ensure that they remain relevant.

We are also conscious that such is the dynamic of economics that in the short passage of time since the draft budget and PfG documents were published there are ominous signs of a significant downturn in the US economic prospects. The open economies of Northern Ireland and the rest of the UK and Europe will not be immune from the consequences of economic recession. It is therefore essential that the Executive retains its focus on the economy and takes steps to give it a more robust and sustainable base. This focus will be sharpened in the context of the recent "Review of Tax Policy in Northern Ireland" by Sir David Varney December 2007 which makes reference to an opportunity to explore in more detail how to expand the public sector in Northern Ireland.

In examining the Executive's budgetary and investment proposals several themes have emerged.

Efficiency Savings and Employment

The Ulster Society welcomes the setting of efficiency cost savings of 3 per cent which has been partly prompted by the slower growth in funding available from central Government. In private sector terms this is a low target; however, the public sector's record in the delivery of even modest savings is not good and will take a determined approach to achieve. We believe that there should be clearer targets for efficiencies created through public sector reform. The unexpected decisions by the Executive to freeze regional domestic rates, to delay the introduction of water charges and restrict the increase in residential and non-domestic rates, to introduce free public travel for over 60s etc will have an effect on the overall Northern Ireland block grant which will hamper, unnecessarily in our view, the prospect of meeting the efficiency savings.

We also note that prior to the increases in some departments' percentage budget allocation the budgetary baselines were cut which subsequently made the recent budget increases appear larger but not in absolute terms. For example, we believe that changes to the baselines of departments such as the Department of Health in England as detailed in the 2007 Comprehensive Spending Review prior to the Draft Budget Announcement mean that the new allocation to Northern Ireland is flattered as a result.

Given that 55% of current expenditure is devoted to public sector pay there is an obvious pressure on the Executive to impose regional pay settlements. Public pay is on average 15% above the private sector. A more realistic level of public pay settlements would improve the ability of private sector employers to compete for labour and, secondly, perhaps boost the attraction of entrepreneurship as an employment option.

We also note the Executive's target of moving the employment rate from 70% to 75%. The current low rate of unemployment in Northern Ireland at under 4%, welcome as this is, is largely the result of the impact of public expenditure and low level jobs in the retail and distributive sectors. Should the public expenditure level in Northern Ireland be reduced it is unlikely that the private sector can contribute significantly to creating more jobs. Particularly in the manufacturing sector the anecdotal and statistical evidence is that the term 'manufacturing employment' is an oxymoron as a side consequence of improving the manufacturing process is usually a reduction in labour costs. Some scope to tackle a benefit regime which provides a high reward for not working compared to what can be earned through work would be welcome.

We welcome the Executive's decision to rethink the level of planned over-commitment in recognition of its distorting effect on the budget and the lack of flexibility in funding during the year.

The time to evaluate Northern Ireland's policies in terms of company and job creation is now, to ensure that we have the tools and infrastructure in place. Company formation has largely been level for the past decade; a policy lever is required to achieve the aim of a large increase in the private sector.

Asset Sales

We invite the Executive to explore fully the capacity of the public sector to realise the value of potential asset sales – not just of land and property but of services which would be out-sourced to boost the private sector and NGOs which operate commercially or could be converted to commercial operations. More could be done to privatise NGOs and to expand PPP opportunities.

RPA

Neither document makes more than passing reference to the Reform of Public Administration giving rise to the suspicion that, if not off the agenda, it has slipped back as a Government priority. Whatever the politics of this de-prioritising of RPA it is a disappointment that the opportunity for improving the efficiency of delivery of public services is not being seized enthusiastically by the Executive. RPA should be pursued as a means of aligning the delivery of public services with opportunities for increased private sector participation in what still remain exclusively public sector services. Private sector participation would lead to greater consumer focus and responsiveness and obviously a larger private sector. We would make the same criticism regarding the persistence with ten central government departments.

FDI and Skills

In attracting more Foreign Direct Investment sufficient to create 6,500 jobs we must continue to address the very evident skills gap in the existing workforce. The creation of 300 more PhDs is welcome but at best they will take some six more years to qualify, assuming funding is in place. The disconnect between the quality of the labour force and the levels of skills demanded by indigenous and FDI employers seems to us to be as much a matter of inability to deliver on policy or to identify the necessary policy initiatives. The creation of six major FE colleges may be a step in the right direction but the time-consuming process of re-organisation cannot have helped progress in identifying training and education programmes which would match employees with the relevant skills to industries with a future. The FE Colleges need to be engaged in supporting the provision of skills in the areas which are being targeted for FRD, eg. software engineering.

We would also note that the pricing of our skills base has up to now been cheap in global terms for investors looking to set up in Northern Ireland, but this is no longer the case. We require more centres of excellence to create competitive skills and competitive companies. We note that expenditure on Research and Development in Northern Ireland lags well behind levels in the rest of the United Kingdom. In order to grow knowledge based, indigenous businesses further support for R&D must be a top priority, particularly in the area of near to market development work.

With such a focus on attracting FDI during an international period of goodwill towards Northern Ireland, filling the emerging skills gaps is of paramount importance. A commitment to addressing the skills gap with a sector specific approach ie. in areas of greatest need to potential overseas investors would be very welcome. It is vital that we can both attract back skilled people who have left Northern Ireland and provide

the opportunity for people to attain the skills that they require in areas such as Financial Services and Software Development.

Planning

The commitment of the Executive to investment in infrastructure is welcome. There must be capacity in the Public Sector to deliver the planned investments. In particular, planning is on the Government's agenda but change (like the planning process) is slow. Planning is failing at two levels. It is incapable of fast-tracking economic developments and is therefore a hindrance to the growth of a vibrant and dynamic economy. Secondly, at the micro-level it is arguably over-involved in the planning decision – prescriptive with regards to details such as external finishes, window specification etc. These are matters of subjective taste which might vary from one planner to another. Clearer guidelines would speed the process and allow the Planning Service to concentrate on how it can best stimulate and foster economic development through facilitating industrial and commercial development rather than stifling it. As a rule decisions on major economic developments should be capable of resolution within six months. Though we should also note that this focus on quick decision making for economic projects should not result in a slower process in other areas – the speed of all planning decisions needs to improve.

Tourism

More emphasis could be placed on the capacity of tourism to contribute to economic growth. The ending of the Troubles has brought opportunity throughout Northern Ireland and even a morbid curiosity value which can be exploited if only for a short time. Longer term the Executive needs to press on with its signature projects and the infrastructure to support them. The delays in progressing the Giant's Causeway and in creating a National Park in the Mourne illustrate the failure to push on with policy implementation.

Parity with Britain

Northern Ireland operates on the parity principle with Britain in respect of benefits and in most cases public sector pay and conditions. However, with 27% of the population economically inactive and with a willingness to look for budget decisions popular with the voters we are not going to make serious inroads into reducing our public sector dependency. The other side of parity is the bold opportunity for Northern Ireland to pilot schemes before their adoption (or rejection) throughout the rest of the UK. The Executive might find that in being willing to allow experimental policies such as tax initiatives or benefit levels to be trialled in Northern Ireland, a more sympathetic view might be evident from the UK Government in other areas which might stimulate the local economy directly or through increased infrastructure investment.

Decision Taking

As the Executive beds down and newly elected Ministers become accustomed to the workings of the civil service and familiar with the levers of power we would hope to see a growing boldness and preparedness to take tough decisions. Northern Ireland does not have the budget headroom to indulge in populist financial decisions. The vulnerable in society must be protected but general largesse benefiting all should be avoided in the interests of affordability.

*Prepared by USCA
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