"A Failure of Imagination"

The Stormont House Agreement and Budget choices for Northern Ireland

September 2015

Preface

Dear friend

An air of economic and political stalemate surrounding the functioning of the Northern Ireland Executive is far from news. Despite this, it is essential that weariness with "crisis" (and the party political squabbling that accompanies it) does not make us either indifferent to and/or negligent in critically assessing what is being discussed/proposed – particularly where this relates to the job security of our members and the nature of the society in which we live.

It is in this context that this booklet looks at the elements of the Stormont House Agreement that threaten: massive job losses in the public sector; sale of public assets on a huge scale; the weakening of public sector delivery models and the undermining of fundamental principles of Social Security (now narrowly re-defined as "welfare").

This paper is not about the totality of our movement's vision of a better society (this has been more fully articulated in other publications – particularly our Statements to Members). It is about the need to challenge the "failure of imagination" and risk around the agreed content of the Stormont House Agreement that is being lost amidst recrimination about "who agreed what?" on welfare reform.

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Introduction

In December 2014 all five of the main political parties in Northern Ireland entered into discussions with the British and Irish governments to resolve an impasse within the Executive. Whilst matters discussed included legacy issues from Northern Ireland's period of conflict the majority of the discussion focused on how to deal with Northern Ireland's public finances. Public spending in Northern Ireland has faced significant challenges in recent years due to cuts in Northern Ireland's 'Block Grant', but this has been further complicated by the issue of how the devolved administration deals with the Westminster Government's programme of 'Welfare Reform'. In this way if the Executive does not make cuts in welfare programmes equal in magnitude to those implemented in Great Britain further retaliatory cuts in our block grant are threatened by the Treasury. In this context parties sought to extract concessions from the UK government to ameliorate some of the harsher welfare cuts. The discussion was broadened to include elements of public sector reform and corporation tax, ultimately culminating in the Stormont House Agreement.

The Agreement has since unravelled over differing interpretations of the concessions granted for welfare reform. However the Agreement in its entirety requires significant re-evaluation, not just on welfare reform but the related public finance matters that were agreed or appeared to be agreed in December 2014. For example, the plans for a Voluntary Redundancy Scheme, sale of state assets and a reduction in Northern Ireland's corporation tax rate all represent a significant cause for concern. Similarly, whilst the Stormont House Agreement was originally billed as a £2bn stimulus package for Northern Ireland's economy, it is not. Not only is there very little 'new' money, this is further restricted by the very narrow definitions of how it can be spent. Furthermore other financial measures create immense uncertainty for public finances and risk serious damage to the provision of public services. In short, the Stormont House Agreement is a bad deal for Northern Ireland.

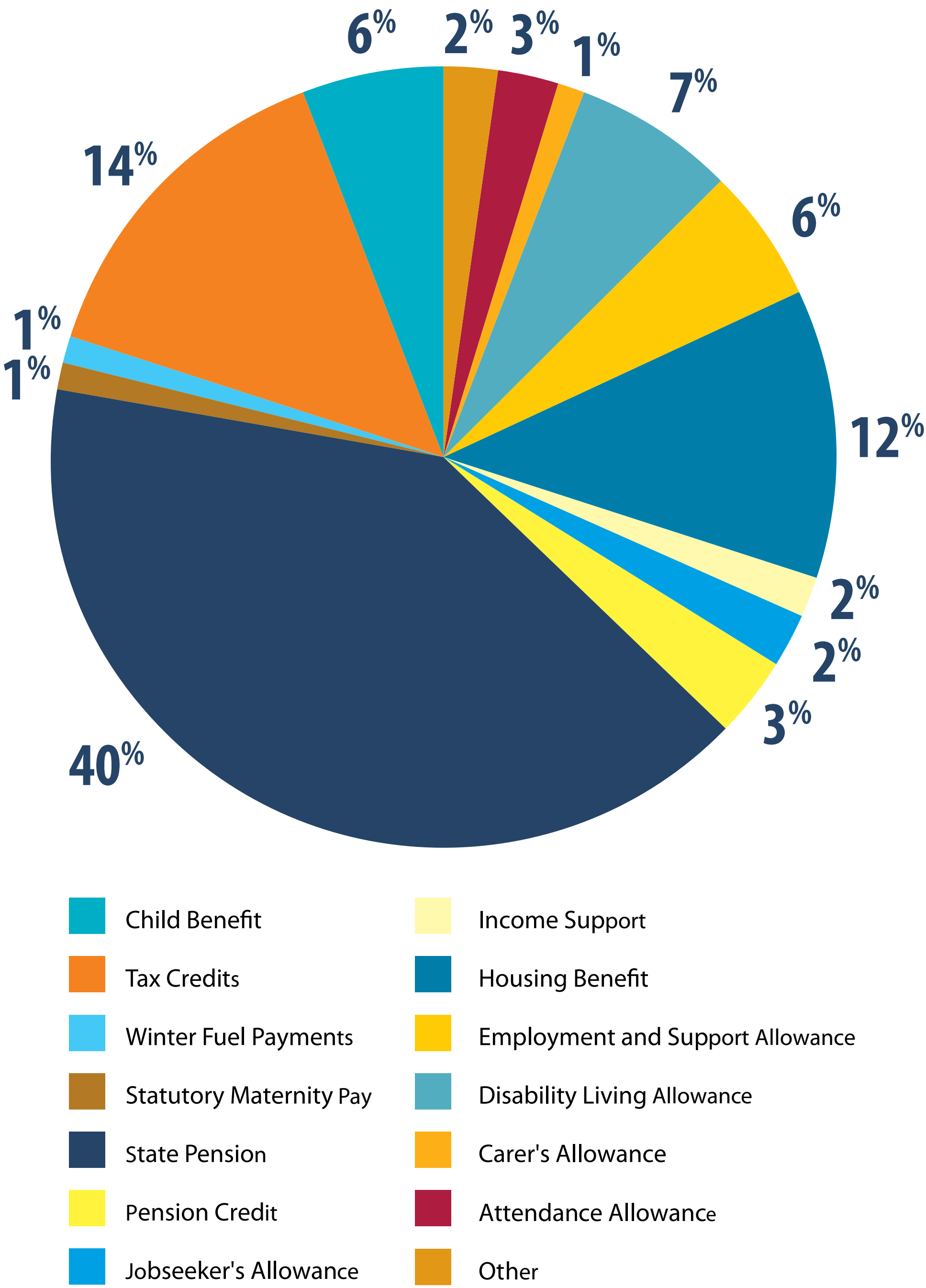
Welfare Reform

At present the Stormont House Agreement proposes the full introduction of Welfare Reform with a "hardship fund" to be paid from the Block Grant. Earlier negotiations between NI Executive parties and the 2015/16 Budget made an allowance for a "hardship fund" of £26.9m[1]. A lack of clarity i.e. there was no indication of whom or what would be covered by a "hardship fund", it can be argued, led to the subsequent unravelling of the deal, in particular what would constitute "a commitment to protect existing and future claimants" a constituency that is inherently unquantifiable. For example, the State can only roughly estimate how many people will require such help in the future and an "open-ended" commitment would place significant strain on block grant funding not designed for this type of spending commitment. If this was the row waiting to happen, the UK government has made it clear that it is up to Northern Ireland's politicians to agree on how to "reform" our welfare system.

The political logjam around lack of local agreement on "what next?", however, allows an essential wider debate (on broader "social security" and borrowing as an instrument of progressive economic investment) to be ignored. This means that political gridlock too easily degenerates into a localised in-fighting that fails to analyse and therefore confront the wider ideology at play here. This ideology, cloaked in the language of “balanced budgets” etc., sees as its mission the re-configuring or removal of universal, free at the point of use public services funded from general taxation. Ultimately this shifts the burden of providing these services from the state to the individual able to pay for it. Those who can’t afford to pay can rely on minimal if any support and/or charity.

The fact that this is not about money is shown by the fact that despite the untold distress and uncertainty for the people affected, the measures taken by the UK government continue to ignore the root causes of the rising “welfare” bill. Instead the focus is on particular aspects of this bill around which an opportunistic and regressive political narrative can be written for purely party political reasons – i.e. the target groups are easier to scapegoat/attack and less likely to vote. For example, despite the “noise” in the mainstream media, as of 2013/14, Employment & Support Allowance and Disability Living Allowance, the two main benefits that may be cut under the current Welfare Reform Bill, account for only 13% of total UK welfare spending whereas the State Pension accounts for 40% of total welfare spending (See Figure 1). Similarly, Tax Credits and Housing Benefit account for over a quarter of total welfare spending and have increased in real terms by a third and a half respectively over the last 10 years.

Figure 1 UK Spending on Welfare 2013/14[2]



In this way, while an effective Welfare Reform Bill would tackle real areas of expenditure with significant, long-term and progressive solutions, the neo-liberal political agenda will need a propaganda drive against the “skivers” and those “sleeping off a life on benefits”[3] as the smokescreen that leaves social need and the state subsidised private landlordism that feeds off it unchallenged. At UK level Housing Benefit expenditure has increased significantly since the mid-1980s while the number of people claiming the benefit has remained broadly the same. This is because of steep reductions in social housing and increased reliance on the private rental sector for social tenants. On Tax Credits, a significant increase in the rate of low paid employment has meant that many more households require this benefit. Despite the propaganda, however, including housing benefit pay outs being used to define and calculate the benefit cap – the money is not a gift to tenants but to landlords. An increase in social housing and a significant increase in the wages of the lowest paid could significantly reduce welfare expenditure and avoid the punitive agenda of the current welfare reform bill.

Northern Ireland has the UK’s highest incidence of low pay with some 28% of workers earning below the Living Wage[4]. Expenditure on Child and Working Tax credits has increased by 69% in real terms over the last 10 years. Moreover Northern Ireland has some of the largest housing waiting lists with the former Antrim Borough Council paying nearly £8m to private landlords for social tenants in 2013/14 alone[5]. Implementing a **genuine** Living Wage (now calculated to address the loss of Working Family Tax Credits) and significantly increasing social housing would reduce welfare spending in Northern Ireland. This could have been the basis for the Northern Ireland Assembly negotiating a welfare reform bill and the policy measures that would assist a progressive re-shaping of our public finances.

Instead the Stormont House Agreement suffers crucially from a **lack of imagination.** On welfare reform, accepting the broad principles of the current bill ignores the evidence that the 2010-2015 UK Coalition Government's welfare changes did not achieve their aims and failed to address fundamental questions around the sort of society in which we want to live and what its priorities should be. As we have stated, the Tories are clear on their vision – if the Assembly merely "read across" the application of this dystopia, it is a clear abdication of their responsibilities.

Had our "welfare" debate been about what was driving "welfare" spending on tax credits and housing benefit, not only the current proposals for welfare reform, but future ones also, would have been better addressed, irrespective of the outcome of the 2015 General Election. The first budget after this Election, in July 2015, reinforces this point. This confirmed the now Tory only Government's plans to remove a further £12 billion from the Welfare Bill, doing so by raiding Working Family Tax Credits. While it is correct to argue that the state subsiding employers' low pay via tax credits is wrong, the removal of them without at least a compensatory rise in a genuinely defined "living wage" (not Osborne's con trick of the Minimum wage dressed up as a "National Living Wage") was regressive. Where the latest assault on the concept of social security from Westminster leaves what was supposedly a settled position on Welfare as of December 2014 is still uncertain.

The Public Finances

Though lacking the genuine engagement with civil society that policy changes on this scale should require, what was agreed by all parties at Stormont Castle[6] and then published as the Stormont House Agreement would have a significant effect on Northern Ireland's public finances in four ways:

1. **Voluntary Redundancy Scheme for workers in the public sector.**
2. **Extra borrowing power for the Northern Ireland Executive.**
3. **Sale of state assets.**
4. **Competency over corporation tax in Northern Ireland.**

Whilst all four are separate policy issues, the Agreement ties them together and in turn binds them to progress on "Welfare Reform". The first two issues are explicitly linked. The Executive is mandated under the Stormont House Agreement to introduce a Voluntary Redundancy Scheme for workers in the public sector. It was agreed that borrowing will be used to fund this scheme over the next four years. Northern Ireland has limited borrowing powers at present; the Executive can borrow up to £200m every year under the Reinvestment and Reform Initiative. This borrowing is intended to enable the Executive to build up infrastructure and skills, the necessary investment required for future economic growth. The Stormont House Agreement intends that of the £800m borrowing available to the Executive over the next four years, £700m of this would be used to pay for a redundancy scheme[7]. The Agreement acknowledges that this would significantly limit the ability of the Executive to undertake other investment and so as recompense, Northern Ireland would receive an extra allowance of £350m more in borrowing over the four years. However as Table 1 below shows, this arrangement leaves Northern Ireland with £350m less for state investment.

Table 1 The Stormont House Financial package

	2015/16	2016/17	2017/18	2018/19	Total (£m's)
Existing RRI Allowance	£200	£200	£200	£200	£800
Redundancy scheme	-£200	-£200	-£200	-£100	-£700
Extra Borrowing powers	+£100	+£100	+£100	+£50	+£350
Remaining RRI Allowance	**£100**	**£100**	**£100**	**£150**	**£450**

The redundancy scheme, according to the figures stated explicitly in the Stormont Castle Agreement (SCA) proposes redundancies in the public sector of between 10-15% (20-30,000 jobs). Again, the rationale for this figure appears to be that as the UK has had a reduction in public sector employment of 10% between 2010-2013 and our "contraction" was 4%, this is us "catching up". In this way not only has the current proposal for a voluntary redundancy scheme no full cost-benefit analysis that would assess the questions of delivering public services, there has also been no examination of geographical and/or equality concerns that should be factored into proposed change of this scale. Similarly, if the aim of this policy is to "re-balance" the Northern Ireland economy, policies would be more efficiently focused on the gaps between outcomes in the private sector in Northern Ireland rather than the public sector.

Whilst the 2015/16 Budget for Northern Ireland set out how a voluntary redundancy scheme would be paid for and how much it was expected to save each year, there was no consideration given to any wider economic impact to the Northern Ireland economy. When quantifying the impact of a redundancy scheme, the effect on future service delivery, reductions in domestic demand and consequent reductions in private sector employment need to be considered. Recent studies on the impact of reductions in public sector employment in other UK regions have produced indicative multiplier effects for local economies.

Research carried out for the TUC by the Association for Public Service Excellence used the New Economic Foundation LM3 model to determine the effect of reduced public sector employment in the Borough of Swindon in England. They found that for every £1 spent on public sector employee wages in Swindon, 59p was re-spent directly in the local economy. When the same methodology was applied to West Lothian Council in Scotland, the rate was even higher at 71p[8]. In both examples, removing this money from the local economy will lead to further job losses within the private sector. The failure to address the inevitable replication of this effect in a Northern Ireland context as a consequence of Stormont House Agreement again emphasises that the risk and wider long term consequences went far beyond debate on "welfare reform".

A similar lack of strategic thinking is displayed in the third funding item identified by the Stormont House Agreement - the sale of state assets in order to fund government expenditure.

Specifically the Executive would be granted the "flexibility" to use proceeds from the sale of state assets in order to pay money back to the UK government. The Executive would be empowered to pay:

- The £100m loan granted by the Treasury to the NI Executive in late 2014 to cover an over commitment of public spending which mainly arose in the Health Service.
- Whatever portion of the £114m welfare fine that will still be outstanding after the successful passage of an UK – compliant NI Welfare Reform bill.

The sale of state assets is often a rash and knee-jerk reaction by governments to transient funding crises. Productive state assets often provide a key revenue stream for governments and can be used as collateral for borrowing or as a vehicle to promote and carry out state investment projects. To promote the sale of state assets as a solution to the long-term problem of public finances in Northern Ireland is both hasty and ill-considered. As we have previously stressed, the reach and universal nature of the state makes it "an asset to use not strip"[9].

The Stormont House Agreement states that if all £700m in borrowing is used in a Voluntary Redundancy scheme, savings to the NI Executive (net of interest payments) would be in the region of £330m per year. There is, as of yet, no prescribed intended use for this money. However the amount bears a striking similarity to the amount of money that HMRC officials estimate would be required to fund a reduction in Northern Ireland's rate of corporation tax to 12.5%. The consequential cost to the Block grant for this cut is a disputed figure (with claims made for it of between £325 and

£700 million). This calculation will be again altered by the July 15th 2015 Budget promise to lower the UK Corporation Tax rate to 18% by 2020. The Agreement makes clear that any devolution of corporation tax will be for the rate of the tax only. It also sets out two very important provisos for any reduction in corporation tax: if any reductions are made to the rate of Corporation tax in Northern Ireland, both direct and behavioural effects of such a change will be borne by the NI block grant and Northern Ireland will only receive increased revenue from corporation tax receipts.

The first point is important in that it opens the door to unforeseen further reductions to the NI block grant if GB-based companies move operations to NI for tax purposes. It could be interpreted that if any international investor were to choose Northern Ireland over a GB destination owing to a lower rate of corporation tax, NI could even be liable for this cost. The second point is equally important as it significantly limits the benefits that Northern Ireland could receive even if this policy was successful. If cutting corporation tax did create 30,000 new jobs, Northern Ireland would not receive any of the increase in income tax, national insurance or VAT that would arise. Cutting corporation tax has been a contentious policy issue for Northern Ireland but the Stormont House Agreement both maximises the cost and minimises the benefits of this policy, further calling into question the desirability of chasing this "Fools Gold"[10] in the first instance. Irrespective of "date" or "rate" of any proposed change, we should not lose sight of the policy choice that is being made here. It is the fact that the Assembly's Executive parties have chosen to sacrifice the jobs of full-time, pay as they earn, tax-paying public servants to pay for a tax cut on profits for corporations.

The Stormont House Agreement was sold initially as a £2bn package for Northern Ireland, however as the above analysis shows, several aspects of the financial settlement are not as they appear. **Of the reported £2bn, only £650m can be considered additional,** namely:

- £50m over 10 years (£500m) to fund capital investment shared education services only.
- £30m over 5 years (150m) to fund various commissions and bodies dealing with "the past".

Where does the £2bn figure come from? As Table 2 below shows the £2bn figure combines the £650m of new money with the £350m in increased borrowing and "spins" towards a headline figure by including nearly £1bn of funds that the NI executive may have hypothetically needed to utilise from the Block Grant in order to achieve the policy outcomes specified in the Stormont House Agreement.

Table 2 Where the £2 billion is really coming from

New Money		New Borrowing	Money that would have had to come from block grant			Total
£500 Capital Funding for Shared Education	£150 Funding for bodies dealing the past	£350 Extra RRI Allowance	£700 Voluntary redundancy Scheme	£100 Repayment of Treasury loan	£114 Payment of Welfare fine	2bn

The £2bn figure represents a presentation of funding that is creative at best and deceptive at worst. In addition the idea that dealing with issues around "the past" do not also need strategic intervention from the State (to provide the public services that support and sustain a society still mired in division) again re-emphasises the failure of imagination that simplistically treats the Troubles as a mere "legacy".[11]

Borrowing to build and invest

The other missed opportunity arising out of the Stormont House Agreement was extra borrowing powers for Northern Ireland. That the UK government was willing to concede that Northern Ireland requires additional borrowing powers in order to increase productivity and economic growth is in and of itself a significant concession. That these powers would be used to ease the burden of redundancy payments is highly regrettable.

By contrast, an extra £350m of borrowing powers could be put to use on real investments that would give a significant long-term boost to Northern Ireland's economy. In this way, combining this investment with the borrowing powers of the new Super Councils could make significant in-roads in developing a functioning infrastructure for Northern Ireland.

For example, according to the Northern Ireland Housing Executive, at present, it needs build an additional 2500 homes every year just to cope with existing demand. Borrowing to build would not only provide a social boon to communities across Northern Ireland (a 2010 report[12] arguing that for every £1 invested in construction, £2.84's worth of economic activity was generated) it would also give a significant stimulus to the construction sector with every £1m invested in housing creating up to 12 new jobs[13]. As outlined earlier it also has the capacity to affect a significant reduction in welfare spending going to private landlords.

Northern Ireland has the highest regional home heating and fuel costs in the UK along with some of the highest incidences of fuel poverty. Funds could be invested to retrofit all of Northern Ireland's public buildings and public housing stock. Furthermore the funds could be used to subsidise a scheme for the private sector where recipients would repay retro-fitting costs with the reduced energy bills over a number of years. The boost to the economy from retro-fitting in jobs created per £1m spent is nearly double that of standard house building. This is due to a higher proportion of spend in house building going to non-labour inputs.

A State-backed Innovation Fund

Northern Ireland falls behind the rest of the United Kingdom on many economic indicators, but the most worrying among them is productivity. Northern Ireland produces far less value per hour worked than most other UK regions, and the trend is getting worse. The industrial strategy of the last number of years has brought jobs to Northern Ireland, but in most cases these are low paid and low value added. In order to bring real prosperity to Northern Ireland, the state must lead the way.

If we want to build up key growth sectors of the economy whether in Agri-food, life sciences or renewable energy there needs to be a critical mass of investment in early stage and primary research. As the most successful and growth enhancing innovations and technologies have emanated from state-led and state-supported initiatives,[14] local policy would seek to nurture this longer term economic growth rather than attempting to buy-in success with a policy gamble such as cutting corporation tax.

Conclusion

The Stormont House Agreement represents a missed opportunity on many fronts. Instead of challenging Westminster's deliberately deployed misconceptions about social security and the ideologically driven policy of "welfare reform" the Agreement merely repeats the mistakes made by the UK's Coalition government in Great Britain and makes no meaningful impact on overall spending.

On the public finances an opportunity to boost economic growth within Northern Ireland has been sacrificed for the ill-advised desire to reduce public sector employment. This has been compounded with short-sighted proposals to sell state assets and cut corporation tax. Even within the acknowledged limitations (of scale, acting without the sovereign freedom of fiscal autonomy etc.,) this "failure of imagination", for which we as a society will pay, is wholly inadequate.

Endnotes

1. [On line] Available: ***http://www.dfpni.gov.uk/budget-2015-16***

2. [On line] Available: ***https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa***

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5. [On line] Available: ***http://www.antrimguardian.co.uk/articles/news/46577/7-7m-housing-benefit-bonanza-for-landlords/*** 28/5/15.

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9. See: "An asset to use not strip - the size of the public sector in Northern Ireland" NIPSA (2012) [On line] Available: ***http://www.nipsa.org.uk/NIPSA-in-Action/Policy-and-Research/An-Asset-to-use-not-Strip***

10. See Murphy, R. [On line] Available: ***http://www.taxresearch.org.uk/Blog/2014/06/03/when-it-comes-to-corporation-tax-northern-ireland-is-walking-into-a-disaster-all-of-its-own-making/*** 3/6/14.

11. NIPSA (2012) Op. Cit. Pp 6-9.

12. 'Construction in the UK economy – the benefits of investment', UK Contractors' Group October 2010. [On line] Available: ***http://www.ukcg.org.uk/fileadmin/documents/UKCG/pamphlets/UKCGfina.pdf***

13. Jobs estimate based on DCLG calculation, see DCLG (2011) Laying the Foundations: A housing strategy for England. London: DCLG

14. See Mazzucato, M. (2011) "The Entrepreneurial State" [On line] Available ***http://www.demos.co.uk/files/Entrepreneurial_State_-_web.pdf?1310116014***

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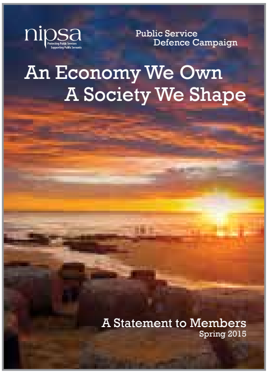

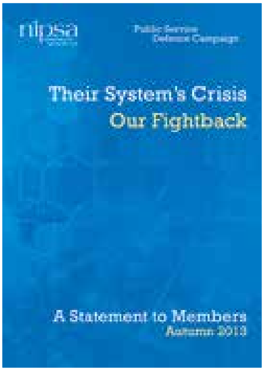

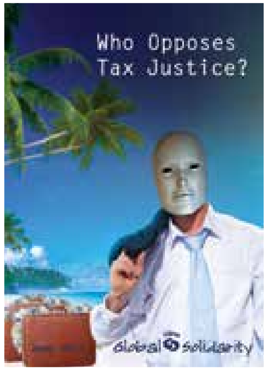

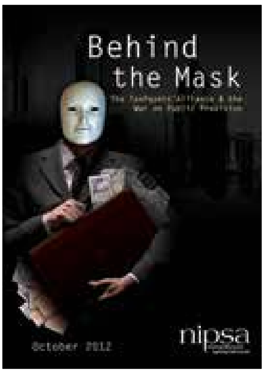

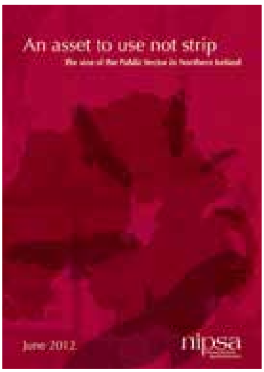

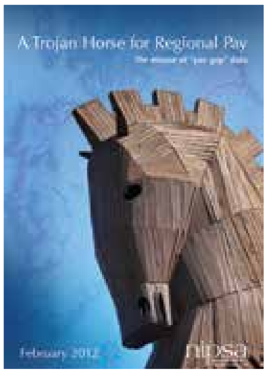

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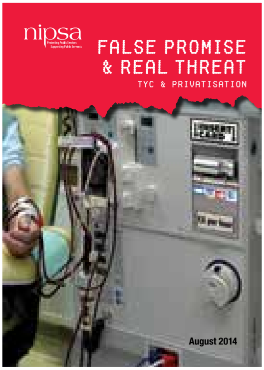

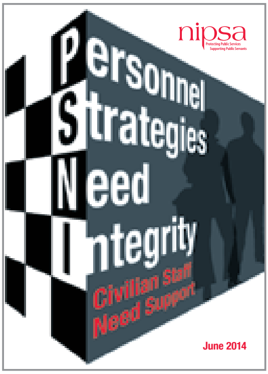

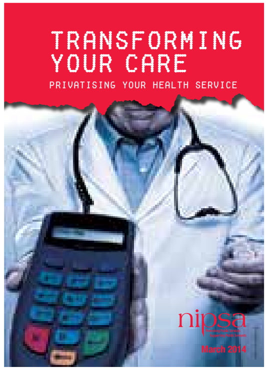

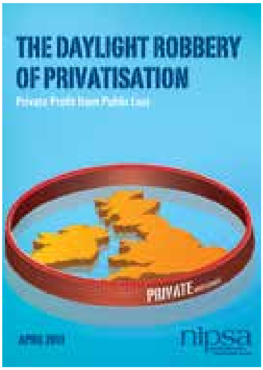

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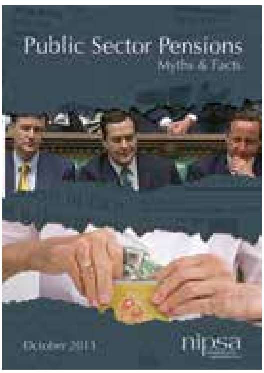

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