IRISH CONGRESS OF TRADE UNIONS

NORTHERN IRELAND COMMITTEE

NIC.ICTU Response to the NI Executive Draft Budget 2011-2015

1. INTRODUCTION

1.1 Congress is the central body for trade unions in Northern Ireland. In our submission to the Draft Budget 2008-2011 we welcomed that:

> *'our comments on the Programme for Government covering the period 2008-2011 will be received by a local administration'.*

We must regret the fact that the local administration, elected by and accountable to the people of Northern Ireland, is so constrained by the mistaken and ideological policy of the UK Coalition Government, which is removing £4 Billion from the block grant to NI over the next four years.

1.2 Congress represents 34 trade unions in Northern Ireland. These unions are engaged in representing over 230,000 workers who are employed in the full range of economic and social activity in our society. These members also cover all of the S75 categories and currently over 50% of union membership are women. It is also important to say that Congress has given particular attention to the needs of disabled workers and has continued to work closely with the relevant Government departments to promote both educational and job opportunities for this element of the labour market.

1.3 Congress has also worked with all sections of civil society in attempting to mitigate the worst of the recession and to play its part in the development of a growing and dynamic economy, not least in the green New Deal Group.

1.4 Congress has successfully interacted with government at all levels, meeting with ministers and officials and submitting realistic proposals for the development of our economy and making the case for protecting and enhancing public services in an inclusive and shared society.

1.5 Notwithstanding the above interaction with elected representatives and civil society, Congress has been obliged to express our firm opposition to the austerity agenda being imposed by the Westminster government. We have organised public rallies and demonstrations across Northern Ireland and have endeavoured to inform the broad public and opinion formers of the case against cuts.

1.6 This submission in response to the Draft Budget 2011-2015 ought to be understood in the context of the trade union campaign against the UK Government's economic policy. Our colleagues in the NIC-ICTU's affiliated trade unions are submitting responses to the Draft Budget 2011-2015, each focusing on their areas of expertise. This response from the NI Committee of the Irish Congress of Trade Unions is presented in the context of the detailed responses by our affiliates and is intended to be complementary to those submissions.

DRAFT BUDGET 2011 - 2015

2. BUDGET

2.1
Congress notes that this budget is set against some of the most stringent public expenditure constraints for a considerable period of time. The “economic landscape” has indeed “changed dramatically since the Executive last presented a multi-year budget”. We are in full agreement with the Minister for Finance and Personnel when he states such truisms, although his passive choice of a verb should be challenged: The economy *has been* changed, not by forces of nature, nor by a series of unfortunate accidents, but by a combination of misguided policies and deep structural flaws in the global, national and regional economies.

2.2
The fiscal crisis we are in is the product of a global system of finance which was allowed to become too big to fail and which was passively and actively encouraged by policy makers in the world’s dominant economies, not least successive governments of the United Kingdom. These errors were identified at the time by some of the world’s leading economists and commentators who warned about the politics of deregulation and globalisation, but these critical voices were marginalised by supporters of Rational Choice Theory who believed that the Market would provide the solutions for all mankind.
Unfortunately, these same theorists have not learnt the virtues of humility and are busily rewriting history, stating that the root of the crisis is Sovereign Debt and not the failures of private capital. This myth has been bought wholesale by the Chancellor George Osborne and his colleagues in the UK Cabinet, and the ‘solutions’ they are peddling for the UK are now being imposed upon the devolved regions and nations of the UK.

2.3
Congress fully agreed with the Minister for Finance and Personnel when he and his colleagues in Wales and Scotland, joined by their respective First Ministers and Deputy First Ministers, said in an historic Joint Statement in October 2010 that the cuts were “too fast and too deep”, that the UK Government’s plans are “entirely the wrong approach for the economy” and that the cuts will do “lasting damage to the economy and the fabric of our public services.” The Joint Statement directly challenges those with vested interests who claim that ‘there is no alternative’.
There clearly are alternatives, based on a realistic understanding of the entire economy of the UK, the regions of England as much as the Devolved Administrations. The trade union movement across these islands has forcefully argued for policies based on investment and we have made our case to our locally elected Administrations in Scotland, Wales and Northern Ireland. That is why we still hold firm in the belief that “promoting economic growth is the best way to restore the health of our public finances and this must be our overriding priority,” in the words of the Joint Statement.
The Draft Budget, as presented last December holds little of the promise of the Joint Statement. The Minister’s assertion that “this Draft Budget continues to prioritise the economy, provides a degree of protection to the health service and seeks to assist the most disadvantaged in our society” rings quite hollow as the slim details emerge from each devolved department.

2.4
In para 1.2, the “emerging Draft Programme for Government” and the “Investment Strategy for Northern Ireland” are cited as government initiatives with which the Draft Budget is consistent. As the PfG is not expected to see the light of day until after the NI Assembly elections in May, it is hard to evaluate any consistency, unless the Draft Budget *is* the PfG, regardless of the choices made by the electorate in Northern Ireland next May.

2.5
If the PfG states, de facto if not de jure, that its contents depend upon the whims and wisdom of the Chancellor, then many will ask what was the point of 13 years of hard talks and meaningful compromises between the political forces in Northern Ireland.
This is not a trivial point. There are remnants of politics as it used to be played out, preaching dissent and practicing mayhem. Since Justice and Policing was devolved, their costs have also landed on the shoulders of the NI Executive. The Department of Justice is the third most expensive department, totalling 12% of the entire budget. Serious unrest or other, unthinkable but plausible, scenarios, will have a fiscal consequence for the NI Executive which did not arise heretofore. Don’t think that lesson is being missed by people with the mentality of “the worse, the better.”

2.6
Nor does it help that the public consultation of the Draft Budget was a farce.
Our colleagues in the trade union Unison have detailed the failures in the process of public consultation on the Draft Budget. EQIAs have effectively been sidelined and the Equality implications for groups most likely to be adversely affected by the cuts have not even begun to be teased out, let alone addressed.

2.7
Submissions from the Equality Commission and the Committee for the Administration of Justice (CAJ) have added further detail on the procedural flaws in the consultation process, and the Law Centre NI has published a substantial work of analysis carried out by the Institute of Fiscal Studies which clearly demonstrates that austerity measures imposed in Northern Ireland will be very bleak indeed, and will severely impact on the economy as a whole.

2.8
Devolution of political power to the people of Northern Ireland was supposed to create structures of governance which would be ‘closer’ to the voters and therefore more accountable to their needs. The clear implication being that the people would have their say on matters of high public importance. The truncated consultation period was bad enough, but it was also combined with an absence of information. There was little or no consistency in the presentations issued by the individual departments in what could be generously described as a haphazard manner. The Draft Budget came too late and said too little.

2.9
Para 1.8 makes the excuse that “in a strategic document such as this, it is not possible to provide a completely disaggregated level of detail to allow views to be taken on individual departmental programmes or projects.” Why not? Members of Parliament know and understand that the annual announcement of the UK Budget is largely theatre, and that the details lie in what is known as the ‘Blue Book’, usually issued in the immediate aftermath of the Chancellor’s speech to the House of Commons. Leaving out the details does not make the devils go away.

2.10

Placing responsibility for such data and detail onto individual departments seems to be either shifting the blame for unpopular decisions onto the individual ministers, or a failure of the basic principles of collective cabinet responsibility. Either way, this is a receipe for division which bodes ill for the effective functioning of the Executive. It also makes it more difficult for the NI Executive to make a strong collective case to the UK Treasury against the cuts being imposed from above.
Devolution of *blame*, from the Prime Minister, to the Chancellor of the Exchequer, to First Minister and Deputy First Minister, to Minister for Finance and Personnel, to individual Executive Ministers, to local councils, agencies and trusts, is not the vision of devolution negotiated and approved by all of the political parties on the NI Executive.

2.11
The Draft Budget provides some salient and useful Economic and Social Context. It points out the strategic and structural weaknesses in the economy of Northern Ireland. It also points out the extent of the 'fiscal consolidation', or 'cuts', being imposed on Northern Ireland – 8% of Resource DEL and 40% of Capital DEL.

2.12
Para 2.7 does what Para 1.2 does: It promises some degree of enlightenment in a document from the UK Coalition Government. The promised paper on rebalancing the local economy, which was due for publication by the end of 2010, has yet to appear, and its fate, like the other papers mentioned above, may depend upon this Draft Budget. It is extremely unlikely that a proposal to radically alter taxation in Northern Ireland could be made without severely affecting a four-year economic plan. A cut in Corporation Tax, as envisioned by its supporters (including the Secretary of State for Northern Ireland), would mean an unavoidable reduction in the Block Grant of between £200 Million and £300 Million annually, or the equivalent of the entire cutback in Current DEL for 2011-12 (£238 million). All that additional pain and stress on the system and upon individuals for a proposal whose fiercest promoters concede may not produce a single additional job.

2.13
Instead of waiting for Strategic Documents, we ought to examine the facts of Northern Ireland as evidenced by subsequent paragraphs.
Para 2.9 admits that "little progress was made in improving relative living standards" between 2000 and 2009, despite a 'boom' period in employment. The 'boom' was based upon short-term fixes, a property bubble and growth in low-paid jobs in the service sector. FDI concentrated upon such service jobs while the long-term decline in manufacturing was not addressed adequately.
These structural weaknesses have become apparent during the downturn. Para 2.10 illustrates the Changes in Sectoral Output, with marked declines in construction, mining, manufacturing, hotels & restaurants, and especially business services & finance. The collapse of the construction sector has been hugely important, given that it once employed one-in-seven of all employees. The demise of the mortgage market has clearly impacted upon financial services and the fall in property prices has impacted upon the confidence of consumers, who no longer feel able to afford such luxuries as trips to a restaurant.

2.14
Employment has fallen to the levels of 2005, while little has been done to increase the amount of people classified as 'Economically Inactive'. All of this illustrates the weaknesses of the private sector, which throughout the 'boom' remained too small and vulnerable to shocks such as the crash of 2008. Even apparently sustainable jobs in manufacturing were dependent upon construction, as detailed in Para 2.23

2.15
Para 2.27 then points out the next stage in what could mean a decline in the private sector economy which will make a mockery of the UK Coalition's hope that the private sector can 'step in' to replace the planned cuts in an estimated 30,000 public sector jobs in Northern Ireland, with an additional 10-15,000 private service sector jobs under threat. Public procurement is worth over £3 Billion every year, according to figures compiled by the Committee for Finance and Personnel.
Para 2.28 compares the UK figure of 39.8% of total output which originates in the public sector, with the NI figure of 62.6%.
Para 2.29 observes that half of total construction sector output depends upon public sector capital expenditure. This budget is about to be cut by 40% over the next four years, while property prices continue to decline.

2.16
It is hard to disagree with the analysis in Para 2.31. It is even harder to ascertain how we are to improve skills, promote enterprise, innovation and R&D and invest in economic infrastructure, given the policy choices being made in Westminster.
The facts of the economy make a mockery of the 'challenge' outlined in Para 2.30. Austerity measures point in one direction. The economy will not grow. It will shrink.

2.17
The structural weaknesses of the NI economy have been cruelly exposed by the recession, and it is absurd to assert that a private sector which is too small and extremely fragile can take the reins of a 'rebalanced' economy, and create stable and sustainable employment.
In many ways, and despite the ideological bluster of the very people whose theories about Rational Choices created the crisis, the public sector *is* the backbone of the economy of Northern Ireland. Irresponsible cutting at that base will undermine the foundations of any economic recovery, and could plunge Northern Ireland into an economic trough from which it will take decades to recover.

2.18
This is an obvious observation once one looks at the limited data supplied. The economy of Northern Ireland is in no position to be anyone's experiment, and that is true politically as well. The Conservative –led coalition government has no right to impose such a radical plan upon a region of the UK which has elected not a single MP from either party in that coalition. The NI Executive has a role in defending the people who elected them to represent their interests. It has failed to do so. In that regard, it too shall bear the responsibility for these unnecessary and ideological cuts.

2.19
Funding and revenue raising proposals are limited by the terms of the devolution settlement. This is a mixed blessing, as revenue can be cut as much as raised, and indeed was with real-terms cuts in the regional and business rates, with an additional cut for the wealthiest homeowners through the £400,000 capital cap on domestic rates, equating to an annual £5 million subsidy to 5000 householders living in the most valuable homes. If the freedom to alter taxes had been in the gift of the NI Executive, then it is entirely plausible that Corporation Tax would have been cut already, with the deleterious consequences outlined above.
Para 3.22 proposes increases in regional rates in line with inflation. Congress recommends that the increases in the baseline be set at the level which it would have been if the freeze on rates had not been introduced in 2008. A similar approach would be recommended to Business Rates (Para 3.23), as the principal beneficiaries tend not to be small businesses, but their landlords. Congress would agree with the

30% liability for manufacturing rates (Para 3.24), given the vulnerability of the sector and the fact that manufacturing sites tend to be larger, and thus proportionally more significant contributors to the public purse by way of rates.

2.20
Para 3.30 continues the deferral of household water charges. There is justice in this, but sooner rather than later, the Executive is going to have to resolve this issue. Congress agrees with the Coalition Against Water Charges that the public's contribution towards the costs of water and sewerage services should continue through the regional rates system. In this context we believe the NI Executive must reconsider the current regional rates policies.

2.21
Congress agrees with the proposal to tax plastic bags, and use the proceeds to contribute to a Green New Deal (as is clearly implied). However, we are dismayed that the estimated £4 million to the Green New Deal is the total contribution to an initiative which has substantial support from trade unions, environmental groups and a wide range of business organisations, not least the construction and manufacturing sectors. Inadequate investment in these renewable technologies at this time will mean that Northern Ireland will possibly miss out on the enormous potential of this sector as the global economy recovers.

2.22
Para 3.31 refers to a Ministerial Budget Review Group, established in June 2010, whose remit was to examine revenue raising proposals, among a "wide range of strategic issues. However, as with other bodies referred to in Paras 2.7 and 2.1, there are no useful suggestions just yet, but if any arise, "they will be factored into the final Budget allocations." We await with interest these proposals.

2.23
Congress welcomes the decision to give more commercial power to Belfast Port, however, it is difficult to find justification for the claim that £800 million could be raised annually.

2.24
Para 3.28 call for "savings through improvements in efficiency rather than reductions to services." This implies that there is still large amounts of 'waste' in the system, despite consistent savings targets over recent years and a de facto recruitment freeze in many departments. The point has been reached where services are the only option for cuts in the prevailing circumstances. The most 'expensive' departments are so costly because they employ skilled and dedicated people who provide essential services to the public, in Health, Education and Policing. In order to effectively interact with the 'frontline' (ie, the public), these workers depend upon 'backroom' services. There is little or no 'fat' to cut.

2.25
Para 3.33 attempts to reign in public sector pay, but regrets that it cannot, as pay awards for most public sector workers are determined by national agreements. However, its power to vary the incomes of the NICS (Para 3.34) is questionable in terms of actual savings. On the contrary, this cut (at a time of RPI inflation reaching 5%) will result in less consumer spending on private sector services.

2.26
Congress welcomes the decision to support savers in the Presbyterian Mutual Society, in line with similar government action which protected depositors in other

financial institutions. However, we are concerned about the decision to devolve responsibility for bailing out savers in the PMS through the Reinvestment and Reform Initiative, rather than through the UK Treasury. It is like expecting Newcastle City Council to cover the cost of bailing out Northern Rock, or the Scottish Executive to carry the losses of the Royal Bank of Scotland, because its corporate headquarters are in Edinburgh. This imposition, announced by the Chancellor, means that access to the RRI (already limited to £200 million per annum) by the NI Executive has been further curtailed.

2.27
Para 3.50 refers to the Green New Deal as being “ambitious”. It is unfortunate that the Draft Budget is not as ambitious with an allocation of £4 Million per annum. This is unfortunate, given the wide support for the GND Business Plan from trade unions and employers, and the expertise exercised in constructing a plan which could leverage 72% of its funding from the private sector on the basis of state support of 28%. This public investment would be more than regained though reduced unemployment benefits and increased tax revenues. Given the economic analysis referred to above, demonstrating the severity of the downturn in the manufacturing and construction sectors, an opportunity for developing our economy as much as our infrastructure is in danger of being sidelined into a pilot scheme.

3. Summary

Congress believes that the Draft Budget is unworkable. Already, analysis of the Draft Budget by PWC, commissioned by NIVCA, has demonstrated that at least two major departments are basing their spending plans on deficit financing. The discordant and irregular responses from the 12 NI Executive departments demonstrate a lack of common purpose on the economy and imply political positioning ahead of the NI Assembly election in May.

Public input to the consultation has been truncated and legally dubious. Given the squeezed timescale (between the CSR and the onset of the Assembly election), perhaps a one year budget, as agreed by the Government of Scotland, would have been preferable. As it is, we are going to have an election with most of the possibilities of the next PfG already determined by this four-year plan.

The plan which really matters, of course, is not being set in Stormont, but in Westminster. The plan being espoused by the UK Coalition Government will almost certainly not work, even in its own narrow ideological terms. The impact of this plan on the economy and society of Northern Ireland will be with us for decades.
It is time for a Plan B, and it is time for the devolved governments to argue forcefully with the Westminster authorities for a better and a fairer way.