

# MINUTES OF THE ECONOMIC ADVISORY GROUP

## MEMBERS MEETING

19 JANUARY 2011, NETHERLEIGH

Present: See Annex A

Apologies: Mark Nodder (Wright Group) Bill McGinnis (NI Adviser on Employment and Skills)

### 1 WELCOME AND INTRODUCTIONS

1.1 Kate Barker welcomed Members to the meeting. She welcomed guest speakers Mike Brennan (DFP), Colin Lewis (DETI) and Alan Shannon (DEL) and proposed moving immediately to discussion on the NI Executive's draft budget and DETI and DEL spending proposals. She agreed to return to matters arising following this discussion.

### 2 NI EXECUTIVE'S DRAFT BUDGET AND DETI SPENDING PROPOSALS

2.1 Mike Brennan delivered a presentation setting out the public expenditure context and the draft budget outcome for Northern Ireland. He also outlined the timelines for the consultation process.

2.2 In the discussion which followed Members discussed:

- The impact of revenue raising options on the local economy / general public – Mike Brennan advised that the Executive was not keen to increase the burden on the private sector, and that the majority of the revenue would be generated through disposal of assets and downsizing the government estate. He also noted that increasing the burden on households was not favoured by the Executive, despite the fact that Northern Ireland households contribute significantly less than those in Scotland or GB.
- Mike Brennan also highlighted the public perception that DETI was amongst the departments that did well in the draft budget. Members suggested that further analysis of the detail indicates this is not the case.
- Investment in the economy can help mitigate the need for spending in other areas e.g. health, social security, justice.
- Need for clarification on the priorities in the new Programme for Government (PfG). Mike Brennan advised that in drafting the budget DFP had no firm indication of the shape of the new PfG was

going to look like, so he could not confirm if the economy will remain the number 1 priority.

Need for improved alignment of the budget with the new economic strategy. Members were concerned that resource prioritisation had not followed strategic prioritisation.

Significant concerns have been raised by the business community which will be reflected in their response to the consultation.

Lack of reference to the Review of Public Administration (RPA) in the draft budget. Mike Brennan advised no assumptions had been made in the draft budget concerning RPA.

Focus on employment retention in the public sector via pay and recruitment freeze. Members questioned whether this will also lead to redundancies. Mike Brennan confirmed that the public sector will inevitably get smaller over the four year budget period. Members also queried whether more could be done to control the input costs of public sector pay, in terms of pay levels. Mike Brennan informed the Group that pay was generally settled at a national level.

The opportunity to maximise lower costs, specifically in the construction sector, when entering new contracts, or re-negotiating existing contracts.

Members queried how far expenditure on transport will change. Mike Brennan advised that DRD plan to increase charges on public transport. He also highlighted that DRD have signalled significant pressures on the roads budget and have flagged this may lead to long term problems, specifically in relation to roads maintenance. Mike Brennan suggested that a key concern for the SIB would be the prioritising infrastructure spend to avoid a major deficit at a later stage.

In response to a query concerning how responsibility is attributed for the sale of assets, Mike Brennan advised that £540m of assets have been identified for sale, £440m of which are very well advanced by individual Departments. He advised that OFMDFM and SIB will deliver the sale of the remaining £100m of assets.

Members queried how far the impact on the private sector was considered when drafting the budget. Mike Brennan highlighted that a number of work-streams had been commissioned, some of which looked at revenue raising options and options to transfer functions to the Private Sector. He noted that a number of recommendations had been identified.

In response to a query on the reduction in the number of Quangos in Northern Ireland, Mike Brennan advised that of the full array of

Quangos in Northern Ireland, Ministers will be scrutinising approximately 70 in more detail.

- 2.3 Mike Brennan provided a progress update with the HMT paper on rebalancing the Northern Ireland economy. He suggested that the draft paper does not appear to have moved the debate on considerably from the Varney reports. He suggested that the analysis is weaker and flagged a number of concerns:

Good levels of FDI in Northern Ireland at present without reduced corporation tax. Members highlighted that the ability of Invest NI to continually attract FDI was significantly reduced due to the declining levels of support permissible under State Aid guidelines.

The application of a reduced corporation tax rate in Northern Ireland, the tax revenue forgone as a consequence and the additional costs associated with implementation compliance, administration etc.

He suggested that the timing was not ideal in terms of economic context and local politics.

He questioned the motivation of Treasury, suggesting a desire to cut the subvention to Northern Ireland.

- 2.4 In terms of process Mike Brennan advised that the Executive is considering how to respond to this paper. David Thomson highlighted a lack of engagement with Devolved Ministers / Officials in the development of what was supposed to be a joint paper and suggested it would be problematic for the Executive to agree this paper.
- 2.5 Alan Shannon provided a brief overview of the role of DEL as a key contributor to economic development in Northern Ireland. He then outlined the significant pressures on the DEL budget as demand for the services provided by DEL increase e.g. increase in number of job seekers, the introduction of Universal Credit, pressures on the student support budget and end of the Innovation Fund. He advised that DEL is looking for efficiencies and cuts in bureaucracy and have committed to 10% reduction in the staffing budget.
- 2.6 Alan Shannon also highlighted that there had been efforts in the spending proposals to protect the FE and Skills budgets, however the HE budget will be reduced by 22% over the four years. He advised that DEL are hoping to source additional funding via the Social Protection fund, the Invest to Save fund and the Green New Deal fund. He also highlighted that a number of significant strategies will be published by DEL before the May election.
- 2.7 In the discussion which followed Members discussed:

The potential increase in student fees and the estimated revenue this could provide. Alan Shannon advised that Joanne Stuart's proposals on student fees are expected by end of February, and a decision from the DEL Minister is expected following receipt of these proposals. However he advised that the impact of income generated via increased fees will be gradual, and not likely to be fully absorbed until year 5. He also suggested that income generated will be offset by the increased demand on student loans, which DEL subsidises.

The abolition of Education Maintenance Allowance (EMA) in England and the possibility that DEL will retarget this funding. Alan Shannon advised a lack of political will for this in the Executive.

Recommendations in the new HE strategy to attract more overseas students and increase post graduate activity.

2.8 Colin Lewis delivered a presentation setting out DETI spending proposals. He outlined the process followed when submitting both current and capital bids and provided draft headline allocations. He recognised that, on the face of it, the DETI budget looked reasonable given the economic climate, however he identified a number of significant challenges going forward e.g. reduced resources for telecommunications and energy infrastructure, reduced activity levels in Invest NI, no further land for industrial development to be purchased and reduced funding for tourism marketing, N/S activity and the addition of significant cost elements not previously considered as part of the DETI baseline. Stephen Kingon and Alastair Hamilton reinforced the significant pressures Invest NI will face as a consequence of the spending proposals. Colin Lewis provided an overview of the consultation process and timings, and examples of possible proactive steps DETI could take to manage the pressures.

2.9 In the discussion which followed Members discussed:

The breakdown of the Invest NI budget and concerns were raised in relation to the record level of brought forward commitments. Stephen Kingon and Alastair Hamilton stressed the pressures on funding for new projects and highlighted that programmes which had been supported previously will have to be reduced significantly.

Concerns were also raised in relation to the profile of the Invest NI budget over the four year period, and it was suggested this will cause strategic, as well as operational, problems for Invest NI. Members questioned the merit of Invest NI's profiling and enquired on the measures that were being put in place to recalibrate the organization for an environment post-SFA and with largely committed budgets

Issues were raised concerning the strategic direction promoted in the new economic strategy, with members suggesting this does not match the reality of the spending proposals.

Members stressed the need for improving the public perception on the importance of investing in the economy.

The importance of protecting Northern Ireland's competitive offering vis-à-vis other regions, especially when budgets for infrastructure and skills are being reduced.

*Colin Lewis, Mike Brennan and Alan Shannon left the meeting.*

2.10 Kate Barker summarised the key issues raised by EAG members in relation to both the draft Executive budget and the spending proposals of DEL and DETI, as follows:

Prioritisation of economic expenditure;

Potential additional resources;

HMT paper on rebalancing the economy;

Efficiencies;

Invest NI's budget position;

Effects of the budget on the private sector;

Investment in road maintenance;

Need to reflect the vision of the new economic strategy in the budget process;

Omission of reference to RPA in draft budget; and

Need for clarity in relation to who is responsible for the sale of assets and whether these realisations can materialise.

2.11 Members agreed to prepare a response to the consultation on the Executive's draft budget and on the DETI spending proposals. Members noted that some comments may be politically unfavourable, however agreed that, given the independence of the Group, they need to facilitate the debate on these issues.

**ACTION 1:** Secretariat to prepare draft EAG response to the consultation on the Executive's draft budget and on the DETI spending proposals, to be circulated to all members for comment.

**ACTION 2:** EAG Members to provide comments on the draft EAG response to the consultation on the Executive's draft budget and on the DETI spending to EAG Secretariat.

### **3 MATTERS ARISING**

- 3.1 As agreed at the start of the meeting Kate Barker returned to matters arising and noted apologies from Mark Nodder and Bill McGinnis.
- 3.2 Kate Barker advised that Lorraine Hall had tendered her resignation as a member of the Group, citing time pressures due to additional work in her business. Kate Barker advised that in her resignation letter Lorraine Hall had suggested that, she also had concerns about her level of input and ability to contribute to EAG. The Group did not share these concerns and agreed that Lorraine had brought a valuable perspective to the EAG. Kate Barker hoped another SME representatives could be found to replace Lorraine Hall.

**ACTION 3:** Secretariat to identify possible SME representatives to replace Lorraine Hall as a member of EAG.

- 3.3 Members noted that the minutes of the 22 November meeting had been cleared by email and were published to the EAG website. Members noted progress on all action points arising from the 22 November meeting.
- 3.4 Kate Barker expressed frustration that both the HMT paper on rebalancing the NI economy and the Economic Strategy consultation paper were supposed to be on the agenda for the meeting, however due to delays in progressing both papers, this had not been possible.
- 3.5 David Thomson advised that the DETI Minister had given clearance for the HMT paper to be shared with the Group.

**ACTION 4:** Secretariat to circulate, in confidence, the HMT paper on rebalancing the NI economy to EAG Members.

- 3.6 Kate Barker advised that in the last week, the Economic Strategy consultation paper had been issued for a six-week public consultation, with a closing date for responses of 24 February 2011 and that hard copies of the paper had been made available for Members. She asked members to consider this paper and forward their views to the EAG Secretariat, in particular emphasising what importance should be placed on each of the proposed priorities set out in the paper.

**ACTION 5:** EAG Members to forward their views on the draft Economic Strategy consultation paper to EAG Secretariat.

**ACTION 6:** Secretariat to prepare draft EAG response to the consultation on the draft Economic Strategy consultation paper.

## 4 UPDATE ON OXFORD ECONOMICS RESEARCH

- 4.1 Kate Barker reminded members that at their last meeting, they discussed a number of modelling options which would be considered as part of the research project. She advised that Neil Gibson had joined the meeting to provide a presentation on how this has progressed since November and to get a further steer from the Group in terms of the parameters needed to complete the remainder of the research.
- 4.2 In his presentation Neil provided an overview of the project and the key data /context. He then summarised the results of the work completed to date on the base case scenario, lower growth scenario and Corporation Tax scenarios (one funded through block grant reduction and a second funded through business rate increases.) He outlined further scenarios to be modelled and sought direction from the Group on further policy options they may wish to consider.
- 4.3 In the discussion which followed Members discussed:

The scale of challenge inherent in the current scenarios is significant. There is a lack of understanding of how difficult the economic situation is in Northern Ireland.

However, Northern Ireland is not ranked bottom of the UK regions, and will not stand out as a special case

Outlook in the short term suggests the economic challenges will remain, and will add to political and societal pressures.

Longer term, the introduction of a reduced Corporation Tax (12.5%) presents a favourable improvement (67,000 jobs by 2030) and it is also expected that skills policies will also be longer term before the delivery of economic benefits.

**ACTION 7:** Neil Gibson to revise Corporation Tax scenario on the basis of a later start date for the introduction of the policy (2014) and results to be detailed over a longer time-period (2030/40)

Members stressed the importance of managing expectations in relation to the new economic strategy, specifically the long term focus.

The economic forecasts suggest the majority of jobs gained through Corporation Tax changes would be expected to locate in Belfast, members noted that this may cause political objection. Timing of any cut will also be important, politicians need to take account when jobs are coming. The point was also made that the Executive could administer a cut in tax at differing times, thus lessening cost and maximising job impacts.

Ongoing debate in respect of income tax receipts, in line with the Azores ruling.

Concerns were raised in relation to funding reduced corporation tax via business rate increases. Members were specifically concerned about how this will impact existing cost centre based FDI. It was suggested that increasing business rates could make Northern Ireland less competitive and could lead to job losses.

EAG members requested that Oxford Economics incorporate reduced UK Corporation tax and SFA cessation into the baseline. Members suggested that Oxford Economics assume the £50m from SFA remains within DETI and is allocated to Innovation & R&D.

Neil Gibson requested additional information on assumptions where possible, including:

- New Corporation Tax costs from the Treasury paper – additional costs resulting from GB transfer pricing to be advised.
- Business rates by sector data.
- FDI flow's by sector into other similar countries (excluding M&A activity).
- Different rates of global contraction to test.

**ACTION 8** Secretariat to provide Neil Gibson with papers / research if available.

EAG Members requested two additional scenarios when modelling for skills and R&D (layered on top of and separate to Corporation Tax). Kate Barker suggested analysis of the Pupil Premium Policy in England should be undertaken as a policy option for the Skills modelling.

**ACTION 9:** Neil Gibson to arrange meeting with Stephen Kingon to discuss R&D modelling, and provide EAG with note of discussions and present way forward.

**ACTION 10:** Secretariat to undertake analysis of the Pupil Premium Policy in England and its usefulness in terms of NI.

EAG also requested modelling for leadership and management, but rejected modelling on sectoral focus of support.

## **5 AOB**

5.1 Members confirmed the meeting with the Minister on 31 January 2010 to discuss their responses to the draft Executive budget, the HMT paper on rebalancing the NI economy and the draft Economic Strategy consultation paper

**ACTION 11:** Secretariat to confirm timings for 31 January meeting.

**ACTION 12:** Secretariat to schedule EAG meetings up until May 2011.

Yvonne Curran  
January 2011

## EAG MEMBERS MEETING – 19 JANUARY 2011

## LIST OF ATTENDEES

REPRESENTATIVE	ORGANISATION
Kate Barker	Chair of EAG
Frances Ruane	ESRI
Michael Ryan	Bombardier Aerospace
Alan Armstrong	Almac
Stephen Kingon	Invest NI Board
Gerry Mallon	Northern Bank
Alastair Hamilton	Invest NI
David Thomson	DETI
Colin Lewis	DETI
Graeme Hutchinson	DETI
Fiona McCausland	DETI
Aidan McMahan	DETI
Yvonne Curran	DETI
Mike Brennan	DFP
Alan Shannon	DEL
Neil Gibson	Oxford Economics

## ACTION POINTS AGREED AT 19 JANUARY 2011 EAG MEMBERS MEETING

NO.	ISSUE	ACTIONS ARISING	LEAD RESPONSIBILITY	TIMESCALE
1	Response to Consultation on the Executive's draft budget and on the DETI spending proposals	Secretariat to prepare draft EAG response to the consultation on the Executive's draft budget and on the DETI spending proposals, to be circulated to all members for comment.	Secretariat	By 24 January 2011
2		EAG Members to provide comments on the draft EAG response to the consultation on the Executive's draft budget and on the DETI spending proposals, to EAG Secretariat.	EAG Members	By 27 January 2011
3	New SME representatives	Secretariat to identify possible SME representatives to replace Lorraine Hall as a member of EAG.	Secretariat	By end of February 2011
4	HMT paper on rebalancing the NI economy	Secretariat to circulate, in confidence, the HMT paper on rebalancing the NI economy to EAG Members.	Secretariat	By 20 January 2011
5	Response to consultation on draft Economic Strategy consultation paper	EAG Members to forward their views on the draft Economic Strategy consultation paper to EAG Secretariat.	EAG Members	By 27 January 2011
6		Secretariat to prepare draft EAG response to the consultation on the draft Economic Strategy consultation paper.	Secretariat	By 7 February 2011

7	Corporation Tax scenario	Neil Gibson to revise Corporation Tax scenario on the basis that it will not be introduced in 2012. Forecast to be moved by one year and results to be shown over longer term.	Neil Gibson	By end of February
8	Additional papers / research for Oxford Economics	Secretariat to provide Neil Gibson with papers / research if available.	Secretariat	By end of February
9	Oxford Economics meeting with Invest NI	Neil Gibson to arrange meeting with Stephen Kingon to discuss R&D modelling, and provide EAG with note of discussions and present way forward.	Neil Gibson	By end of February
10	Pupil Premium Policy	Secretariat to undertake analysis of the Pupil Premium Policy in England and its usefulness in terms of NI	Secretariat	By end of February
11	Timings for 31 January meeting	Secretariat to confirm timings for 31 January meeting.	Secretariat	By end of January 2011
12	EAG 2011 meetings	Secretariat to schedule EAG meetings up until May 2011.	Secretariat	By end of February