OXFORD ECONOMICS

Cutting carefully – *how repairing UK finances will impact NI*

A report for NICVA

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OXFORD ECONOMICS

erini
Economic Research Institute of Northern Ireland

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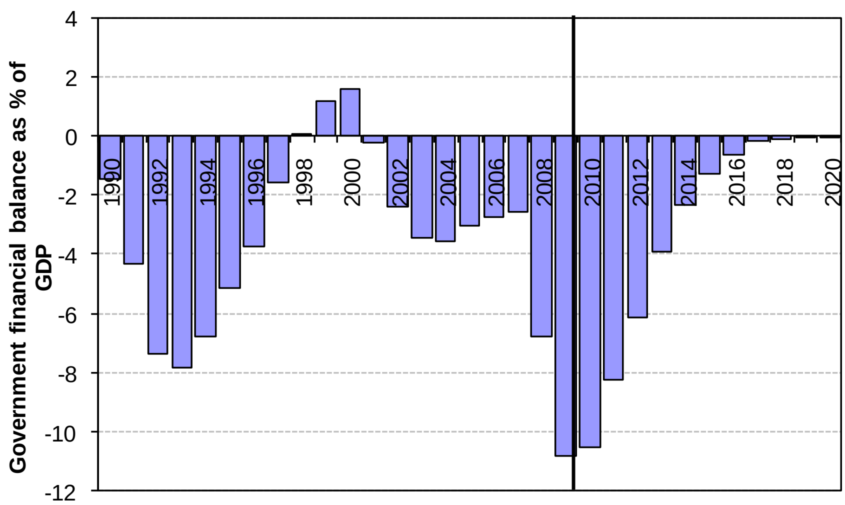
1.1 The harsh reality

The emergency UK budget on 22nd June marked the beginning of a new era for UK public services. After more than a decade of sustained and rapid growth in spending, the UK's perilous financial situation necessitates a shift to a contraction of public spending, a trend that will be with us for a considerable period of times such is the scale of the debt. For Northern Ireland, a region with a larger dependence on the public sector, the implications will be significant and will shape the economic and social conditions in the economy for at least the decade ahead.

1.1.1 Why debt reduction is so urgent

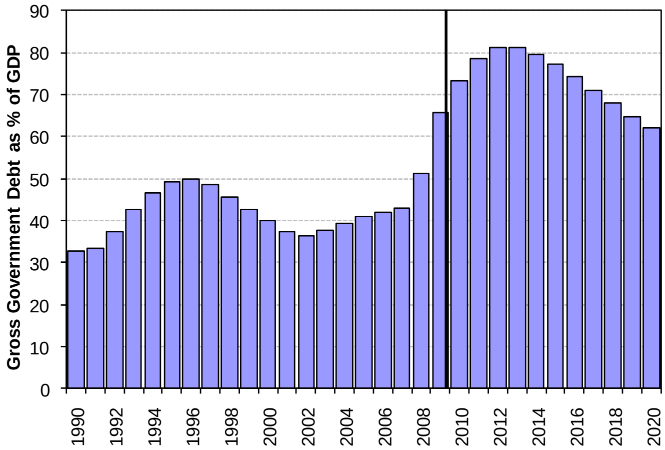
Annual UK 'borrowing' (spending less income in a single year) is forecast in the budget to be £149bn in 2010/11, although huge this is notably lower than expectations at the start of the year. Taken on top of existing debt accrued from previous years, and adding on the projected debt in the years ahead, this will put the UK national debt at over £1.2trn by 2012, £19,900 per person in the UK, or £47,400 per household. As the UK must pay off debts first before it uses tax revenues to spend on other public services it is clear that it would be untenable to continue with this level of annual borrowing. Moreover, although the cost of financing the UK debt (i.e. the rate of interest the UK has to offer to be able to 'sell' its debt) is currently low this could quickly spiral without a credible debt reduction plan. Potentially this could lead to a situation similar to that currently being experienced in Greece with the markets having no confidence that the economy has any ability to ever repay its debts – 'the civil service has been writing cheques the taxpayer can never pay'. Reducing the debt is therefore both necessary and increasingly urgent before the threat of rising interest rates and the potential loss of credit rating puts the UK finances in a downward spiral.

Figure 1: The UK annual deficit



Source: Oxford Economics

Figure 2: UK stock of debt (% of GDP)



Source: Oxford Economics

1.1.2 A slow recovery predicted…

In the emergency budget the Chancellor announced a further round of expenditure 'cuts' and tax rises on top of previously announced plans amounting to an additional £40bn per year by 2015/16, phased in to avoid a heavy burden on the economy during the very fragile economic recovery phase which is currently underway. This was on top of in-year cuts of over £6 bn already announced of which NIs share is £128m. In all, the total reduction will reach £128 bn by 2015/16, of which £99bn will come from spending cuts and the rest from tax increases. The Chancellor placed a greater emphasis on doing this through cuts in spending rather than relying on improved tax returns from improved economic growth or tax rises. Overall the balance was for around 77% of the debt reduction to come via spending reductions and the remaining 23% to come from a range of taxes rises (most notably the rise in VAT next year and Labour's national insurance rise for employees which was not rescinded).

The forecasts for economic growth built into previous Treasury projections looked overly optimistic and thus associated likely tax returns did not appear feasible. The new independent Office for Budget Responsibility published its first economic outlook on 14th June, presenting a much more modest view of the likely economic recovery, more in keeping with city expectations, but its post budget revisions revised down growth only very modestly despite the fiscal tightening. Oxford's view is that the tightening will take more out of the economy in the short run, reflected in the relative outlooks, though a more rapid recovery means the medium outlooks are very similar.

Table 1: OBR and Oxford Economics GDP forecasts (% change per annum)

	2010	2011	2012	2013	2014
GDP					
OBR pre-budget	1.3	2.6	2.8	2.8	2.6
OBR post Budget	1.2	2.3	2.8	2.9	2.7
Difference	0.1	0.3	0.0	-0.1	-0.1
Oxford	1.1	2.1	2.8	3.4	3.2
Household consumption					
OBR pre-budget	0.4	1.6	1.8	2.0	2.0
OBR post Budget	0.2	1.3	1.7	2.1	2.2
Difference	0.2	0.3	0.1	-0.1	-0.2
Oxford	0.6	0.8	1.8	2.5	3.1
Business investment					
OBR pre-budget	1.3	8.0	9.8	10.6	9.1
OBR post Budget	1.4	8.1	10.0	10.9	9.5
Difference	-0.1	-0.1	-0.2	-0.3	-0.4
Oxford	1.4	8.0	10.4	9.6	6.3
Government consumption					
OBR pre-budget	1.9	-0.5	-1.5	-2.0	-2.3
OBR post Budget	1.7	-1.1	-2.0	-2.3	-3.0
Difference	0.2	0.6	0.5	0.3	0.7
Oxford	1.7	-1.1	-2.0	-2.3	-3.0

Source: HMT, Oxford Economics

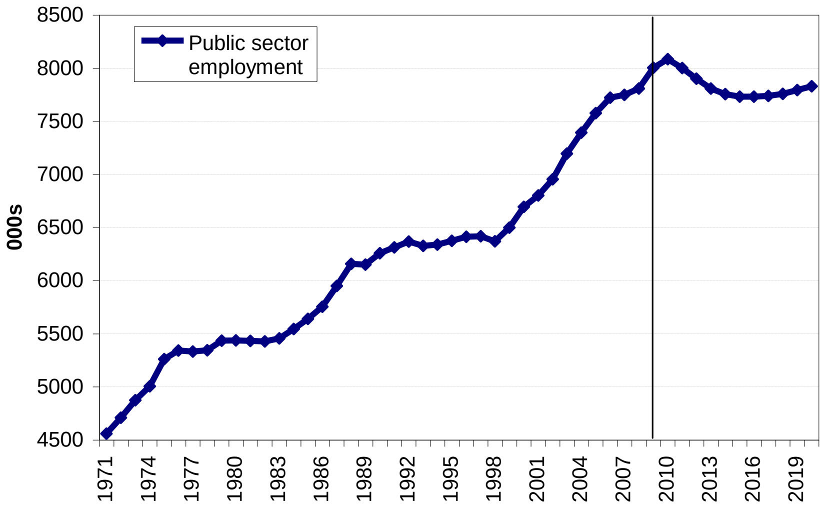
1.1.3 …leading to a rapid cuts programme…

The significant expenditure cuts set out in the budget are spread across both reductions in welfare payments (£11bn) and in departmental spending (partly achieved through pay freezes for civil servants on over £21,000 per annum). The reductions in departmental current spend are around £16bn greater than the estimates of the previous Labour plans, and taken in conjunction with a pledge to maintain health spending this translates to an approximate reduction of 25% over four years for other departments. Total spending in nominal terms will fall by 3.5% by 2015/16, and by 14.4% in constant prices. The Chancellor has also set the scene for a further debate about the balance between welfare spending and departmental cuts since taking a further £13bn from the welfare budget would reduce the cuts for 'unprotected' departments to around 20%.

1.1.4 …which will end the public sector jobs boom

The likelihood of jobs losses in elements of the public services is very high, although cuts to capital programmes or to wages rather than head counts could limit this impact, and thus the decade long public sector job boom is expected to end in 2010. Oxford's forecasts suggest a net loss of 250,000 jobs in total across public administration, health and education in the decade ahead in the UK, compared to 1.4 million additional jobs in the decade past. There is an expectation in some quarters that the losses will greater, perhaps 500,000 but Oxford's view is that this will be hard to implement in practice.

Figure 3: UK total public sector employment



Source: Oxford Economics

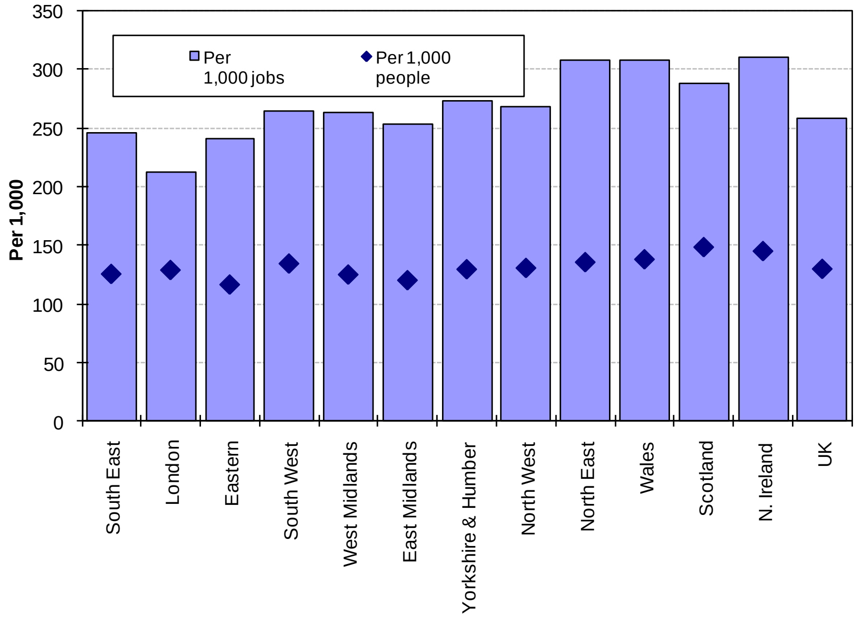
1.2 The implications for Northern Ireland

1.2.1 Much higher public sector reliance

The cuts will have a significant implication for Northern Ireland, a region which depends more heavily on the public sector than elsewhere in the UK. It is currently estimated that NI has 31% of its employment in public services, compared to 25.9% in the UK as a whole[1]. Expressed as the number of jobs per head of population Northern Ireland remains above the UK average but the differential narrows, indicating one of the region's difficulties is a private sector which is too small.

[1] As defined as employees in public administration health and education. There are elements of private provision in each of these categories and other element of public services elsewhere in the economy (such as Royal Mail). The official public services employment definition gives similar figures however at 20.9% and 32.2% percent in the UK and NI respectively.

Figure 4: Public sector employment as a share of total employment and of population, UK regions, 2009



Source: LMT, DETI

Another way of viewing the relative importance of public spending is to express the level of spending relative to total GVA (Gross Value Added) for a region. GVA is the value of goods and services produced in an economy and is commonly used to measure the overall 'wealth' of a country or region. Total spending is the sum of the spending by departments (both capital and current) alongside payments on social security, pensions and other forms of benefits. These two categories of spending are referred to as the departmental expenditure limit (DEL) and annually managed expenditure (AME) respectively. Looked at in this way NI's dependence on public spending is even clearer with public expenditure close to 70% relative to GVA compared to a UK figure of 43%.

Table 2: Total public spending expressed relative to GVA, UK regions, 2008/09

	Spending 2008/09 (£bn)	% of GVA
South East	59	34.9
London	72	29.5
Eastern	40	38.9
South West	39	43.2
West Midlands	43	49.4
East Midlands	33	44.0
Yorkshire & Humber	41	49.8
North West	59	52.9
North East	23	60.8
Wales	28	65.2
Scotland	49	50.9
N. Ireland	**18**	**67.8**
UK	**504**	**43.2**

Source: PESA, Regional Accounts, Oxford Economics

Note: Spending is total identifiable spend and excludes £12m of spending outside the UK, £86bn of non-identifiable spending and £28m of accounting adjustments

It is not possible to accurately determine the actual 'balance' of public spending in Northern Ireland, i.e. the difference between public spending and tax revenues. DFP figures estimate it to be something in the order of £7bn in 2008. In these calculations the NI region was assumed to have a proportional share of UK corporation tax receipts (something Oxford Economics would disagree with) and it excludes spending on other national costs such as defence and the monarchy. Thus the true excess of spending over tax revenues could be even higher, perhaps as much as £9bn (Oxford Economics estimates). This means that without GB taxpayers money flowing into NI the region could afford to spend only half the amount it currently does on public services and benefits.

The level of net support (or 'subvention') is under much greater scrutiny now because of the scale of financial distress in the UK and NI will be expected to carry its share of the burden in getting national debt down. **Any arguments made that the region requires special 'exemption' from cuts or that there are specific circumstances requiring a sustained flow of support are almost certain to fall on deaf ears.** The region must begin to think of how to transform the economy in such as way that public services cost less to run, or alternatively that the tax base (from local businesses and consumers) provides significantly greater tax payments to the Executive. This is the harsh reality of the situation facing Northern Ireland – **the region must raise more income or cost less to run, there is no alternative to this stark choice**.

1.2.2 Minimum £1.2 bn cut in NI Public Expenditure

NI is currently responsible for how it spends its DEL allocation across departments, including the newly transferred policing and justice powers, but its AME allocation is demand driven (i.e. it is received purely as demanded or needed) and the rates of payments are maintained at parity with the rest of the UK. It is an interesting quirk of the current funding system that if benefit costs rise, this has no implication on the NI executive's budgets (save for the administration costs) as funds automatically flow from Westminster. It could be argued this removes one major element of responsibility in terms of the level of benefit costs incurred and is arguably something that with greater local control over the significant cost of NI's high benefits levels (most notable sickness benefits) would become a greater local priority. That said, there will be a significant 'feed through' to Northern Ireland from the announced cuts to the welfare budget, of which Northern Ireland is a disproportionate beneficiary. This assumes the Executive continues its long standing tradition of matching any UK changes to benefit payments and entitlements.

The expectations are that this level of cuts will be only the start and that there will be further rounds of cuts to come as the UK economy struggles to get traction in terms of recovery, especially in the labour market. Taking a projected UK spending contraction of approximately £100bn from previous plans by 2015/16 of which around £13bn might come from the Welfare budget, and allowing for full protection for the NHS and Overseas Aid and limited protection (cuts limited to 10%) for Education and Defence, unprotected departments face cuts of 25% on average in the UK. NI will take its share of these cuts through the Barnett formula. The Barnett formula provides some modest cushioning on account of the fact that it takes the value of cuts applied at the UK level and apportions them on population basis to the region. As Northern Ireland's share of UK public spending is larger than its share of UK population, the cuts are proportionately lower than in GB. This is a similar process, only in reverse, to the so called 'Barnett Squeeze' which produced a slightly lower rate of spending *increases* in recent years than in the UK. Oxford / ERINI estimates suggest that this will translate to a cut of at least £1.2bn by 2015 / 2106 in constant 2010/11 prices. We explore the implications of such cuts in the section on choices and impacts.

1.2.3 Ending a period of rapid spending growth

It is important when assessing the likely scale of cuts to spending to recall just how significant the growth has been in recent years. NI DEL budgets have almost doubled in money terms since 2000 and real spending rose by over £1bn in the last five years alone. While this reflects how much extra money has been pumped into services in the region, it is a matter of debate whether the level of services provided has risen commensurately.

Table 3: Total (Current and Capital) Spending for NI (DEL)

	Nominal	2010/11 prices
2004/05	7799	9366
2005/06	8524	9679
2006/07	8820	9727
2007/08	9563	10250
2008/09	10175	10637
2009/10	10950	11114
2010/11	10844	10844

Sources: PESA 2010 Tables 1.3, 1.6 & 1.8. DFP April 2010 Revised Spending Plans

Note: Includes NI for 2004/5-209/10 and Justice in 2010/11

1.3 Choices and impacts

The debate has only just begun as to what will be cut in NI and by how much. Economic, social, political and practical concerns will all weigh upon the Executive committees and senior Civil Servants as the figures get translated into choices. There will be tough negotiations ahead and the choice made now will shape the NI economy and society for a generation.

It should also be remembered that the Executive are already carrying a range of unfunded budget pressures (in the sense that we get no specific money through the Barnett formula to cover these items) such as a water and sewerage subsidy of £200m a year and growing, free prescriptions and travel for the elderly, at least £20m per year, from civil service equal pay claims and various concessions on local rates. In all these pressures are probably above £300m a year even before the effects of cuts in the UK Budget filter through over the next five years.

Greater precision over plans will be clear when the Comprehensive Spending Review is published in the Autumn but the debate is already firmly underway as to how the cuts might be implemented. It is difficult to be precise about what decisions the Executive might take but we have used the ERINI Tax Model to simulate a number of options, namely a base case where the cuts are spread proportionately over all programmes, a scenario which protects the Health programme and a scenario which protects both the Health and the Education programmes. The division between current and capital expenditure cuts is derived from the Budget Statement and translated to the NI case through the Barnett formula.

Tables 4 to 6 below show the outcome of these scenarios for current expenditure by department up to 2015/16. Note that total spending is greater than the DEL allocation set out in table 3 above because some additional spending is supported by both the local Regional Rates and other income (currently around £600m per year) which is available to the devolved administration to spend.

- The default case of spreading the pain proportionately would imply a reduction in current expenditure for all programmes of around 8.4% in real terms over five years (note this is less than the equivalent UK reduction because of both the Barnett impacts and the fact that the NI expenditure baselines are higher than the NI population share and so the falls are less severe in percentage terms).
- Protecting health spending at its 2010/11 level would mean cuts of 15% on average for all remaining programmes, again over five years.
- Finally, attempting to protect both health and education spending would impose cuts of around 22% on the remaining programmes.

Table 7 projects outcomes for the capital programme. In total this is facing cuts in real terms of around 22% over the 2010/11 to 2015/16 period. Obviously protecting any significant capital spend in this scenario would impose infeasible reductions on the remaining programmes.

It would be a choice for the Executive to protect the capital programme by accepting larger cuts in current expenditure (but not vice versa) though the practical politics of this would be exceptionally difficult since it would further exacerbate job losses in the public sector.

It is our view that totally protecting large spending programmes in the face of deep cuts to the overall block is simply not feasible. Both health and education will need to bear some of the burden of cuts if the Executive is to maintain a meaningful presence in other spending areas. The present Investment Strategy planned by the Executive is unsustainable if the reductions in capital spending in Great Britain projected in the Budget are carried over through the Barnett formula to NI. In these circumstances the Executive may wish to reconsider its policy of holding down local rates in order to mitigate expenditure cuts.

It remains within the Executive's gift to avoid cuts of the scale indicated below by raising additional taxes in the region but it remains to be seen how much appetite there is for this given the track record of populist consumer policies (such as free prescriptions and freezing rates) and the fragility of the recovery in the corporate sector.

It is also important to highlight that these are only the second wave of what is likely to be an ongoing pattern of public sector cuts. Further cuts to the Welfare budget (beyond the £11bn already forecast) are a serious possibility to protect departmental spending, but this would be a double edge sword for NI since the region is disproportionately dependant on benefits. We would also draw attention to the widening gap between what the Executive expected to be able to spend on capital projects and the amount that it will have available for this purpose. By 2015/16 this gap could easily exceed £1.5bn, which will cause great difficulties for those departments such as HPSSPS that were scheduled to benefit later rather than sooner in the Investment Programme. Greater clarity over the scale of the contraction will be apparent in the Autumn upon publication of the Comprehensive Spending Review.

Table 4: Current expenditure with no programmes protected 2010/11 and 2015/16 (2010/11 prices)

	2010/11 Current (£m)	2015/16 Current (£m)	% change
Justice	1241.0	1136.6	-8.4
Agriculture & Rural Development	224.9	206.0	-8.4
Culture, Arts & Leisure	113.3	103.8	-8.4
Education	1914.8	1753.6	-8.4
Employment & Learning	798.9	731.6	-8.4
Enterprise, Trade & Investment	199.5	182.7	-8.4
Finance & Personnel	182.9	167.5	-8.4
Health, Social Services & Public Safety	4302.9	3940.6	-8.4
Environment	129.6	118.7	-8.4
Regional Development	517.3	473.7	-8.4
Social Development	521.1	477.2	-8.4
Office of the First Minister and deputy First Minister	78.4	71.8	-8.4
Northern Ireland Assembly	48.4	44.3	-8.4
Other departments	21.2	19.4	-8.4
Total Current Expenditure	**10294.4**	**9427.1**	**-8.4**

Source: ERINI tax model calculations

Table 5: Current expenditure with health protected 2010/11 and 2015/16 (2010/11 prices)

	2010/11 Current (£m)	2015/16 Current (£m)	% change
Justice	1241.0	1061.5	-14.5
Agriculture & Rural Development	224.9	192.4	-14.5
Culture, Arts & Leisure	113.3	96.9	-14.5
Education	1914.8	1637.8	-14.5
Employment & Learning	798.9	683.3	-14.5
Enterprise, Trade & Investment	199.5	170.6	-14.5
Finance & Personnel	182.9	156.4	-14.5
Health, Social Services & Public Safety	4302.9	4302.9	0.0
Environment	129.6	110.9	-14.5
Regional Development	517.3	442.5	-14.5
Social Development	521.1	445.7	-14.5
Office of the First Minister and deputy First Minister	78.4	67.1	-14.5
Northern Ireland Assembly	48.4	41.4	-14.5
Other departments	21.2	18.1	-14.5
Total Current Expenditure	**10294.4**	**9427.1**	**-8.4**

Source: ERINI tax model calculations

Table 6: Current expenditure with health and education protected 2010/11 and 2015/16 (2010/11 prices)

	2010/11 Current (£m)	2015/16 Current (£m)	% change
Justice	1241.0	977.1	-21.2
Agriculture & Rural Development	224.9	177.1	-21.2
Culture, Arts & Leisure	113.3	89.2	-21.2
Education	1914.8	1914.8	0.0
Employment & Learning	798.9	629.1	-21.2
Enterprise, Trade & Investment	199.5	157.1	-21.2
Finance & Personnel	182.9	144.0	-21.2
Health, Social Services & Public Safety	4302.9	4302.9	0.0
Environment	129.6	102.1	-21.2
Regional Development	517.3	407.4	-21.2
Social Development	521.1	410.4	-21.2
Office of the First Minister and deputy First Minister	78.4	61.7	-21.2
Northern Ireland Assembly	48.4	38.1	-21.2
Other departments	21.2	16.7	-21.2
Total Current Expenditure	**10294.4**	**9427.1**	**-8.4**

Source: ERINI tax model calculations

Table 7: Capital Expenditure 2010/11 and 2015/16 no programme protected (2010/11 prices)

	2010/11 Current (£m)	2015/16 Current (£m)	% change
Justice	86.1	66.7	-22.6
Agriculture & Rural Development	-173.5	-134.3	-22.6
Culture, Arts & Leisure	59.9	46.4	-22.6
Education	169.3	131.0	-22.6
Employment & Learning	37.6	29.1	-22.6
Enterprise, Trade & Investment	73.5	56.9	-22.6
Finance & Personnel	15.2	11.8	-22.6
Health, Social Services & Public Safety	201.7	156.1	-22.6
Environment	182.4	141.2	-22.6
Regional Development	556.2	430.4	-22.6
Social Development	269.6	208.6	-22.6
Office of the First Minister and deputy First Minister	12.0	9.3	-22.6
Northern Ireland Assembly	3.6	2.8	-22.6
Other departments	0.4	0.3	-22.6
Total Current Expenditure	**1494.0**	**1157.1**	**-22.6**

Source: ERINI tax model calculations

1.4 Cutting carefully - what the approach should be

1.4.1 A challenge of unprecedented scale

The scale of the challenge facing the executive is considerable and no matter what approach is taken to administering the cuts there will be considerable and widespread pain to be endured. Where this pain is felt, the extent to which it is absorbed within the civil service or 'passed on; to the private and voluntary sector through cuts, budget reductions or tax rises will be an issue of significant debate throughout the parliament ahead. There will be job losses and a need for significant restructuring in the way that many services are delivered, nobody will avoid paying at least something towards getting the UK out of debt. The scale and severity of the cuts could easily lead to panic and 'bad choices' during the process, or lead to delays in taking action which will only increase the likelihood of panic later in the process. The need for clear heads and evidenced consideration of the choices ahead is imperative to minimise the potential damage to the NI economy and its people.

1.4.2 A need for a strategic approach

Though cutting spending out of the economy will undoubtedly have a short term negative impact there is actually some positive transformation that could occur ***if*** the process is done correctly. Protecting employment and wages within the public service has already had strong support from the Unions in particular, though the idea that cutting spending external to the public service (i.e. in the private sector) will have no impact but cutting public sector wages would is clearly not the case. Equally the idea that recruitment freezes are a 'victimless' way of reducing headcounts and thus costs is also incorrect as this creates a large pool of youth unemployed who might other wise have joined the public service. These two points further highlight just how sensitive, complex and ultimately painful the process will be no matter what choices are made.

The government language thus far has been encouraging, the cuts must be done in such a way as to:

- 'protect front line services',
- 'protect the most vulnerable in society', and
- 'not hamper or prevent any economic recovery'.

If these principles are adhered too then the process may well leave NI with a leaner, more efficient and cheaper to run public sector. It may even help to stimulate private sector growth by reducing the public / private wage differential in the region and reducing the 'safe and secure' environment that can lead to 'crowding out' and dissuade potential talent from entering the private sector. However, the practice of ***making*** cuts will inevitably be much harder than ***discussing*** how it should be done.

The clear danger is that cuts are done on a 'budget line' basis with a focus on 'arms length' cuts at the expensive of internal scrutiny. History suggests that capital spending will take a major hit and that cuts within central departments are likely to be rather more minimal with wage cuts very rarely effectively implemented. However, the ROI economy has set a precedent on public sector pay cuts and the freezes of pay in the UK and the Executive's decision on bonuses for the senior civil service this year suggest that perhaps this time a wider set of options will be embraced. Nevertheless, there are formidable difficulties in curtailing public sector pay at a regional level since most legally binding pay agreements are at a national level and pay freezes usually translate into stand stills on inflation increments but not movements in terms of pay scale increments.

Budget lines cuts are often the outcome of a rationalisation programme implemented from the perspective of the funding department (in NI's case DFP) which may miss some of the strategic choices that are required. This approach can lead to overall cuts being dealt out to departments who in turn look to whatever external costs they have (perhaps consultancy spend or funding for semi public or private organisations) rather than looking to any internal cuts that might result in job losses etc.

It is important this non-strategic approach to cuts is not implemented as it could have devastating economic and social impacts on the economy. High level strategic choices on public sector pay, on the scale of central government, the choices around departmental mergers or rationalisation must be carried out at some level to avoid 'pushing the cuts down the line' without due consideration of the impact.

1.4.3 Principles in carefully cutting

Given the complexity what principles should a cuts programme adhere to? From Oxford Economics' and ERINI's perspective a few guiding principles are set out below:

1) **A strategic overview**: It is unclear to what extent plans are already in place internally with in the government to deal with the cuts that have transpired. Certainly they have come as no surprise so one would expect a sensible set of high level strategic choices are already available for ministers to discuss. This should include consideration of the implications of pay cuts / freezes, options for mergers / closures and possibly privatisation or sell off options. It may also be the case that departments have been asked themselves what saving could be made and what choices they would like to see made – similar to the Bord Snip project in ROI, again it is not public knowledge if such a process has occurred in NI, either centrally or within departments

2) **Output assessed not input:** It is crucially important that cuts are made by considering the output of what the spending currently produces not solely the inputs (i.e. cost). In other words key questions need to be asked of each and every cut, such as:

   - What is this services / activity doing?
   - Do we need / want this outcome?
   - Is it doing it as efficiently as it could be?
   - What alternatives for delivering the outcomes are there, assuming we do want the outcome?
   - Have all other similar spending areas been considered in a similar way?

Though answering these questions can be tricky it is worth bearing in mind that the public sector has generated a huge number of appraisals, evaluations and business case literature for almost all forms of spending so the rationale for why the spending exists should already be in place making the assessment of its relevant need and importance more feasible than might otherwise be the case.

It is also important that the assessment of the worth of programmes should have an independent dimension. Departments and service delivery bodies cannot be expected to be judges in their own case. The experience of An Bord Snip Nua in the Republic of Ireland points to the usefulness of independent scrutiny of expenditures

3) **All options considered:** The financial predicament is such that it is not wise to have 'set in stone' ideas about how cost reduction could occur. Options over delivery models will be an important consideration, there may exist a desire by the Civil Service to bring back 'in house' various programmes that are currently delivered in the private, semi private or voluntary sector as it will potentially 'safeguard' their jobs and reduce external spend. This is of course worth considering but only when the external delivery options are considered and the impacts on service are fully assessed (ideally independently assessed, as the Civil service department who would have a vested interest in the outcome). Once a outcome of spending is deemed desirable (see above) then all methods of delivery option need to be considered to ensure it is most efficiently and effectively procured. It is worth reflecting on the choices that other countries have made. In places such as Finland at the height of finical crisis in the 1990's a range of public services where given greater powers at a delivery level and a much reduced central bureaucracy and control function (education is the obvious example) in return for the department or sector taking on the role for a reduced fee. In other words a 'powers and responsibility' deal in return for efficiency gains.

4) **Maintaining room to manoeuvre:** With drastic cuts in prospect some departments and Ministers will undoubtedly want to press for early agreement on policies and strategies that in practice will hamstring the Executive and reduce its freedom of manoeuvre in responding to a shrinking budget. This must be resisted.

5) **"Right to appeal":** Though there is a cost to having a form of 'appeals' process it would be sensible to have a strategic commitment within the Executive to listen to cases from those organisations or departmental groups who feel that the cuts have not been considered strategically, on an output basis and with every option on the table. Clearly the potential for every group to feel a need to appeal exists but some system to relate back the 'down the line' cuts to the decision makers would be useful.

6) No **sacred cows:** It is vital that there are no 'sacred cows' or 'pet projects' that do not undergo scrutiny as part of the cuts process. This applies as much to whole departments and functions as it does to individual programmes. For example, the outcomes of health may be deemed essential but this should not prevent scrutiny of the inputs to see if pay levels, process and delivery models are as efficient and cost effective as they could be.

The voluntary sector provides a wide range of services to the public, including help for those who are both most vulnerable and at the same time most difficult to reach through formal channels. When the financial climate becomes difficult external grant aid of all sorts can become a target for reductions in order to protect what some would see as 'core' services. Government funding to the voluntary and community sector in Northern Ireland accounts for £260 million or 45% of the sector's income. The great bulk of which, at 72%, comes through non-departmental public bodies and agencies mostly purchasing goods and services[2]. The services provided by these organisations could be at particular risk if public bodies prioritise the internal cost over the output being purchased. In many cases voluntary organisations in the services they deliver may be saving the public purse by heading off the demand for more expensive service delivery options.

1.5 Summary - are there opportunities in adversity?

There are opportunities in what will be a very challenging time if the process is approached strategically and open-mindedly. For example, new delivery models may emerge, new entities may be created to deliver or support public services, pilot schemes that have proved their cost effectiveness may be rolled out wider, functions with a clear economic benefit or a proven track record in supporting the most vulnerable are likely to find an increased or expanded role may result. Even the *process* of looking within departments and functions at spending, processes and outcomes will undoubtedly bring benefits and savings. It is important that the cuts process is not too insular, that external expertise is drawn upon where required and at all times the process focuses on the type of society and economy we want to have, how we are currently getting to that goal and the question of whether there are better and more efficient ways to get there. With a principled approach NI's public service can undergo the reform and transformation that the Programme for Government has suggested the whole economy needs to undergo.

ENDS

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[2] State of the Sector V Report. NICVA 2008

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