



Northern Ireland  
Fiscal Council

Bringing transparency to NI's public finances

#NIFCAnnualConference

# Does public spending in NI support economic growth?



Ann Watt



Dr Frances Ruane



Alan Bridle

**PIVOTAL**

# **Does public spending in Northern Ireland support economic growth?**

**Fiscal Council annual conference  
Monday 18 September 2023**

**Ann Watt, Pivotal Director**

## Reconciliation and deprivation: twin challenges for Northern Ireland



**PIVOTĀL**  
PUBLIC POLICY  
FORUM NI

## Youth voices: life, work and study in Northern Ireland



**PIVOTĀL**  
PUBLIC POLICY  
FORUM NI

**PIVOTĀL**  
BRIEFING

4 SEPTEMBER 2023

## GOVERNING WITHOUT GOVERNMENT: THE CONSEQUENCES

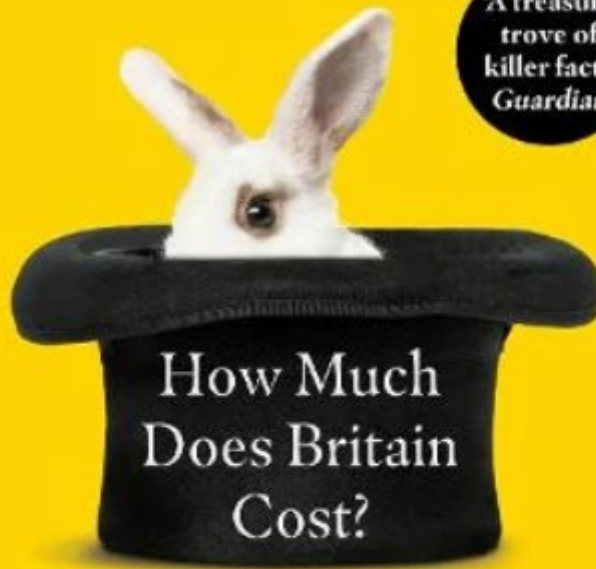
PIVOTAL - THE INDEPENDENT  
PUBLIC POLICY THINK TANK FOR  
NORTHERN IRELAND



'Read it, absorb it, and understand how the country works'  
LAURA KUENSSBERG

# Follow the Money

'A treasure trove of killer facts'  
*Guardian*



How Much  
Does Britain  
Cost?

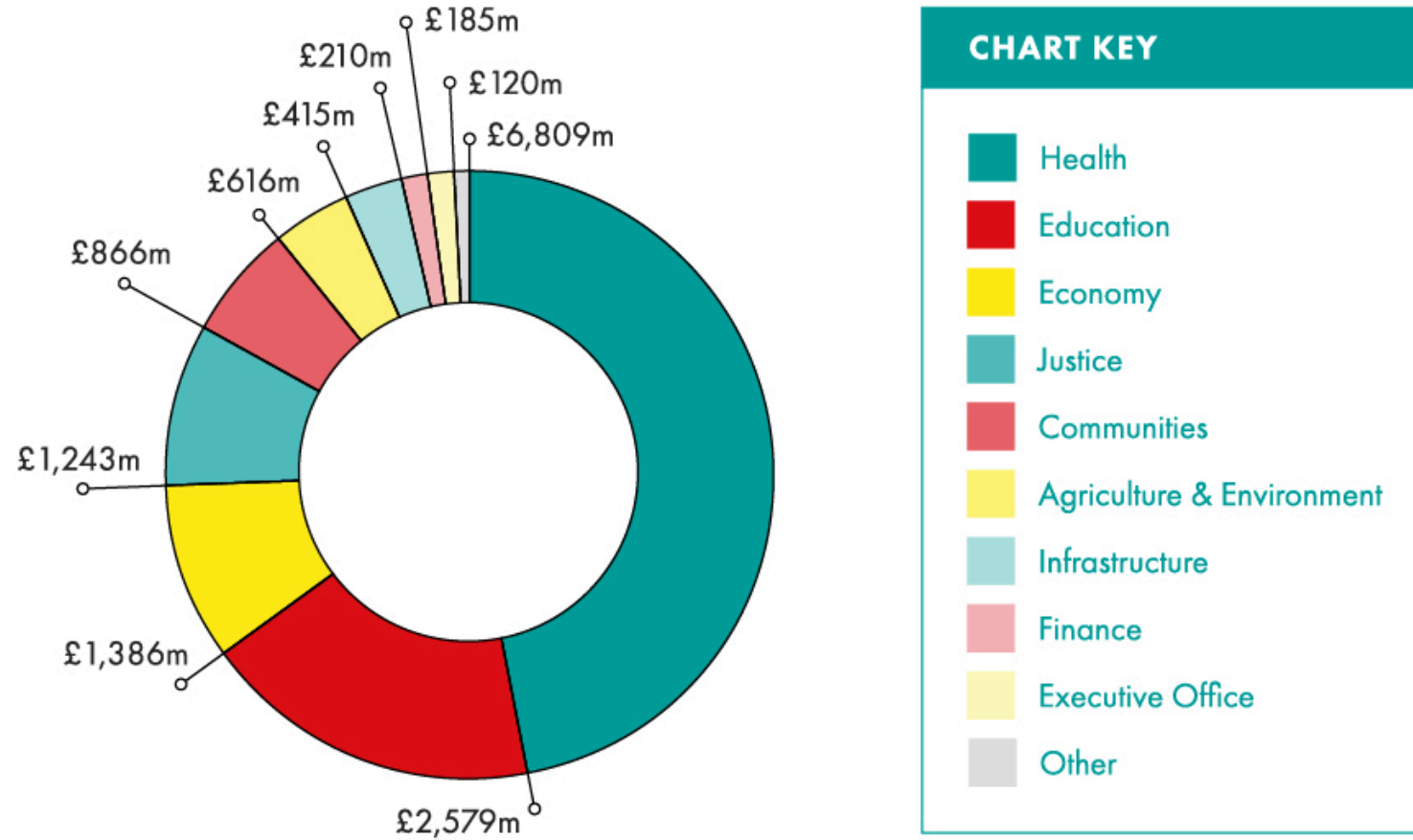
PAUL JOHNSON

'Gripping and horrifying... witty and brilliant. Buy it!'  
*THE TIMES*



# Planned DEL Spending 2023 - 24 (£million)

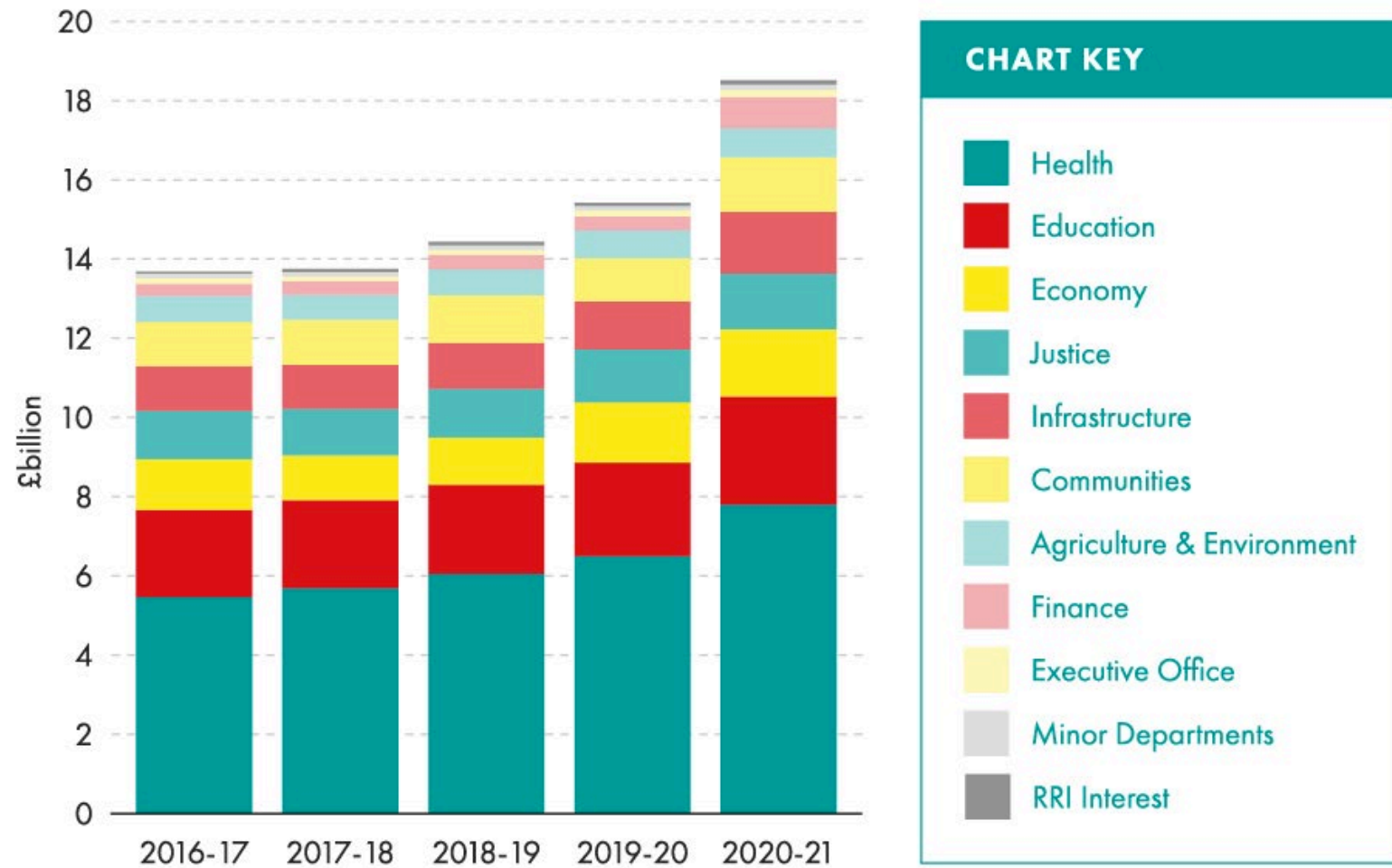
by NI departments



Source: Northern Ireland Main Estimates 2023-24

# Gross DEL Spending (£billion)

by NI departments



Source: Fiscal Council NI – Public Finances in Northern Ireland comprehensive guide

# Does public spending in Northern Ireland support economic growth?



- Do current funding allocations prioritise growth?
- Do we know what current spending is achieving?
- Does the budget-setting process put an emphasis on supporting growth?
- What's happening now without an Executive and Assembly?
- What needs to change?



# Conclusion

## Three priorities

1. Infrastructure
2. Skills
3. Health

## Three enablers

1. Political stability and a clear programme for government
2. Policy making which looks to the long-term
3. Budgets that follow policy priorities

# How Can Public Spending Support Economic Growth?

**Dr Frances Ruane,  
Chair**

**National Competitiveness and Productivity Council of Ireland**

# Key principles for supporting economic growth

- **Long-term/realistic perspective on economy, its possibilities and competitors**
- **Analytically strong framework [PfG] with economic, social, environmental goals**
  - Articulate long/medium term policy objectives based on a LT/MT perspective and provide as much certainty as possible for businesses and households
- **Budgetary analysis should indicate how it aligns with the PfG**
- **Departmental expenditure/regulatory policies should align to generate positive synergies**
  - Accounting for fiscal and demand management factors

# Experience of Ireland - A Classic SOE

## **Strong shared understanding of the SOE model and Role of Competitiveness**

- Drivers of inward FDI and trade
- Role of certainty in markets
- Mix of grants and tax incentives

## **Regular international reviews of policy and learning from EU structural funds and Troika**

- E.G., Evolving parameters for FDI supports => quality employment
- Project articulation, evaluation, planning, barriers to competitiveness

**BUT**

## **Delayed emphasis on skills, research and innovation**

- High tech sectors before high tech jobs
- Late with tax credits and grants for innovation.

## **Ability to plan for emerging issues of scale**

# Other Experiences

- **Economic Advisory Group, Northern Ireland**
  - Focus on competitiveness
    - What is the purpose?
    - What is the learning?
- **Council of Economic Advisors Scotland**
  - International focus on competitor countries – performance/policy
  - Creation of Broad Policy Positions
  - Identify impediments to Growth
  - Importance of research to inform policy

# Possible Learnings for Northern Ireland

- Public expenditure should be strongly aligned with stated LR objectives (economic/social/environmental) – e.g., ***People Planet Prosperity***
- Recognise value of generating policy certainty – annual budgetary process should avoid pre-budget uncertainty and budget surprises
- All expenditures should be based on strong and objective analysis/evidence
- Build the institutional structure, content and capacity to deliver on policy effectively

***Does Public Spending in Northern Ireland support economic growth?***

***What do we know?***

***What do we think we know?***

***What do we not know yet?***

**Alan Bridle**

UK Economist & Market Analyst

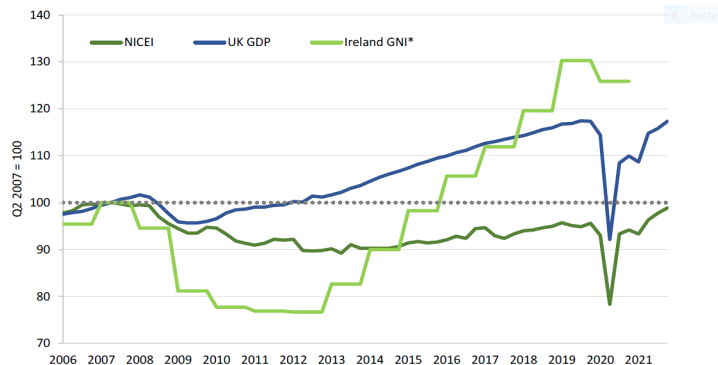
NI Fiscal Council Conference  
18<sup>th</sup> September 2023



**Bank of  
Ireland  
UK**

# What do we know? NI's relative economic under-performance

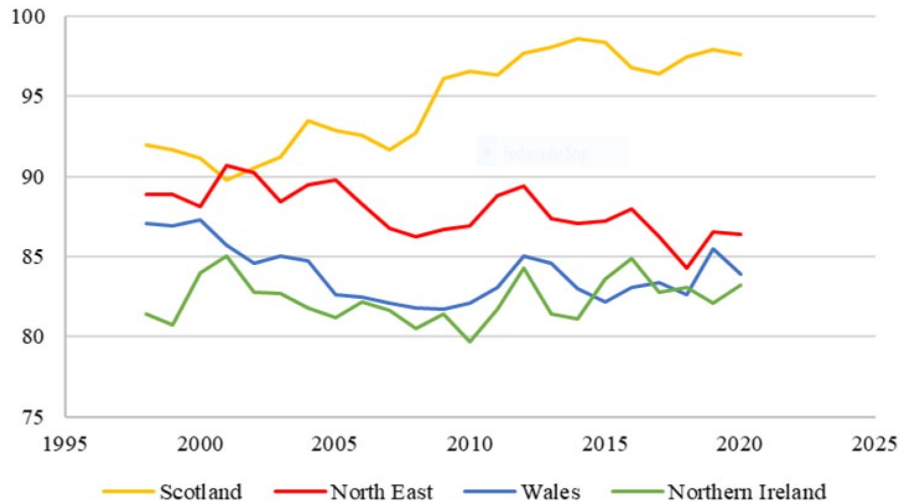
NICEI, comparison with selected GDP measures, 2006-2021 (Q2 2007 = 100)



Source: NICEI and UK GDP: NISRA - NI Composite Economic Index - April 2021. Iol GNI\* - Central Statistics Office. Fiscal Commission analysis.

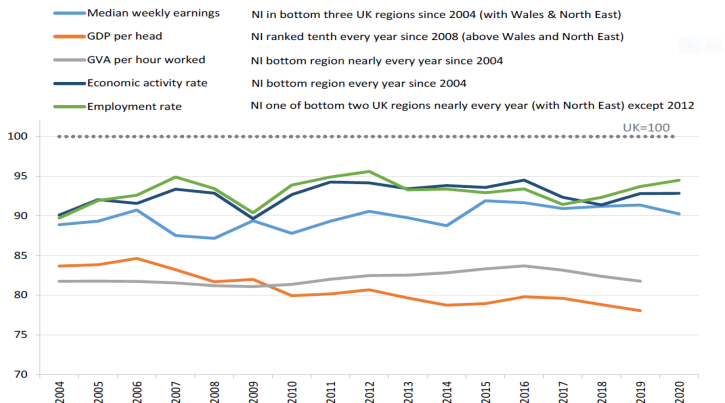
Largely reflecting relatively weak productivity – not just what we do and but also how we do it

Productivity, output per hour (UK =100)



Source: ONS, 2022: regional productivity time series

Comparison of selected measures, NI v UK, 2004-2020 (UK=100)



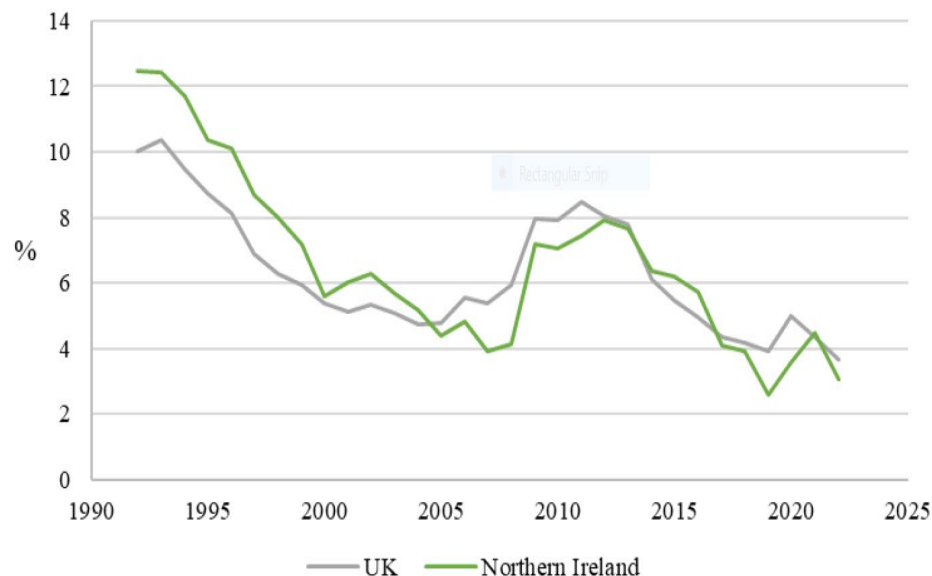
Source: Namis, ASHE, ONS Subregional Productivity and ONS Regional GDP



# What do we know? Good Progress in the labour market (Scaling Private Sector?)

25 years on from the Belfast Agreement...  
to what extent has the private sector really developed?

## Unemployment rate



Source: [ONS, 2023, Labour Force Survey](#)

1998-99



- Operating Surplus
- Compensation of Employees
- Property Income received
- Social Welfare & Transfers

2020-21



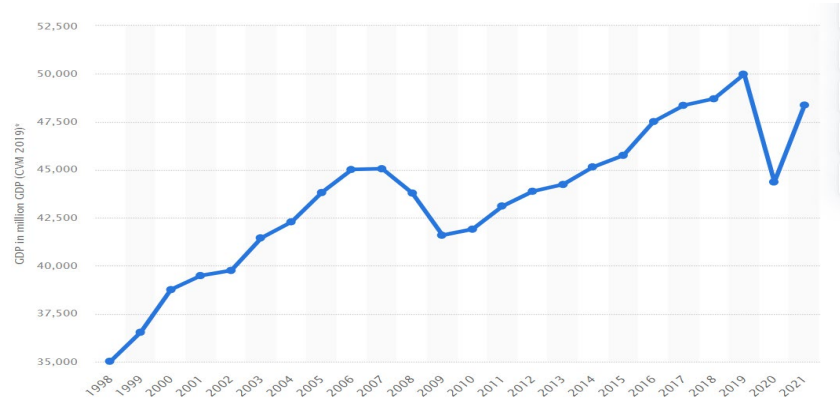
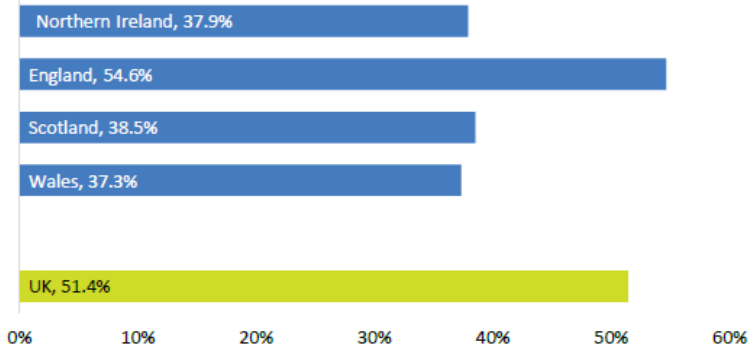
- Operating Surplus
- Compensation of Employees
- Property Income received
- Social Welfare & Transfers
- Other

# What do we think we know?

## Relationship between Public Spending and Economic Growth in NI?

Since 2005-06, growth in Public Expenditure has consistently outpaced the growth in the economy

**Percentage Change in Identifiable Expenditure (Real terms), 2005/06-2020/21**



**UK versus Northern Ireland GDP since 2006**

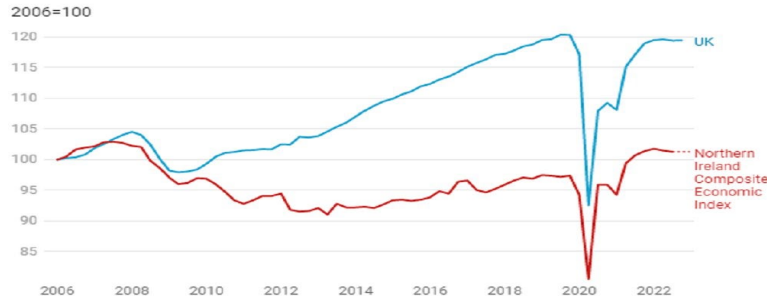
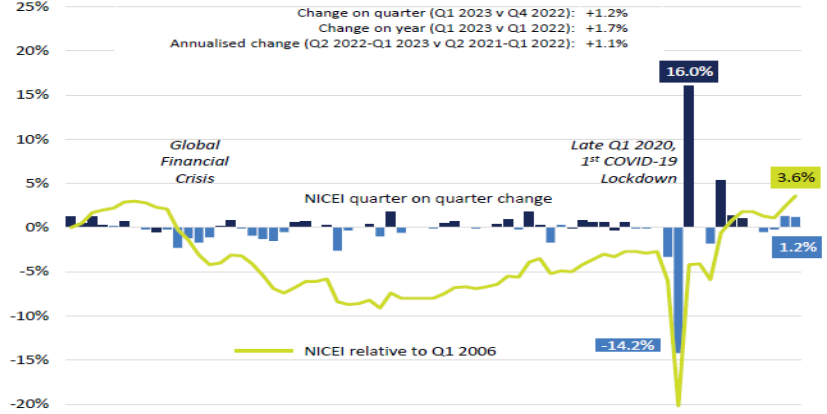


Chart: Ben Chu BBC Newsnight/Twitter: @benchu\_ - Source: ONS, NISRA - Get the data

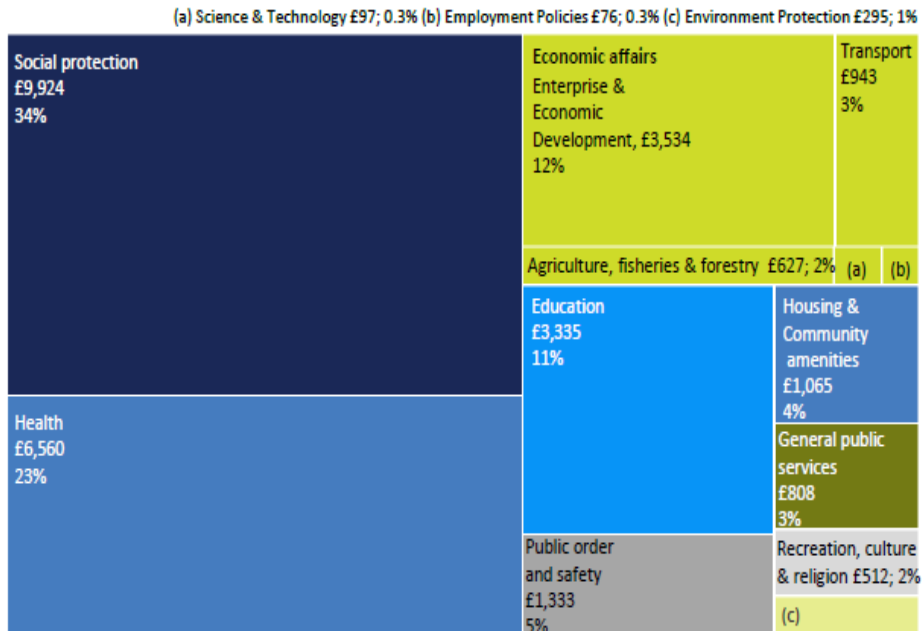
**NICIE: Quarter on quarter change and comparison with Q1 2006**



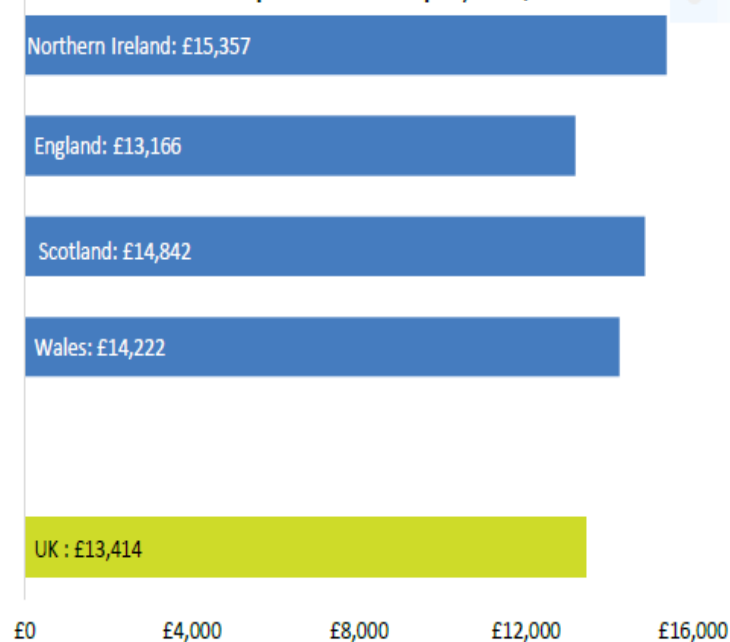
# What do we think we know?

Compositional and Concentration issues with c £6.50 in every £10 spent on Social Protection, Health and Public Order

**Total Identifiable Expenditure on Services by Main Function, 2020/21, £ million (Total=£29.1 bn)**



**Identifiable Expenditure Per Capita, 2020/21**



Source: [HMT Public Expenditure Statistical Analyses](#)

Source: NISRA NI IN PROFILE

# What do we think we know ? There is a “fiscal reckoning”

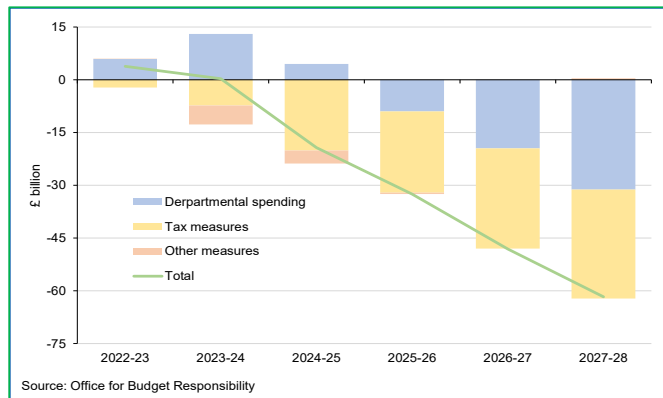
## UK Austerity 2.0 ?

### Public spending as a share of GDP

Actual and as forecast by the OBR in March 2023

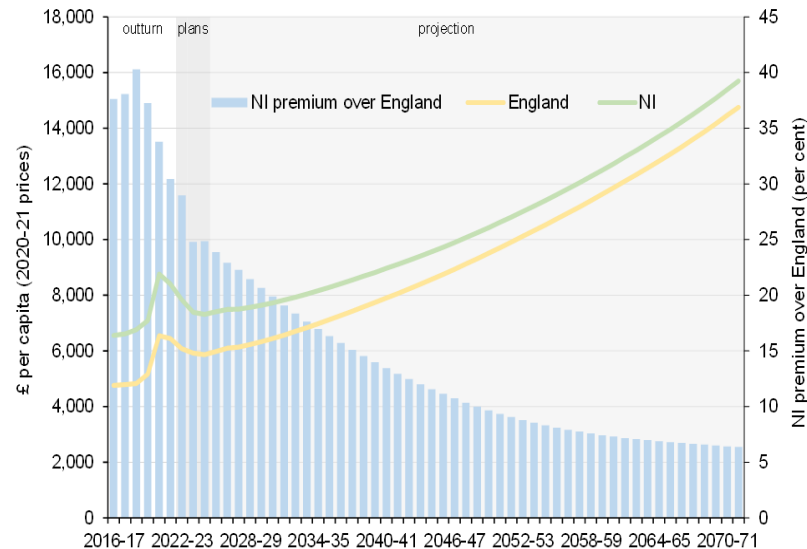


Chart: The Spectator (bkkuC) • Source: OBR EFO March 2023, C4.5 • Created with Datawrapper



Source: Office for Budget Responsibility

## Barnett Squeeze will intensify ... formula is working as intended



Source: HM Treasury, OBR and Northern Ireland Fiscal Council calculations

Source: Fiscal Commission, NI, NICIE, ONS

Fiscal policy likely to become much less supportive from now on ...

# What do we think we know ?

- Peace/absence of civil unrest is **a necessary but not sufficient condition for economic revival**
- For decades, **PE** served as a **“stabiliser”** (demand) / public good provision, social protection, (UK Welfare mitigations 2014) **non-economic considerations** (70’s-90’s, “security-based” economy)
- **“Insulation”/mitigation to “downside risks”** (UK recessions in 70’s,80’s,90’s, 2008-13 “deeply impaired private sector” BUT “dependency”, moral hazard, accountability for VFM, some “rent-seeking” behaviours)
- **“Fiscal Multipliers” more evident in jobs than output/productivity** - policy priority on labour market / FDI primary target of job promotion (*“In 2022/23 we offered £73m of assistance to nearly 1,100 businesses ... contribute towards £489m of investment in the local economy” Invest NI, summer 23*)
- **PE rarely considered as an “economic enabler”** / explicit links to economic growth/productivity are weak (occasional trade-offs – APD on long-haul & consideration of lower NI CT rate), Constraints – political and economic legacies of the past / absence of multi-year spending plans aligned to an economic strategy
- **Crowding Out?** PE a substitution for (weak) Private Spending / “Pump-Primer” but Jobs market ?
- **Imbalance in revenue v capital expenditure has contributed to poorer quality growth ...** demand-side boosts rather than supply-side led, capacity building.
- **Mixed performance project delivery & evaluation** – NIAO reports / PAC scrutiny /Accountability for VFM

# What do we not know yet ?

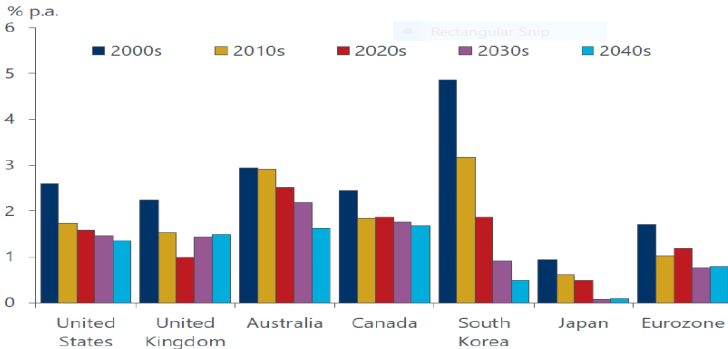
- Response to “fiscal adjustment” / **stable and sustainable public finances?**
- **Devolved government?** (alternative scenarios & models – political, fiscal and economic)
- **London** (more fish or fishing rods?), **Dublin** (further welcome investments “Shared Island” fund)?
- **Political Appetite, Leadership and Capability** to re-orientate the local economy over a 10-20 year change programme, deploying fiscal levers?
- **Vision to see shifting mega trends** – talent & skills, decarbonisation, trade relationships, digitisation, water & energy infrastructure/security, a new Beveridge for welfare, as an agenda/opportunity to modernise and not just a huge challenge?
- **Clear understanding and definition of roles** – PE help to create the conditions and environment for growth – education & skills, infrastructure, tax & regulation, planning
- **Focus on Outcomes** more than Inputs
- **Difficult policy choices & trade-offs** – new revenue streams, technology-led “smaller” government, private finance partnership options, new models (NI Water), external funding

Ambition with Realism ... *“there are no solutions, only trade-offs” (Thomas Sowell)*

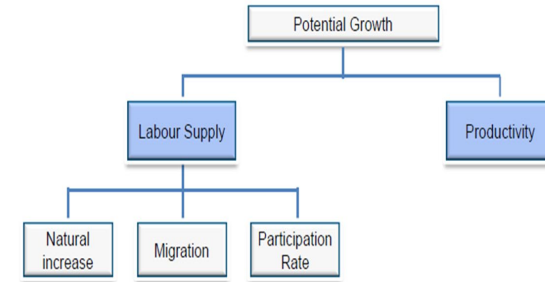
# What do we not know yet ?

Can the “drivers” in the NI economy be “reorientated” to a world where potential growth rates are challenged by the “demographic drag” and will be increasingly dependent on productivity gains and “participation” rates?

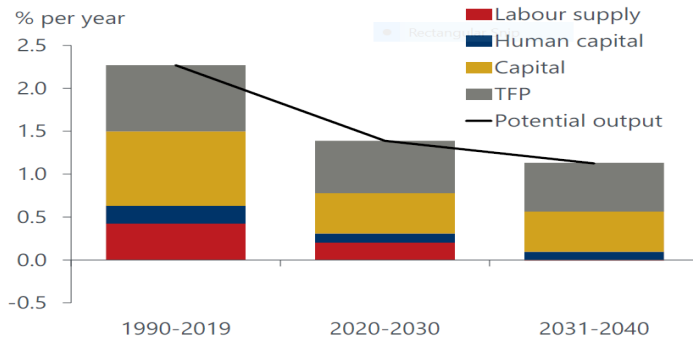
Global: Potential output growth by decade



Source: Oxford Economics/Haver Analytics



Advanced economies: Growth breakdown



Source: Oxford Economics/Haver Analytics



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