

Economic & Social Challenges in Northern Ireland

Speech to Fabians - 31 January 2006

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Introduction

When I first took over as Secretary of State for Northern Ireland last May, what struck me most was not so much the daunting complexity of the politics. That was familiar enough: the ancient divisions, the legacy of the Troubles, the polarisation, the sectarianism, the deep mistrust.

It was the surreal character of the politics: that the things which matter most to most people everywhere – jobs, schools, health – hardly figured in political debate, as if Northern Ireland could somehow be insulated from the ordinary problems of people elsewhere and the torrent of

global economic forces swirling around the world. Few were discussing how Northern Ireland would cope under the competitive threats from China and India in the future, or Eastern Europe today, or what policies could sustain the unprecedented level of prosperity, employment and public investment which was being provided under our Labour government.

I found a health service with the worst waiting times in the United Kingdom. An educational system that delivered superbly for some, but appallingly for others. An economy with more people on higher living standards than ever before, but with working age economic inactivity levels 28 per cent higher than the UK average. And I found a private sector uniquely weak compared with a dominant public sector hugely subsidised from London, which meant the economy was simply unsustainable in even the medium, let alone the longer, term.

That is why I decided it was my duty to confront the key issues needed to transform Northern Ireland from dependency to sustainability. Whilst my priority was and remains to negotiate a durable political settlement, I believe Northern Ireland cannot stand still on the broader economic and social issues which face every modern industrial society, if it is to enjoy a successful, prosperous and secure future.

First, we need to **rebalance the economy** to make it less reliant on the public sector. The private sector should be thriving – with a highly skilled, flexible and innovative workforce.

Second, we need to transform the **delivery of government and public services**, with power exercised as close to the people as possible.

Third, we must develop a **sustainable energy strategy** that protects our environment, invests in renewables, and delivers fairness to consumers.

In each of these areas, we face huge challenges. All require tough decisions and painful choices. But all are vital if Northern Ireland is to be world class.

They are the same challenges being faced by communities across the UK, across Europe, and across the world. And Northern Ireland can no longer keep its head down and assume that someone else will solve them. Or take a view that nothing can be done until political disputes are resolved. Or that Northern Ireland somehow deserves a privileged, protected status. For that is not deliverable in today's global economy

Northern Ireland cannot afford to tread water – not politically and not economically. The challenges of the

new millennium will be at least as great as the threat to prosperity from a broken community. The challenge of a rapidly changing global economy will not wait for divisions in society to be healed. We cannot deliver high quality public services whilst funding the enormously wasteful costs and duplication that flow from separated communities and global warming and climate change does not respect political, religious or geographic divides.

It will be no consolation to say to today's five year olds in 15 years' time that Government was too preoccupied with past or present political disputes to plan ahead for their economic security and social future.

1. Rebalancing our economy

The first challenge is to wean the economy away from its current over-reliance on the public sector. And away from the tragic waste of human resources represented by shockingly high levels of economic inactivity.

But let's not forget the successes which have built a sound platform for future advance. Northern Ireland is enjoying an historic period of macro-economic stability having benefited from the growth and stability of the UK economy. It has grown faster than many other regions of the UK. Manufacturing exports have more than doubled, in real terms, over the last decade. Unemployment has been halved to its lowest level in generations. We have more jobs than ever in our history and prices are 3 per cent below the UK average. For the first time, more tourists are coming each year to Northern Ireland than there are people living here.

But, as leaders of business and commerce consistently tell me, at best we are an economy in transition. There is a long way to go.

Public expenditure as a percentage of GDP is significantly higher in Northern Ireland than elsewhere – accounting for some two thirds of regional GDP, compared to a UK average of around 40 per cent.

The private sector is underdeveloped, with almost a third of all jobs in the public sector compared to a UK average of a fifth.

And we now face the added threats and challenges of global change – of manufacturing jobs lost and service jobs outsourced, especially to China and India.

The currency of the future will be high productivity, high value added activity and highly developed skills. For much more must be done if Northern Ireland is to become a world leader in the fastest growing and most wealth creating sectors. A place where people want to locate and expand their businesses; and a place with which people

want to trade. That requires investment in R&D and the promotion of innovation and creativity; encouragement of enterprise; the right skills for future employment opportunities; and a modern infrastructure to support business and consumers.

We also need to consider the scope for more North South co-operation, especially economic. The island of Ireland faces common external threats from globalisation which, by working together, we can help overcome. The Republic's enormous success has led to some of its companies being prevented from expanding because of a lack of additional capacity and skill shortages. They should be encouraged to outsource in the North. More Northern Ireland based businesses should follow those which have successfully expanded into the South. In addition, both Governments should have a joined up strategy to attract inward investment, especially maximising the South's strong relationship with Irish

American business to showcase opportunities in the North.

We should also work on a joint audit of opportunities for further economic co-operation to mutual advantage both sides of the border, bearing in mind for example the Republic's proposed EUR7.5 million investment in the City of Derry Airport which will benefit Donegal as much as the North West of Northern Ireland and which is an integral element of the EUR100bn investment plans for the island's infrastructure over the next ten years. I believe all of this is good, commonsense co-operation on matters of mutual interest across both jurisdictions.

Although employment in Northern Ireland has reached record levels and unemployment is at historically low levels – now, at 4 per cent, below the UK average of 5.0 per cent, economic inactivity amongst adults of working age in Northern Ireland remains worryingly high at 27.4

per cent, and significantly above the UK average. Of those who are unemployed in Northern Ireland, a much higher proportion are long-term unemployed, 33.8 per cent compared to the UK average of 20.7 per cent.

A shocking 23 per cent of the working population has no qualifications whatsoever, compared with 13 per cent in the UK as whole. And only 15 per cent of the Northern Ireland workforce has a degree or equivalent, compared to 18 per cent in the UK. Therefore, it is vital to invest in opportunities and skills, with greater access to vocational education, training and apprenticeships, to ensure no young person is left behind.

The recently revised curriculum must ensure that children leave primary school with a strong grasp of the literacy, numeracy and ICT skills that all employers need. And the new post-primary arrangements must provide pupils with a minimum entitlement at Key Stage 4 and post-16

regardless of the school and a wider choice of schools – including more emphasis on vocational courses, not least in the new specialist schools. Higher education, which will be benefiting greatly from the new fee income, must focus on subjects that will produce fulfilling employment and a more competitive economy. But university expansion must not be at the expense of the vital further education sector, where there may be an even greater need to expand to fill disturbing gaps in technical skills.

To help tackle these problems I will shortly be announcing details of two new funds.

The **Children and Young People's Fund** will target £61 million over the next two years to extend the role of schools before and after the traditional school day, including additional early years provision.

The **Skills and Science funding package** will add £35 million over the next two years, over and above what we are already spending, specifically to enhance investment in skills and training for employment, and to tackle economic inactivity.

2. Reforming our government and public services

But if Northern Ireland's business environment needs radical reform, then so does government and the wider public sector.

The British left made a mistake in the 1960s and 1970s – and arguably generations before – in supporting a statist version of socialism: Whitehall knows best. Yet the early Fabians themselves were critical of state socialism for upholding a centralised, unequal society. The Fabians believed in decentralisation, democracy and a refusal to accept that collectivism means subjugating individual liberty. That too was the spirit of 19th century British

socialist pioneers, from the founding trade unionists and Chartists to Robert Owen and William Morris.

Today, whilst respecting a key dividing line with the right – that the left believes in the enormous potential of good government, whereas the right has always favoured small government and sub contracting public services to private provision – we need to foster community, private, voluntary and not for profit sectors to become engaged in delivering government objectives, with communities empowered to take control of their own futures. But this needs a new commitment to devolution – to power being exercised as close to the people as possible.

Politicians elected by people in Northern Ireland need to take key decisions – which is why we must succeed in getting devolution back up and running: and this time for good. In Wales, I was proud to have led the Yes campaign that delivered devolution. Now in Northern

Ireland, we must do the same. Because for our Labour Government, empowering our citizens isn't just another policy: it's our very purpose.

We must go even further – and reinvigorate local government. Which means fewer, but much more powerful local councils: down from 26 to 7 – with newly added functions ranging from local roads to planning to local economic development; with councils becoming once again the centres of their communities, co-ordinating local services. And to make that all the more effective, we are ensuring health and policing becomes coterminous with the seven new local authorities.

Northern Ireland is hugely over administered. Serving a population of just over 1.7 million, we have 26 Councils, 4 Health Boards, 19 Health Trusts, 5 Education and Library Boards and about 100 other public bodies. If 'education, education, education' has been our Government's mantra,

then Northern Ireland's has been 'bureaucracy, bureaucracy, bureaucracy'.

Government in Northern Ireland needs to be smaller to be more effective, ensuring that taxpayers money is spent on the front line. Therefore we will be rapidly implementing the radical, cost saving changes in structures for local authorities, health and education that we have announced following the Review of Public Administration. And in March, I will be announcing a reduction in the numbers of Quangos and the transfer of accountability to the new local councils.

The RPA reforms could deliver savings of up to £200 million per annum. This money will stay in Northern Ireland and be reallocated to front-line services, with back room staff switched to front line delivery.

It is vital that our public services are responsive to the needs of citizens who pay for them, rather than simply to those who run them. That means giving the public choice over where and when to access services, and giving the private and voluntary sector the opportunity to deliver services free according to need within and alongside the traditional state sector.

People are no longer willing simply to accept what is handed down to them. Not willing to accept the local school, when they know it isn't best for their child. Not willing to work inflexible hours when they need to balance work with family commitments. Not willing to be restricted to the nearest hospital, when they are in pain and told they must wait months if not years for surgery available quicker on the NHS elsewhere. Not willing to stay in a dead-end job, when they want to reskill and move on in life. Not willing to live in a rented house, when they dream of owning their own home.

We must see through the radical reform of our public services, hand in hand with the historically high increases in investment we have delivered. Reform is vital. By the 2007-08 financial year, we will be spending in excess of £16 billion in regional public services in Northern Ireland. That is 50 per cent greater in real terms than when our Government came to power in May 1997, with health spending up by around 80 per cent and education by more than 60 per cent. Yet public service performance, in some areas, is among the worst in the UK – with, for example, the longest hospital waiting lists – only now starting to come down under our new policy levers.

Our education reforms will see the establishment of a new Education Authority which will bring together all the direct support functions currently undertaken by five Education and Library Boards and a range of other organisations funded by Government.

It is time to get our education debate away from segregation and statistics and on to skills, to ensure that every one has the skills to match the jobs that our future economy needs. That means an entire reorientation of the education system around the critical age of 14 and the key life decisions young people must make at that age about their future careers.

That is why I am asking the Departments of Education and Employment and Learning to draw up a more effective and broad-based policy on provision for 14-19 year olds and to work with the new Education Authority, when it is in place, on a more robust local planning regime to implement this – and why the new Authority will be given a strategic role across the whole 14-19 provision – whether delivered in schools or FE colleges.

Even more radical reform is needed. The segregation of schools into the numerous sectors in Northern Ireland comes at a high price. We need to see whether a new model of schooling, sharing across sectors, could help us achieve higher standards, better facilities, and a better use of resources.

School rolls have been falling for nine years. We currently have nearly 50,000 spare school places, projected to rise to 80,000 by 2015. With pupil numbers falling, we have to become smarter in how we manage our school education system, building co-operation and cohesion across and between school sectors.

The current level of provision is simply not sustainable. I am therefore today announcing my intention to set up a review, independent of government, of the strategic planning of the whole school estate, taking account of wider provision for 14-19 year olds. The review will be

similar to the independent Review recently completed by Professor John Appleby of the Kings Fund into our health service and I will shortly announce the terms of reference for the review and who I have asked to carry it out. This will be a root and branch review of education spending to ensure that the government's massive year on year increases are delivering the outcomes we need, and parents expect, on the ground. This is not an attempt to interfere with the ethos of schools, it's about making sure our children are not denied the opportunities they need and deserve, regardless of where they happen to live in Northern Ireland.

On health, we are treating more people than ever and current expenditure is up from around £1.7billion in 1997 to £3.8 billion by 2008, accounting for over 40 per cent of our entire Northern Ireland budget.

Yet, despite the fact that spending per head is 9 per cent higher, the Appleby Review found that our health service is underperforming and inefficient compared to England. He also identified an unacceptable waste of tens of millions from the way we prescribe drugs in Northern Ireland. So, we need to implement Appleby's programme of reform as soon as possible.

Meanwhile I have announced already a streamlined system with a single regional Strategic Health and Social Services Authority which will have a responsibility for ensuring strong, system-wide performance management and the effective allocation of valuable health and social services resources. This new Authority will replace the existing four Health and Social Services Boards, which will be abolished. Hospital and community-based services currently delivered through 18 Health and Personal Social Services Trusts, will be reduced to five.

To bring decision making closer to communities and also to empower them, there will be seven Local Commissioning Groups, operating as local offices of the Regional Health Authority. These Groups will be coterminous with the new Councils and will participate fully in the Community Planning processes at Council level.

We have already gripped the issue of waiting lists. The numbers waiting longer than 12 months has fallen by an incredible 70% and no-one will be waiting that long by March. And we're speeding up outpatients with a guarantee that within three days of seeing a GP, a clinical decision will be made about the most appropriate next step and a timetable for action.

And our decision to introduce a total ban on smoking in all enclosed public places and work places in April 2007 will make a major positive contribution towards public health

Not just in health, but right across the public sector, capital expenditure this year alone is over 40 per cent higher than it was just three years ago. It will reach £1.3 billion next year, for the first time. I recently published the Investment Strategy for Northern Ireland, which has the potential to deliver up to £16 billion of projects over the next decade: new hospitals, new schools, better universities and colleges, a big upgrading of social housing, and new strategic roads.

Northern Ireland's transport deficiencies have a serious impact on economic competitiveness. I will therefore be ensuring that Northern Ireland is fully signed up to the work being done in other parts of the UK on congestion charging and road pricing to help tackle congestion and reduce traffic pollution. I have also asked the Strategic Investment Board to step up their work in attracting private

sector partnerships to build and manage transportation schemes.

Whether in health, education, housing or roads, all this investment has to be funded. If we want world class public services and infrastructure then we need to be willing to pay for them.

Yet there remains a gulf of some £5 billion between what we spend and what we raise in taxation locally. In Great Britain the average combined property tax and water and sewerage bills is £1,275 while the average rates and water bill in Northern Ireland is less than half that, £546.

England, Wales & Scotland should continue to redistribute wealth to Northern Ireland by funding higher spending – but only if more funding is raised locally.

That is why I have taken the necessary decisions to increase the rates by 19 per cent from this April and

introduce water charges next year from April. However, both are being done fairly. In the case of water, with a system of protection for those on low incomes that is unique in the UK, ensuring no-one should need to pay more than 3 per cent of their household income on water, and up to half that if they live in a low value property. The new water charges alone will allow us to free up around £300 million of extra spending every year for other public services.

We are also reforming the whole system of local taxation with a new fairer domestic rating system that will base rate bills on the capital value of homes from April 2007, with the money raised being additional to our share of national taxation and all of it staying in Northern Ireland for investment in local services. The reforms include a new rate relief scheme for those on low incomes.

But we must also spend the money we raise in taxes much better. We are therefore fully implementing the 2.5 per cent a year efficiency saving across government following the Gershon recommendations – some £589 million a year by next year – and embarking on an ambitious programme of asset sales.

It is also why I have made clear that any additional revenue raised by increases in local taxation, or even the additional revenue we receive by way of Barnett consequential from the Treasury – all will be used to fund new policies and new services, as I have already demonstrated by allocating the additional resources above previous plans from the 19 per cent rate increase to the three new ring fenced funds covering children and young people, science and skills and renewable energy.

Finally, the 2007 Comprehensive Spending Review will provide the opportunity to match the major reform agenda

instigated in Northern Ireland with equally radical changes in the way that we allocate and spend public money in the region. We must be prepared to abandon established and entrenched spending programmes whose value has diminished with the passage of time. Instead I will want to see public expenditure targeted on those areas that will enable Northern Ireland to take its place as a highly competitive region, with a growing and vibrant economy and where public services are delivered in the most cost effective way to meet the needs of the community.

I am announcing today that we will be carrying out over the coming weeks our own Comprehensive Spending Review covering all the departments of the Northern Ireland devolved government. This will be a 'year zero' review – no existing expenditure should be assumed to continue. No specific funding stream or programme exempt. Because if we do not radically reassess our spending priorities and ensure we are making the best use

of taxpayer's money, then we will lose their trust to spend it on their behalf.

Equally, I want to stress: all this is on the back of rising public spending under our Labour Government with historically unprecedented increases in real terms since 1999. These high increases will continue until 2008. But afterwards – and this is an additional reason for tough decisions now – the rate of increased spending will level off. No economy can sustain the steep real terms rises in public spending which we have delivered forever - except by everyone going bust through high inflation and high interest rates. So, after 2008, we still plan real terms increases in public spending, but at a rate congruent with economic growth – yet another imperative for Northern Ireland's economy to be reformed and the private sector strengthened.

3. A sustainable energy strategy

The third area where we urgently need to oversee significant reform is the need for an enhanced and accelerated implementation of our sustainable energy strategy. It was one of only three key areas to which I have diverted large new sums in the Budget for the next two years. And I intend to do so again for the three year Budget from 2008. We are facing two potentially catastrophic scenarios: a threat to our security of energy supply, and, even more dangerous, global warming which has seen the ten warmest years on record since 1990 and threatens the very future of our planet.

Our failure to make the tough decisions at national levels on alternative sources of energy in the past has left us now facing what many see as the inevitability of an increase in nuclear capacity in Great Britain just to keep the lights on. In the future, faced with the vast liabilities and dangerous waste from nuclear, our children and

grand children will ask how we ever got ourselves into that position.

Today we have an opportunity not to compound our failings by again failing to take the difficult decisions to invest in renewable and clean sources of energy.

I will shortly be announcing how I propose that Northern Ireland leads the way in doing just that – with details of a new £59million **Environment and Renewable Energy funding package** in Northern Ireland.

The Fund is also expected to leverage around £300 million of additional private sector investment in renewables which will accelerate the use of solar energy, photovoltaic panels, wave and tidal power, geothermal heat pumps, wind turbines and biomass. I want public sector buildings and social housing to lead the way. Significant support will be available to encourage energy

from waste. We will also see the world's first development centre for marine current turbines at Strangford Lough become operational. The package will encourage innovation, the development of new skills and create new job opportunities, particularly in rural communities and build on our diversity of energy supply.

Conclusion

So, Northern Ireland is an increasingly modern, thriving part of the United Kingdom. It is a place transformed from only a few short years ago. An economy shattered by years of turmoil, now enjoys one of the lowest unemployment rates in the world. There are more jobs, and there is more prosperity, than ever before. A place which was once avoided at all costs now welcomes more visitors each year who marvel at its beauty and the warmth of its people.

Yet, it still has to overcome the legacy of the past while, like other societies across the globe, facing major economic, social and environmental challenges

Of course, as a direct rule Ministerial team, our overarching goal remains: putting Northern Ireland back in the hands of its people – through a democratically elected Assembly with an executive that shares power between the parties.

But until that is secured, I – and my Ministerial team – will also devote our energies to meeting these global challenges. Our vision is of a Northern Ireland that is a truly world-class place to live and work, where we strive to be the best and no longer settle for second best.

Ends

**Rt Hon Peter Hain MP is Secretary of State for
Northern Ireland**