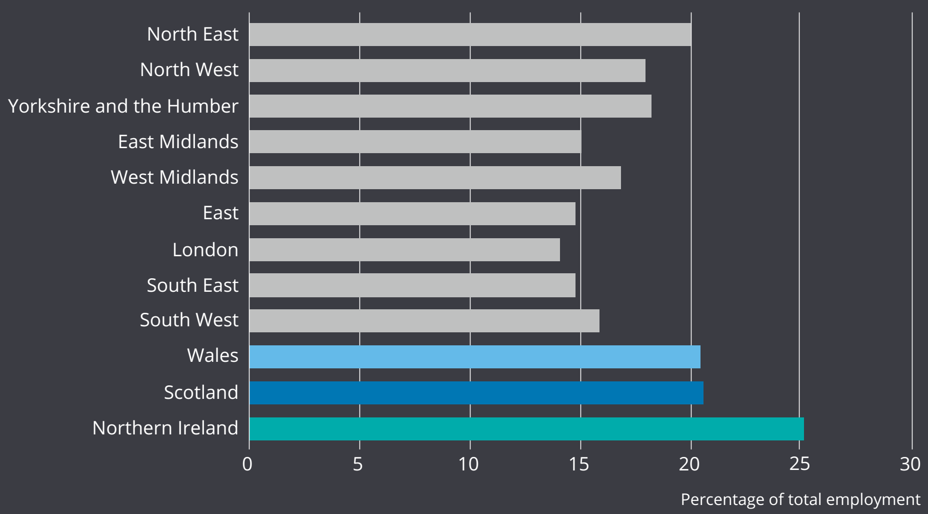
Devolved governments of the UK

Since devolution began in the late 1990s, the UK's devolved administrations have continually diverged from Whitehall as each exercises its powers. Politically, successive elections have seen the distance grow between Westminster and Holyrood, Stormont and the Senedd and this year, the EU referendum result has seen the devolved administrations distance themselves even further from the UK Government. This chapter of *The State of the State* explores governments around the UK alongside quotes from our interviews with public sector leaders.

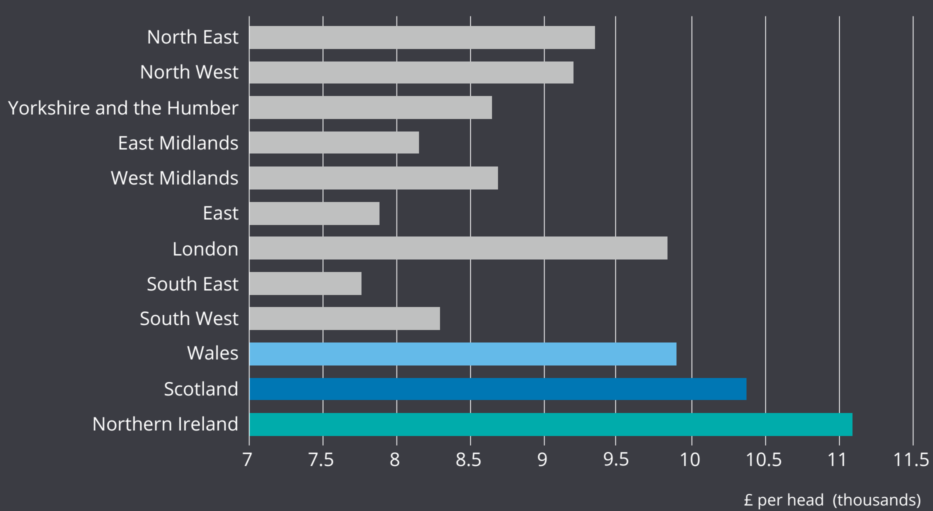
Figure 26. Public sector as a percentage of total employment



Source: Office for National Statistics, June 2016

The public sectors in the UK's four countries differ significantly in their employment and spending profiles. Figure 26 shows how the proportion of public sector employees varies across the UK, with the highest proportion in Northern Ireland at 25 per cent of all employment compared to the UK average of 19.6. Figure 27 shows how the same pattern is reflected in spending.

Figure 27. Total identifiable spending per head on services



Source: Public Expenditure Statistical Analyses 2016, HM Treasury figures for 2014-15

Northern Ireland: *The state of the state*

More cohesive political leadership has created an opportunity for Northern Ireland to accelerate change already underway in its economy, communities and public sector. But at the same time, the effects of Brexit raise unique concerns for the region. That combination of opportunities and risks mean this assembly term could shape Northern Ireland's prosperity for generations.

Last year's *The State of the State* observed how the complex politics of a five-party coalition hampered decision making in the Executive. In contrast, negotiations after this year's election established a two-party government, plus an independent minister, that quickly created a sense of optimism, energy and confidence in Northern Ireland's future.

That was achieved in part through the publication of a Programme for Government framework which focuses on outcomes and against which the Executive will be held to account. Government-wide plans can fail to gain traction or credibility, but Northern Ireland's programme appears to be permeating the public sector – at least at this early stage. Crucially, ministers recognise that their ability to deliver against the programme will be judged at the 2021 elections.

The formation of a first official opposition is a further sign of maturing government in Northern Ireland that will help build confidence in its governance and stability. And effective oppositions do not just hold administrations to account for actions after they have been taken – they help instil a sense of diligence and forethought in ministers and officials keen to avoid criticism.

While political complexities stalled decisions in the last Executive, the Northern Ireland Civil Service was still able to reduce its headcount by 17 per cent within two years and reduce its number of departments by a quarter. Leaders recognise that the Voluntary Exit Scheme used to reduce staff numbers was a blunt instrument that has affected the administration's ability to deliver as well as morale. However, it has set Northern Ireland's public administration on a more sustainable footing and its leaders are now focused on people-centred and cultural change. As across the UK, Northern Ireland's public sector recognises that it needs more capability in managing transformation.

Economically, this decade has seen a renaissance for Northern Ireland that has exceeded expectations. In 2011, the Executive set targets for Invest Northern Ireland, the regional business development agency, to promote 25,000 new jobs, attract £1 billion in employment related investment and stimulate £300 million of investment in research and development over five years. By 2016, the agency had promoted 42,488 new jobs, attracted £3 billion in employment related investment and seen £589 million invested in research and development. Arguably the agency's biggest success has been in growing Northern Ireland's reputation to corporates globally.

The central economic challenge for Northern Ireland now is to continue on its positive path by playing to its strengths and focusing on industries – like cyber security – that are growing and can help maintain investment momentum.

Whilst Northern Ireland may be on a promising path, the region is uniquely exposed to Brexit. It will become home to the UK's only land border with an EU member state, and while the Prime Minister has assured leaders in both Northern Ireland and the Republic that it will not revert to a 'border of the past', some form of access and customs control seems inevitable. Northern Ireland is also a significant beneficiary of EU funding that aims to support places at economic or social disadvantage. That has included €1.3 billion since 1995 for the peace process that has funded the creation of shared spaces between communities, victim support and urban regeneration. Three waves of funding have been deemed so successful that the programme is shared as a peace-building exemplar in other regions of the world.

Northern Ireland's fishing, farming and food industries are also significantly exposed to Brexit. A letter from the First Minister and Deputy First Minister to the Prime Minister this summer stressed the vulnerability of the agri-food sector both to the loss of EU funding and to trade barriers with the single market.[20] Clearly, Northern Ireland's political, business and community leaders need to be fully engaged in Brexit negotiations as they unfold.

"More cohesive political leadership has created an opportunity for Northern Ireland to accelerate change already underway in its economy, communities and public sector."

Those negotiations will need to consider how they affect Northern Ireland's attractiveness for foreign investment. While inward investors will have been attracted because Northern Ireland is within the EU, they will also have been attracted because it is part of the UK – so there may be positive dimensions of Brexit to explore.

The formal process of leaving the EU may be underway when Northern Ireland is able to reduce its corporation tax in April 2018 to bring it in line with the Republic of Ireland's rate of 12.5 per cent. Analysis from Ireland's finance ministry suggests that if its corporation tax had been 15 per cent from 2004 to 2012, the number of foreign companies locating in the country would have been a fifth less. That suggests a cut could add to Northern Ireland's attractiveness – and it would also bolster the argument for further fiscal devolution to the Executive. The combination of mature government, high calibre ministers and continued economic opportunity suggests that Northern Ireland is ready for the next phase of devolved power.

Public sector leaders on Northern Ireland

"A big full stop has been put down on what has happened before. The previous five years was hallmarked by...if there was a desire to do anything, getting it done was almost impossible. Now there is a freshness: a rebooting of government."

"There's a lot of joined-up agreement between the parties. It's a better political environment. I hope we're seeing a maturing government."

"The programme for government is not just a framework, it will permeate government. And it will allow some difficult conversations like 'if you're not pursuing the programme for government, why are we doing this?"

"We've produced a leaner and more productive civil service in the biggest changes since 1973, but it's largely gone under the radar."

"Attracting talent is a challenge and paying salaries is a challenge. It's very hard to attract people here unless they have a reason, like relatives here."

"Northern Ireland needs to accept the reality that we're a small, regional economy. But we have to ask what type of economy we want. What's our potential? What are we good at?"

"We need to become a more competitive economy. We are not what we were in industrial times. But we can be a big player again, but at different things."

"The level of reduction in Northern Ireland's public sector has not been as steep as in England. But spending has not grown at the rate it did, and that's had an impact."

"There are hard decisions ahead of us to live within our budget."

"We'd like to have more fiscal powers. Let us control the stuff."

Scotland:
The state of the state

In 2014, the independence referendum accelerated further devolution to Scotland. Two years later, the EU referendum has marked a second inflection point in Scotland's relationship with the UK. While the constitutional extent of any changes remains to be seen, Scottish Government policy certainly continues to diverge from the rest of the UK in its approach to public spending and public sector reform.

Scotland stood out in the EU referendum result as the UK's most europhile nation. While the overall result saw 48 per cent of the UK electorate wish to stay in the EU, some 62 per cent of Scotland's electorate voted to remain. Unsurprisingly, the Scottish National Party Government moved swiftly to distance Scotland from the result and moot a second Scottish independence referendum that would see the country leave the UK, but remain within the EU. However, two potential barriers quickly became apparent. First, the EU is only able to negotiate departure with a member state – which is the UK – and second, the UK Parliament may need to pass legislation to allow for a second independence referendum.

Nontheless, the Scottish Government has made the bold move to publish an Independence Referendum Bill for consultation.

Doubts were cast over the financial prospects of an independent Scotland this summer, when Government Expenditure and Revenue Scotland (GERS) figures showed that Scotland's deficit – the difference between public spending and income – is double the UK's overall deficit when measured as a share of GDP. That has been caused by the global slump in oil prices, which mean Scotland's share of north sea oil revenues has plummeted from £9.6 billion in 2011-12 to just £60 million in 2015-16. Commentators suggested that, under these conditions, Scotland would struggle to operate as an independent country. However, GERS data is produced for Scotland as part of the UK – it does not model scenarios for an independent Scotland in which the Scottish Government would be enabled to make its own fiscal choices.

"Scotland stood out in the EU referendum result as the UK's most europhile nation. While the overall result saw 48 per cent of the UK electorate wish to stay in the EU, some 62 per cent of Scotland's electorate voted to remain."

The Scottish National Party Government elected in May 2016 came to power with a commitment to investment in the public services and a resistance to Westminster-driven austerity. Within weeks, the First Minister established a set of policy priorities that include substantial health and social care investment, a review of local government to redefine its role and changes to social security including an end to the 'bedroom tax'.

That programme for government was followed in the summer by the announcement of a capital spending programme of £100 million, which is expected to be drawn from 2015-16 underspends. Projects will be assessed for the funding based on how quickly they can start, the number of jobs they will create and their wider effect on the supply chain. If the UK Government decides to recalibrate its fiscal policy towards investment, it may take a similar approach. Whether this investment is enough to stimulate Scotland's economy remains to be seen – while the UK economy grew by 0.4 per cent in the first three months of the year, Scotland's remained flat.

Public sector leaders on Scotland

"The big thing on our radar is the performance of the Scottish economy. The Holy Grail is to get that right and have a more vibrant and resilient economy."

"Public sector organisations in Scotland have not been subject to the same financial pressures as the rest of the UK. The counterside to that is that we're seeing less innovation and less transformation as there has not been that drive. That's not to say the Scottish Government is not as ambitious as UK Government, and it's got a clearer vision."

"In Scotland, we've got the vision to put people at the heart of public services but we're not thinking through what that looks like in practice. We want to get in tune with the zeitgeist. Citizens want to be more informed and more in control."

"Brexit will take up a lot of politician and officer time and the stuff we need to be doing could get lost. The independence referendum saw stagnation and we might be entering that period again. All the other stuff will get pushed down the priority list."

"It's unarguable that Brexit makes a second referendum more likely, adding layers of uncertainty and complexity."

"Scotland has a significant reliance on EU funding for our rural economy, so there's uncertainty about what Brexit will mean for that."

"Demographic pressures are huge in Scotland. Our population is not growing as much as the rest of the UK and it's ageing."

"As a rural council, we need to grow our own talent because we're hours away from any city. We're fishing in a pool of people who want to come here and make that lifestyle choice. The NHS is the same."

"There's something about the public sector in Scotland that engages a certain type and a good slice of the younger generation. They come in with a desire to do something worthwhile."

"For Scotland, the answer... it's digital. But broadband is a huge rural issue."

Wales:
The state of the state

This year's Welsh Assembly elections saw a minority Labour Government formed with support from Plaid Cymru for a term of office that looks set to take Welsh devolution forward. After a legislative holiday to allow for the new political arrangements, the Welsh Government has laid out focused plans to stretch its new fiscal powers as well as a distinctive public policy agenda through six Bills in its first year.

"The Welsh Government has laid out focused plans to stretch its new fiscal powers."

The first two Bills in the new legislative programme – the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Bill – are symbolic: they are the first tax Bills introduced in Wales in 800 years and build upon the establishment of a new Welsh Revenue Authority, currently underway.

The third Bill plans to challenge the UK Government's trade union reforms. While the Trade Union Act will impose ballot thresholds for public sector unions, legislation in the Welsh Assembly will aim to repeal sections that apply to the public services in Wales.

The fourth Bill will set out public health improvements, reintroducing a Bill from the previous Assembly. While its measures on public toilets, piercing and tattooing will be carried over, restrictions on the use of electronic cigarettes in enclosed public spaces will be dropped.

Fifth, the Welsh Government will legislate to better support children and young people with additional learning needs and sixth, legislation will abolish the right to buy and right to acquire in a bid to safeguard social housing supplies.

That legislative programme – and in particular the Bills on trade union rights and housing – illustrate the diverging policy agenda between Westminster and the Senedd.

In the wake of the EU referendum, the vote's implications for Scotland and Northern Ireland attracted international attention, not least because citizens in those countries had voted to remain in the EU. In Wales, the referendum result of 52.5 per cent to leave the EU mirrored the UK result – even though 39 per cent of all Welsh exports go to the EU and the country is a major beneficiary of EU funding. Per head, every Welsh citizen received three times more EU funding in 2015 than every English citizen. And from 2014 to 2020, Wales received more than £2 billion of structural funding and Welsh farmers received £250 million a year in direct payments.[21]

Clearly, the central questions for the Welsh Government in Brexit negotiations are whether trade deals will support Welsh export industries and whether the UK Government will replace EU funding streams.

In contrast to Scotland, Welsh independence does not appear to attract significant support. According to an ICM poll, some six per cent of people in Wales would like to see the country become independent from the UK. However, a substantial 43 per cent believe the Welsh Assembly should have more powers, suggesting that the current direction of travel and continued devolution is meeting citizen demand.[22]

"Clearly, the central questions for the Welsh Government in Brexit negotiations are whether trade deals will support Welsh export industries and whether the UK Government will replace EU funding streams."

Public sector leaders on Wales

"Wales is struggling with a whole range of issues that have come together. Financial issues, demographic issues, structural issues, navel gazing and demand. It's the sum of all those. You've got to question if that's too much to deal with at once."

"The Welsh Government got a shiny new toy with primary legislation, and boy has it played with it."

"The well-being act in Wales is potentially radical. It's about quality of life for people in this country."

"The financial situation is very, very pressurised for both revenue and capital. There are additional resources but they aren't keeping pace with demand and that's likely to continue for some time yet."

"Public services are…incapable of focusing on outcomes rather than outputs. We need to rethink the narrative to talk about what matters to people."

"There are some things the Welsh Government had expected EU funding to be available for, so that's creating some tension."

"The pace of change [on digital] has been driven by the all-Wales body. Locally we might have made different choices, but I see the benefit of the national standards."