The Independent Fiscal Commission NI

NI Overview: Economy / Finances / Taxes

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Fiscal Commission NI
26 March 2021

NI Economy

Economy - Size & Growth

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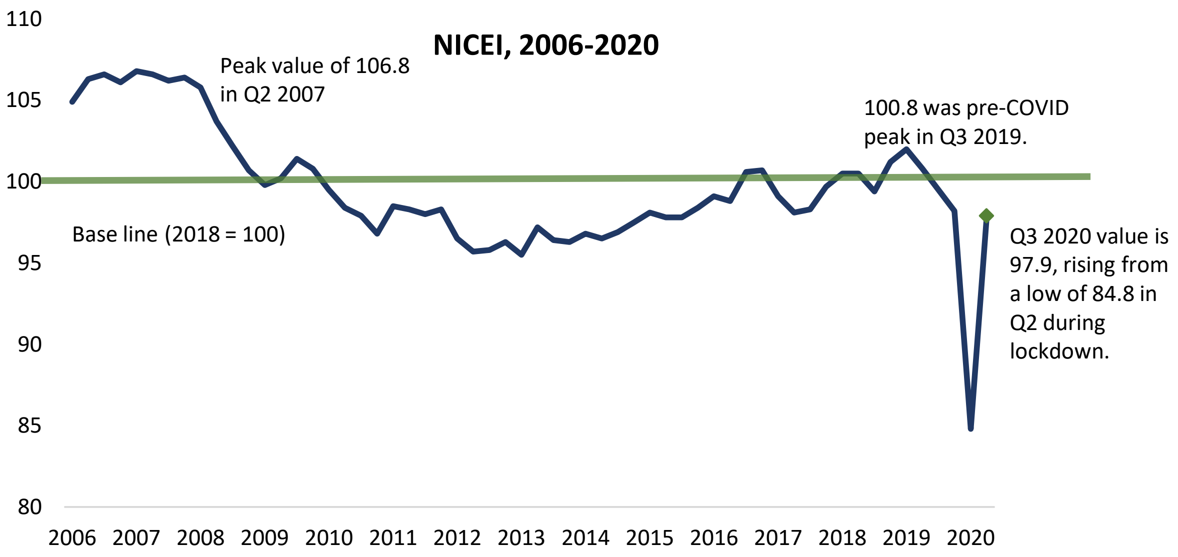
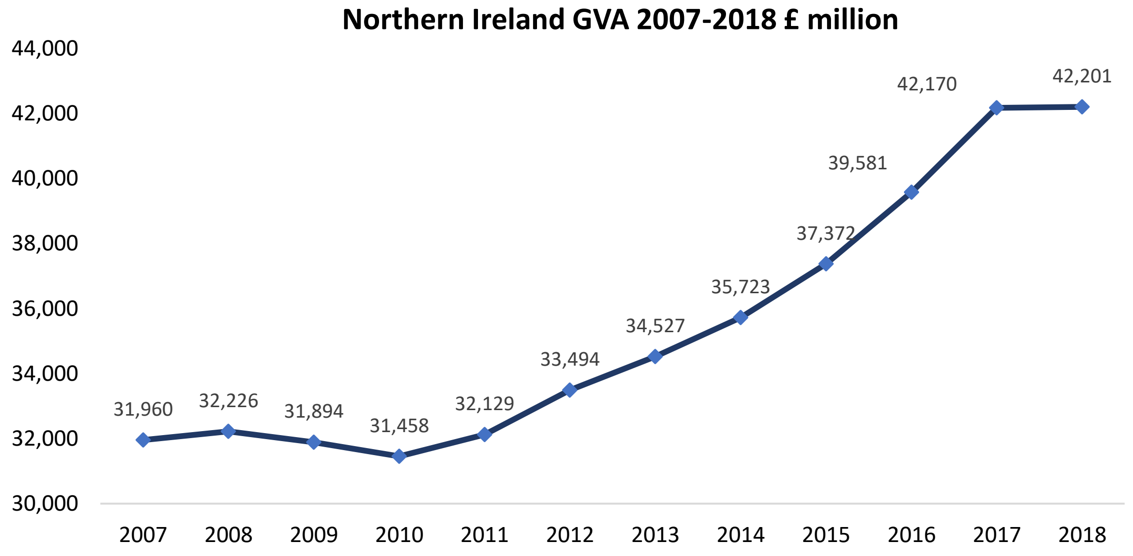
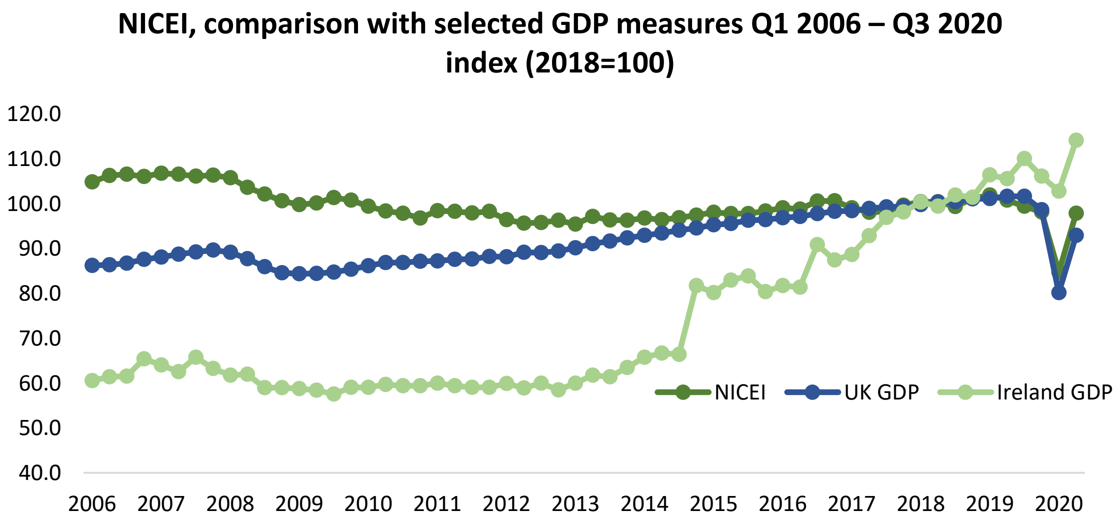




Source: ONS Regional GVA



Source: NISRA - NI Composite Economic Index

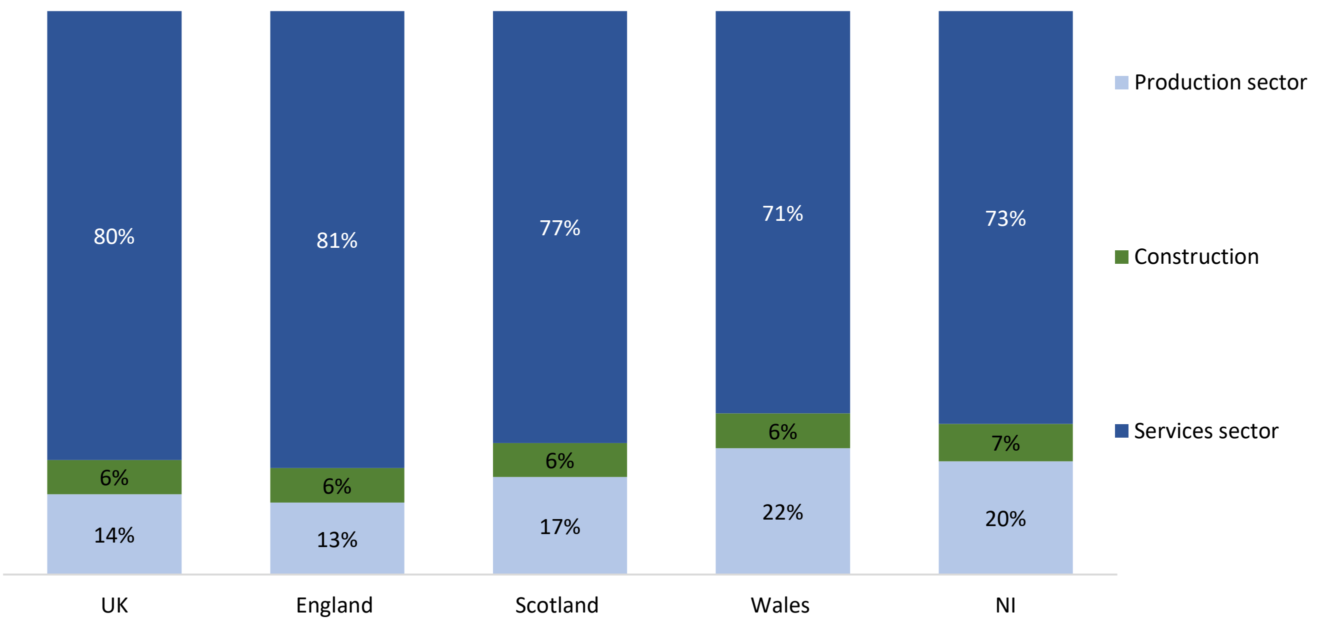
- Prior to COVID-19, the NI economy remained smaller in size than its pre-financial crisis peak.
- UK GDP recovered to pre-financial crisis levels by 2012. Ireland GDP recovered by 2014.
- Dramatic falls in output in 2020 as impact of COVID hit economy

Economy – Industrial Structure

- NI overrepresented compared to UK average in lower value sectors (retail, agriculture, construction) and the public sector

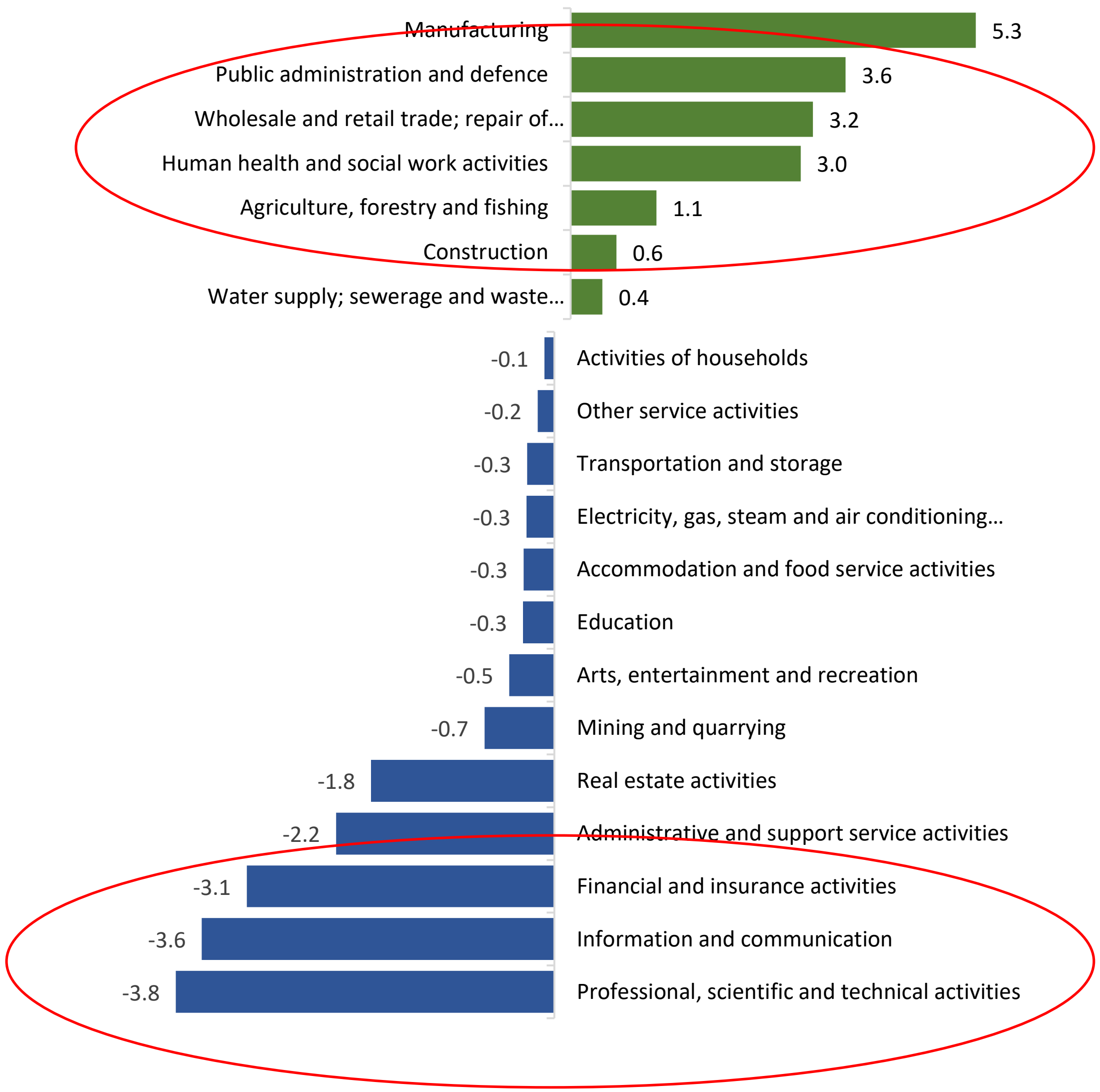
- NI underrepresented in higher value sectors (financial activities, IT Professional, scientific & technical)

GVA percentage split by sector, 2018



Source: NISRA, ONS Regional GVA

Sector % of GVA, 2018 , difference versus UK, percentage points



Economic indicators overview

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	UK	NI	Regional Ranking
GVA per head *(£, 2018)*	28,729	22,428	10th of 12
GVA per hour worked *(£, 2018)*	35.0	30.1	11th of 12
Gross disposable household income per head *(£, 2018)*	21,109	17,340	10th of 12
Economically active *(%, 16-64, Oct-Dec 2020)*	79.1	72.0	12th of 12
Economically inactive *(%, 16-64, Oct-Dec 2020)*	20.9	28.0	12th of 12
Employment rate *(%, 16-64, Oct-Dec 2020)*	75.0	69.4	12th of 12
Unemployment rate *(%, 16+, Oct-Dec 2020)*	5.1	3.6	1st of 12
Claimant Count Rate *(%, January 2021 (P))*	7.2	6.1	3rd of 12
Median gross weekly earnings *(Full-time, £ per week, Apr19)*	586	529	11th of 12

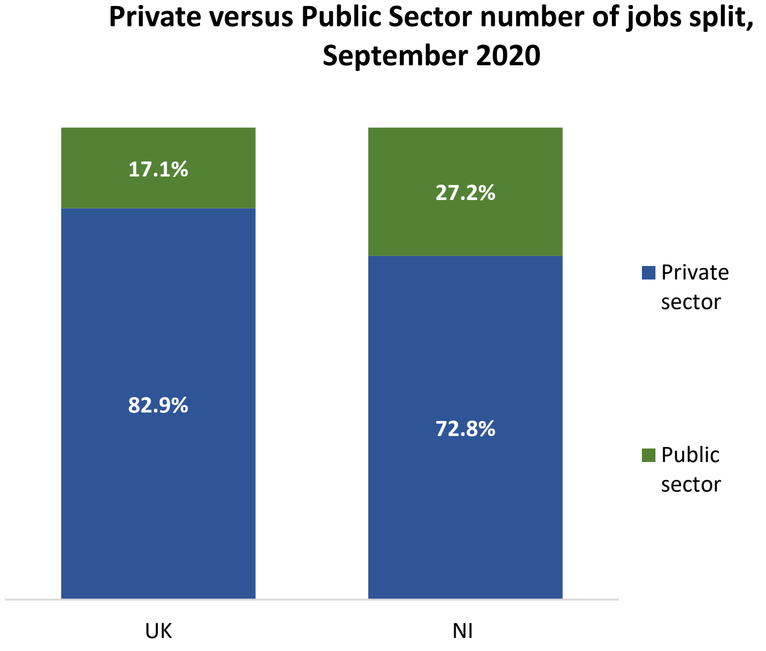
- **Productivity –** NI Productivity has been persistently c80% of UK average for decades.
- **High Productivity** – Belfast performs well across the UK. Ranked 13th highest in terms of UK NUTS3 areas for GDP per head in 2018.
- **Low Productivity** – However, NI also hosts 3 of the bottom 10 NUTS3 areas for GDP per head (Newry, Mourne and Down, Causeway Coast & Glens and Ards & North Down)
- **Economic Inactivity** – Persistently worst performing of UK regions. Higher rates of long term sickness compared to rUK.

Source: NISRA, ONS

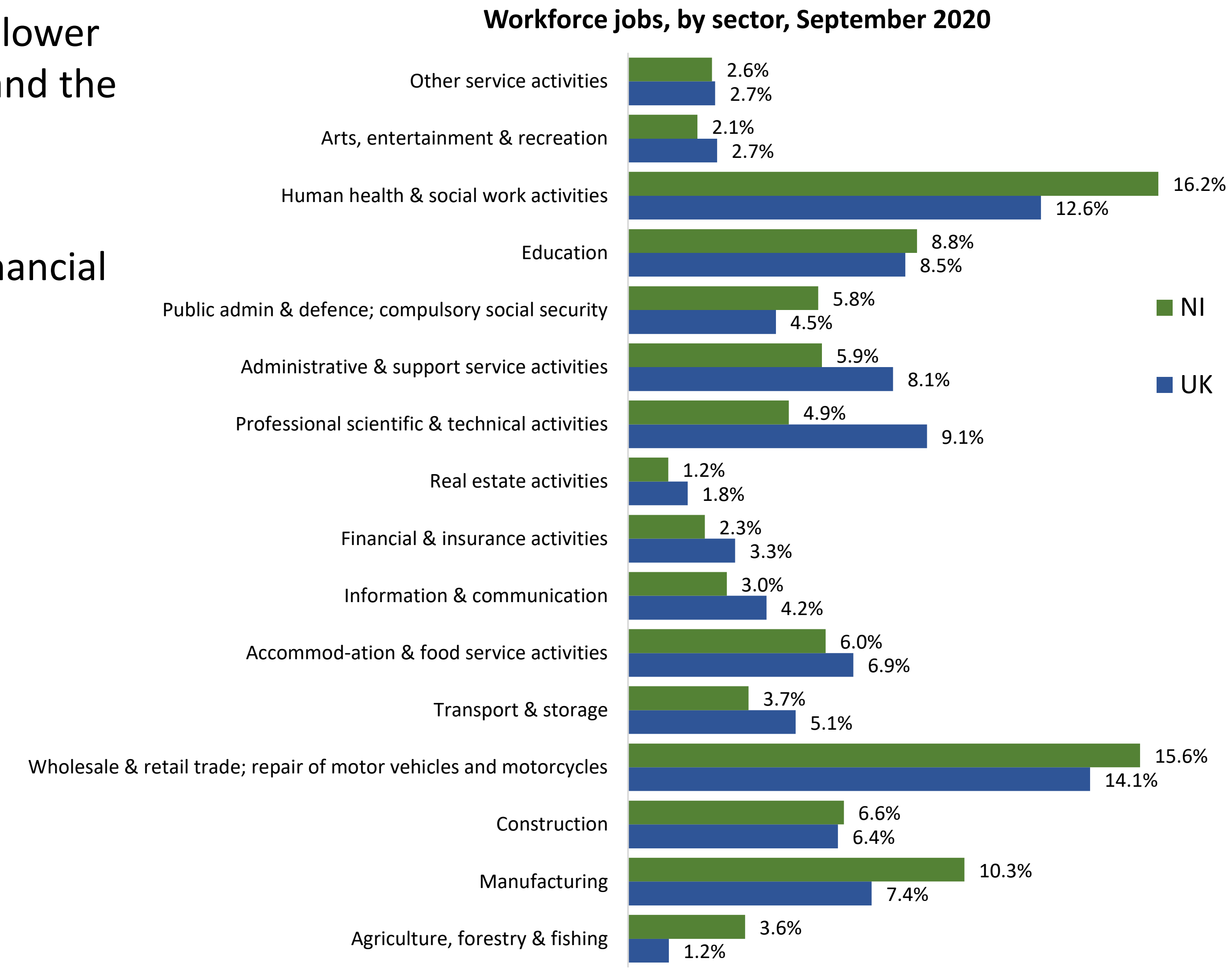
Labour market

- NI overrepresented compared to UK average in lower value sectors (retail, agriculture, construction) and the public sector

- NI underrepresented in higher value sectors (financial activities, IT Professional, scientific & technical)



Source: NISRA Quarterly Employment Survey; ONS Public and private sector employment

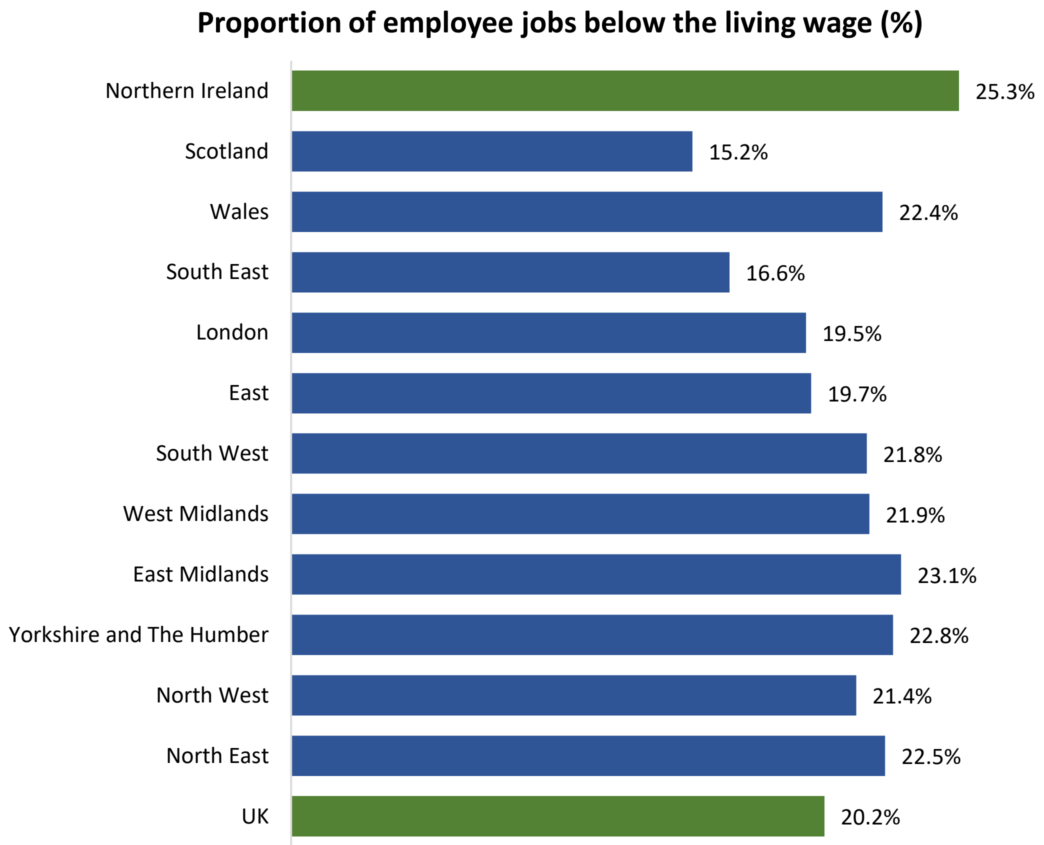


Source: ONS Workforce jobs by industry and region

Wages- vs rUK 2020

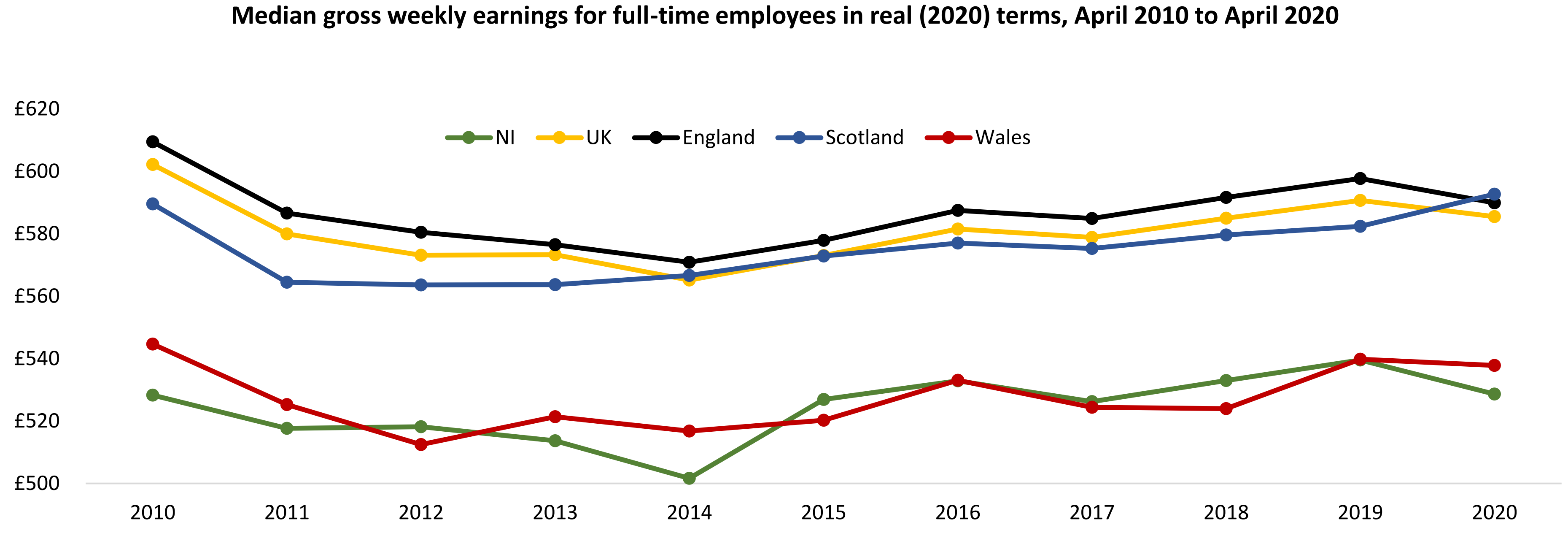
- NI 2nd lowest UK region in terms of median weekly earnings
- At 25.3%, NI highest proportion of jobs below the living wage in 2020.

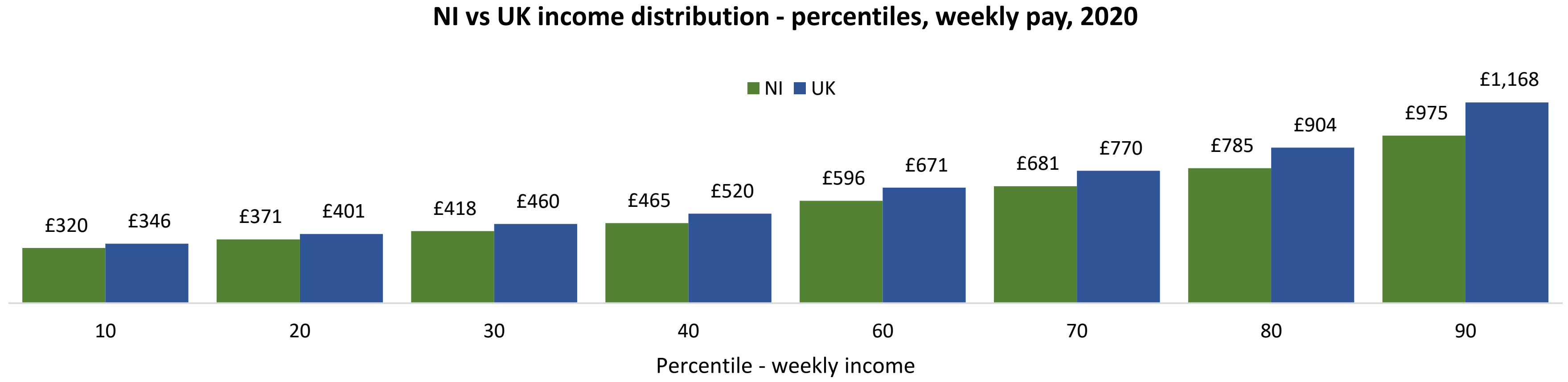
Source: ONS Labour Force Survey



Source: Annual Survey of Hours and Earnings (ASHE)

Wages





- Weekly median real earnings for NI are similar across the last 10 years, similar to Wales with both NI and Wales below rest of UK.

- Income distribution NI consistently below the UK values

Source: Annual Survey of Hours and Earnings (ASHE)

Housing – Prices and Tenure

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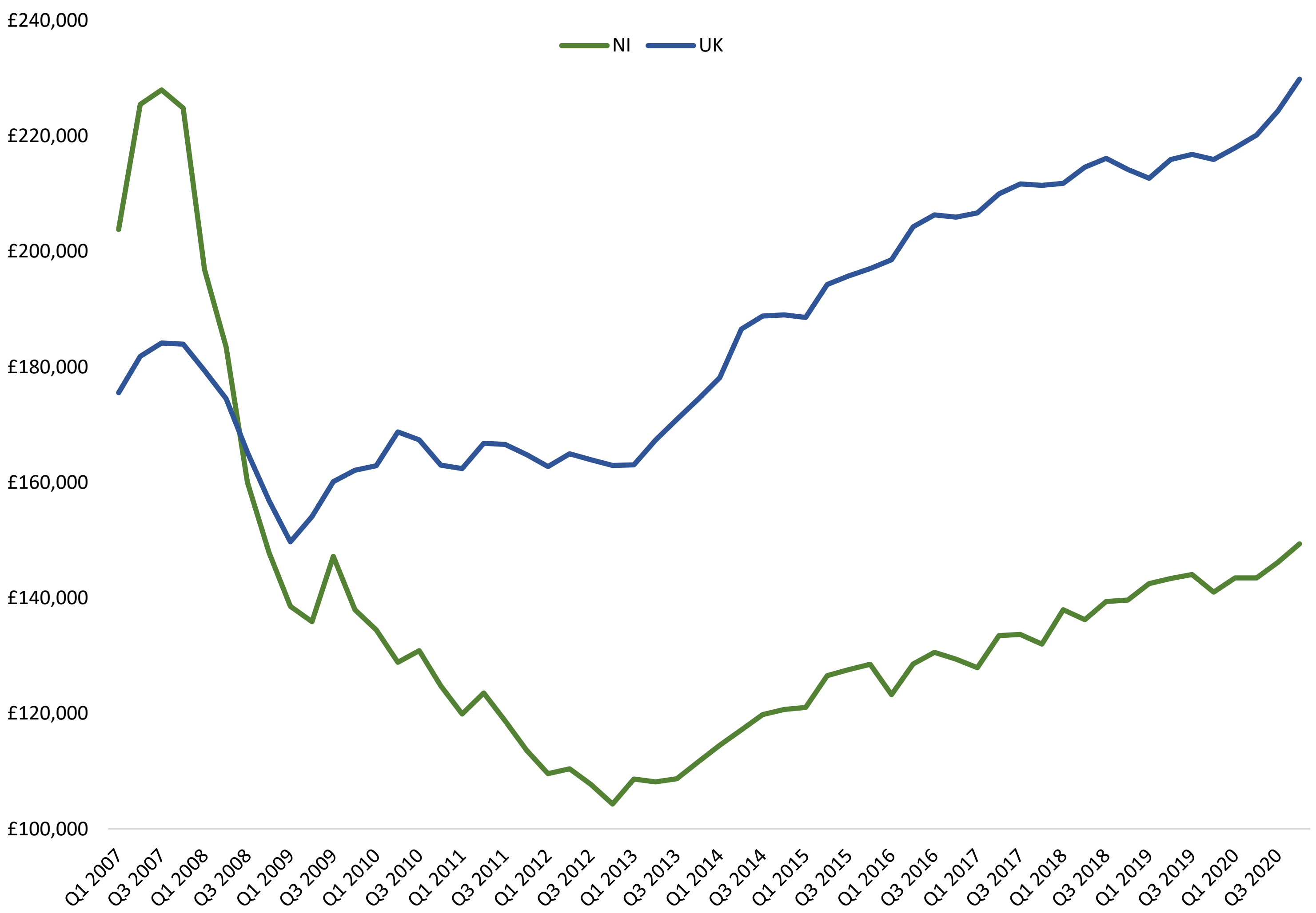
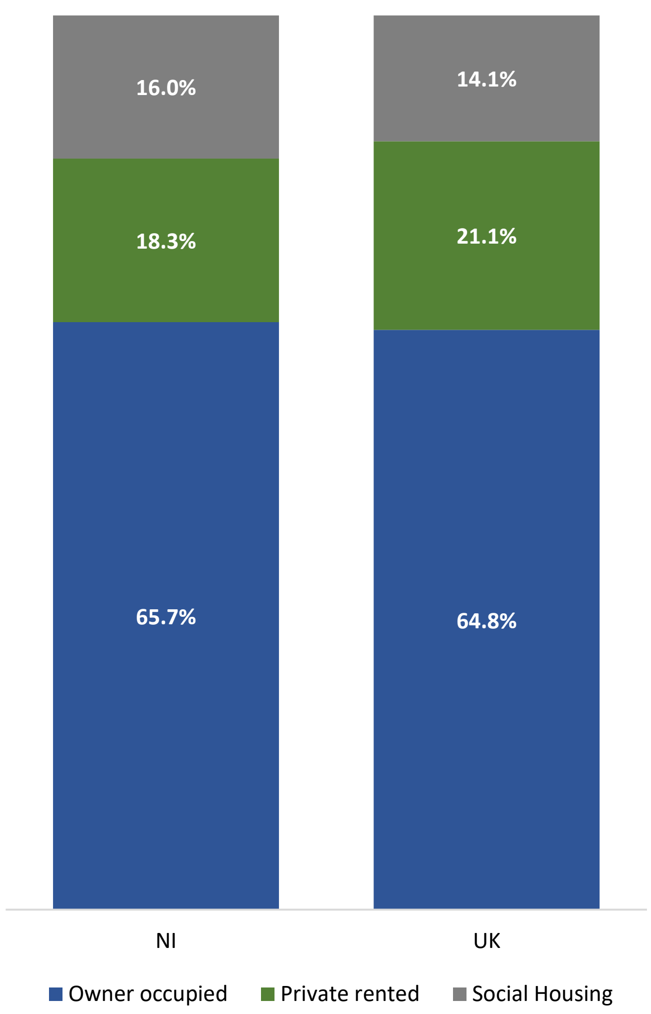
Nationwide House Price Index, since 2007



Source: [House Prices Data Download | Nationwide]

Housing tenure, UK vs NI



Source: Department for Communities, Northern Ireland Housing Statistics 2018-19; ONS Labour Force Survey household datasets

Economy forecasts

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	2020 estimates	2021 Forecast growth rate
NI - UUEPC	- 12.1%	5.8%
NI - EY	- 10.9%	5.5%
NI - Danske Bank	- 11%	7%
UK – OBR	- 9.9%	4%
ROI - EC	+ 3%	3.4%
ROI - ESRI	+ 3.4%	4.9%

- Important to note forecasts are from different points in time, e.g. OBR forecast from March 2021, NI forecasts from late 2020, ROI forecasts from February 2021 (EC) and December 2020 (ESRI).

UK Growth Forecasts

- OBR suggests that GDP declined by 9.9% for the UK in 2020 compared to previous year
- OBR forecasting 4.0 % growth rate for UK in 2021 and indicated the UK would reach pre-COVID levels in mid-2022.
- Bank of England's latest forecast (Feb 2020), suggested the UK would reach pre-COVID levels of GVA in Q1 2022.

ROI Growth Forecasts

- European Commission forecasts is for ROI GDP growth of 3.4% in 2021 on the back of ROI having 3% growth in 2020.
- ESRI has estimated a 3.4% growth rate for 2020 with 4.9% forecasted for 2021.
- *N.B. note discussion on appropriateness of ROI GDP figures being used in these forecasts*

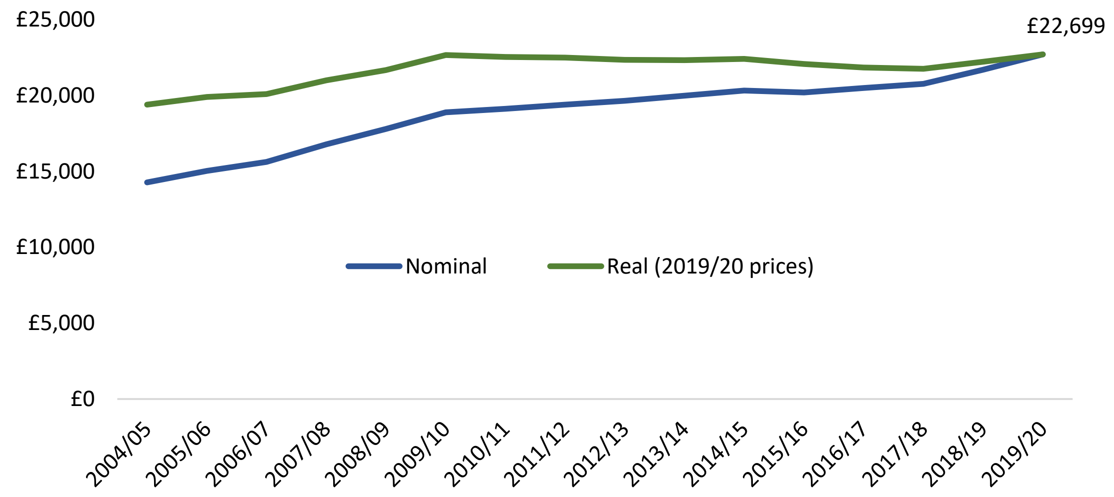
Source: UUEPC, OBR, Bank of England, ESRI, European Commission, Danske Bank, EY

NI Finances

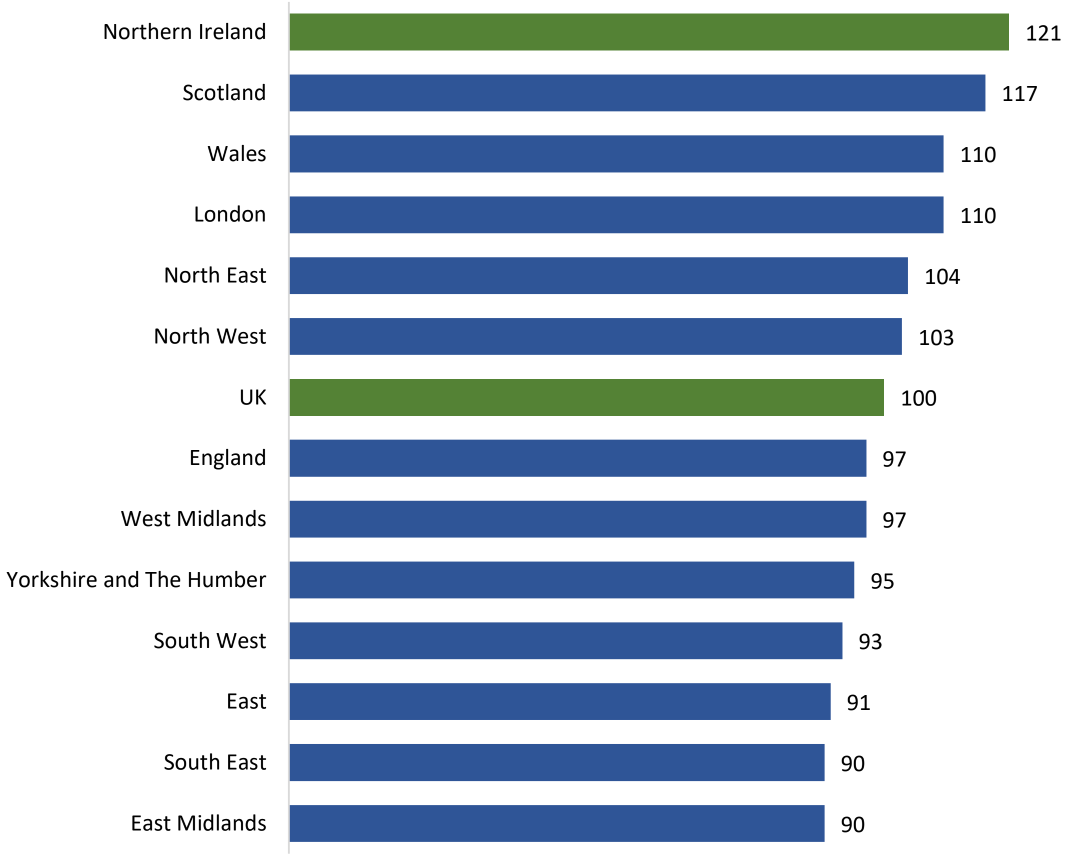
Total Public Spending in NI

- Spending in Real terms in NI was flat/declining after financial crisis until 2018/19
- Spend per head is higher here than in rest of the UK - 20% more than the UK average.

Total Identifiable Expenditure on Services, £ million



Total identifiable expenditure on services by region, per head, 2019-20, Index, UK = 100

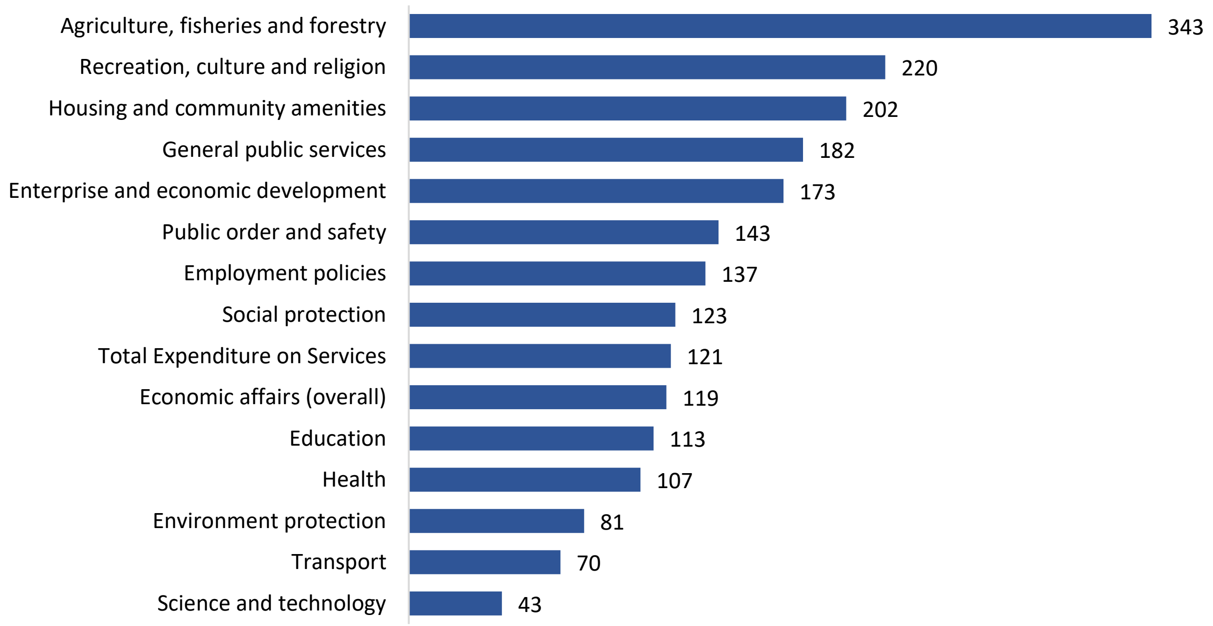


Source: NISRA, HMT Country and Regional Analysis 2020 - https://www.gov.uk/government/statistics/country-and-regional-analysis-2020

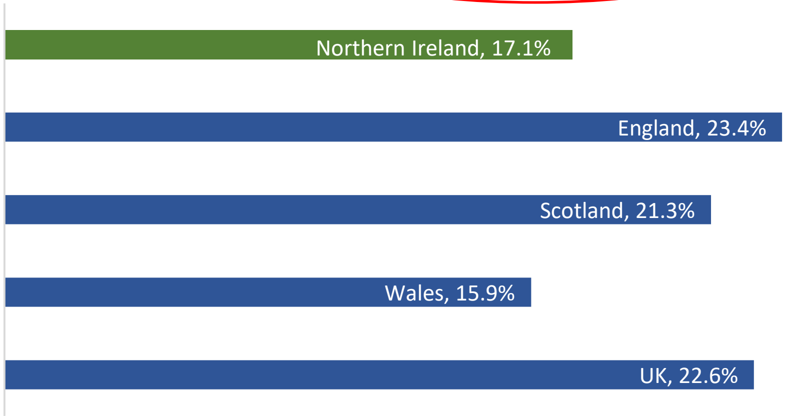
Public Spending in NI

- Since 2009/10. Public spending in NI has increased 0.2% in real terms compared to UK average of 1.4%
- Significant differences in expenditure by function between NI and UK.
- Note public spending difference pre and post financial crisis.

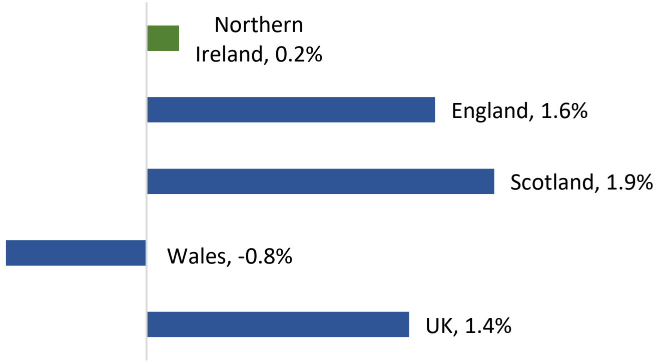
NI identifiable expenditure on services by function, per head indexed, UK = 100



Percentage change in Identifiable Expenditure (Real terms): 2004/05-2019/20



Percentage change in Identifiable Expenditure (Real terms): 2009/10-2019/20



Source: [Source: HMT Public Expenditure Statistical Analyses]

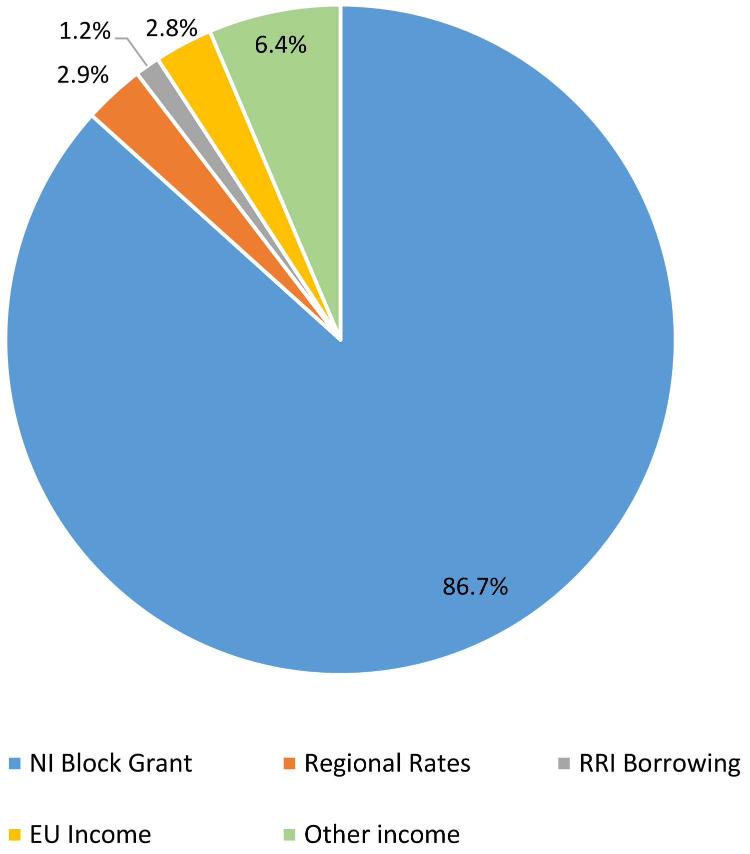
NI Executive Budget - Background

- A number of funding sources contribute to the Executive's Budget.

- The main sources of funding for 2020/21 were:
  - NI Block Grant - £14,414m
  - Regional Rates - £487.4m
  - RRI Borrowing - £200m
  - EU Income - £466.5m
  - Other Income - £1,061m
  - **Total for 2020/21 - £16,629m**

- 'Additional' NI spending provided over recent years included:
  - Stormont House Agreement (2014) - £1.9bn
  - Confidence and Supply Agreement (2017) - £1.0bn
  - Fresh Start Agreement (2015) - £500m
  - NDNA (2020) - £1.0bn
  - City Deals (2021) - £1.3bn

Sources of Funding for 2020/21 NIE Budget

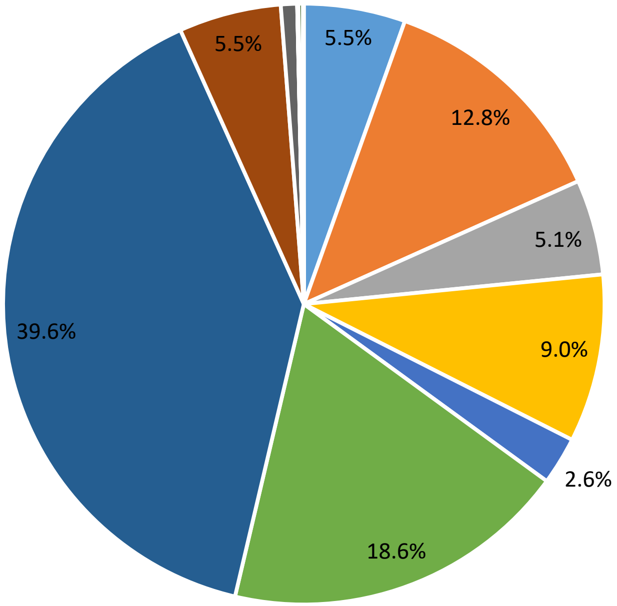


Source: DoF Public Spending Directorate

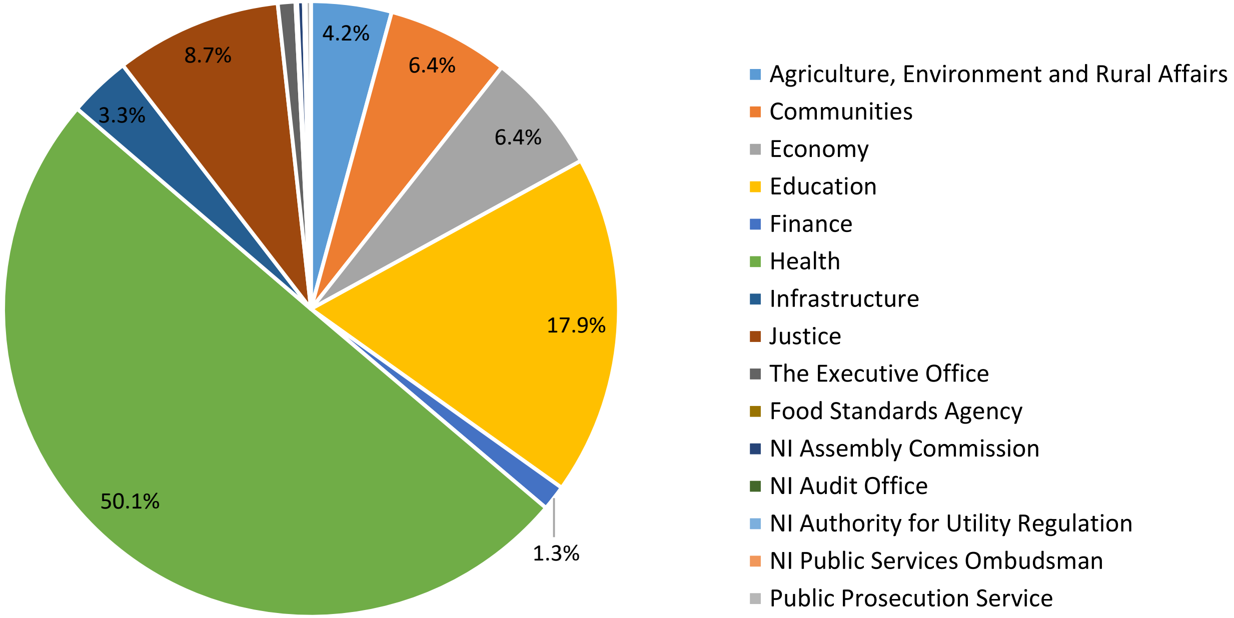
NI Executive Budget – 2021/22

The Independent Fiscal Commission NI

Capital spend planned, draft 2021/22 NI Budget, by department



Resource spend planned, draft 2021/22 NI Budget, by department

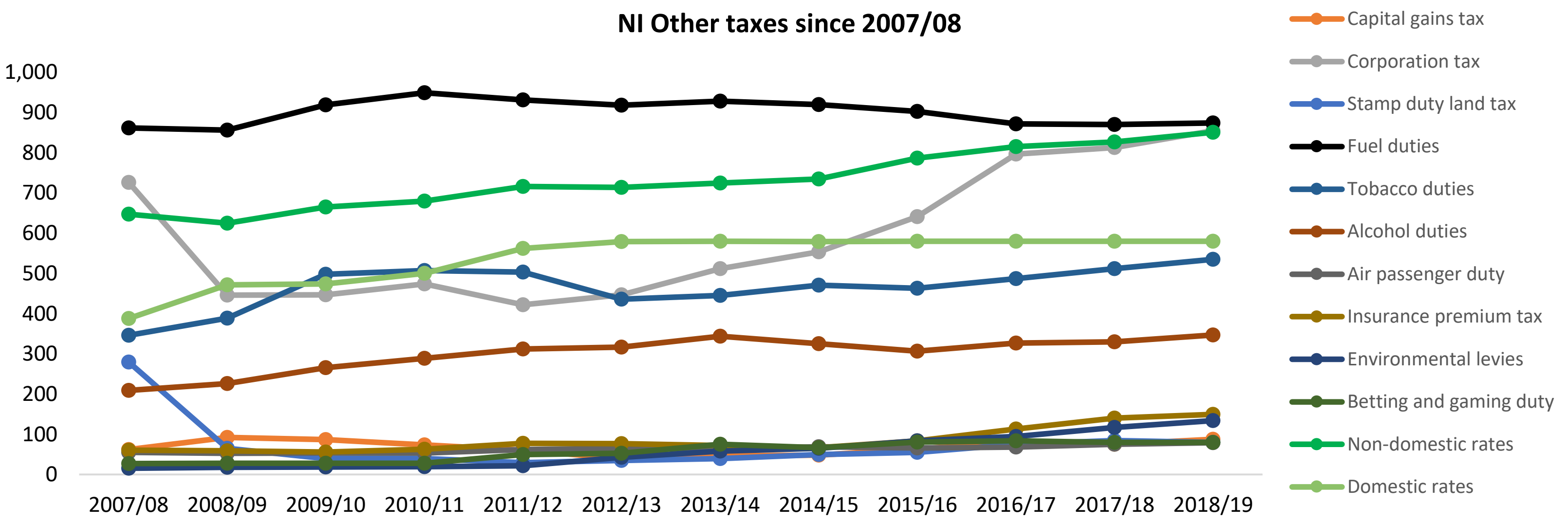


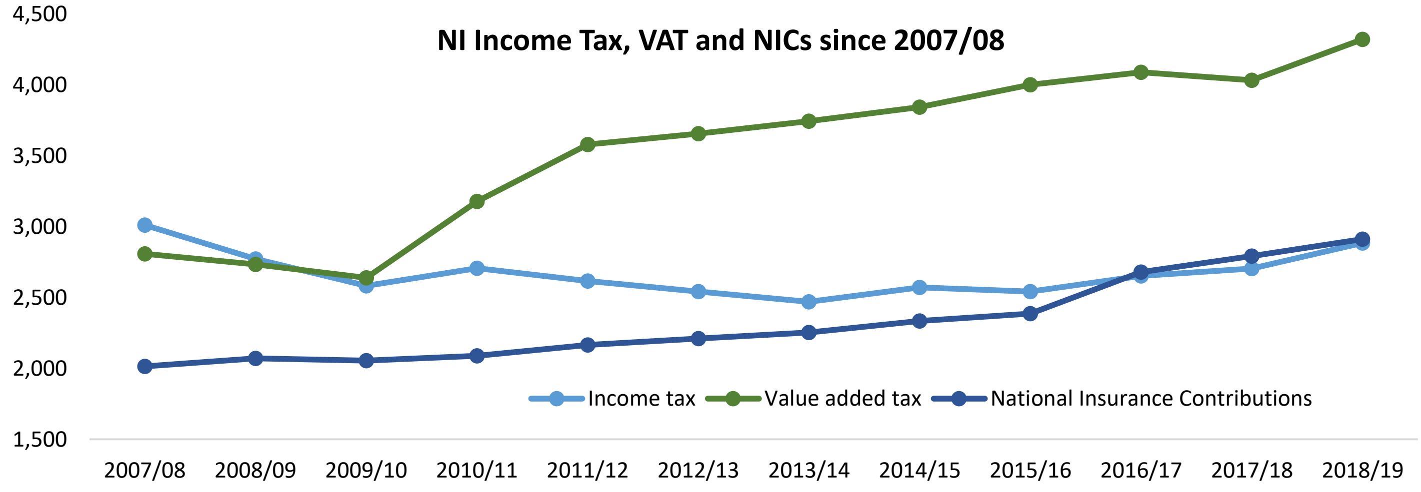
- The 2020 Spending Review set out the Budget Envelope for the Executive’s 2021/22 Budget.
- Health takes up 50% of the Resource spend with Education next highest on 17.9%.
- In terms of Capital spend, Infrastructure with 39.6% has the highest share of the budget

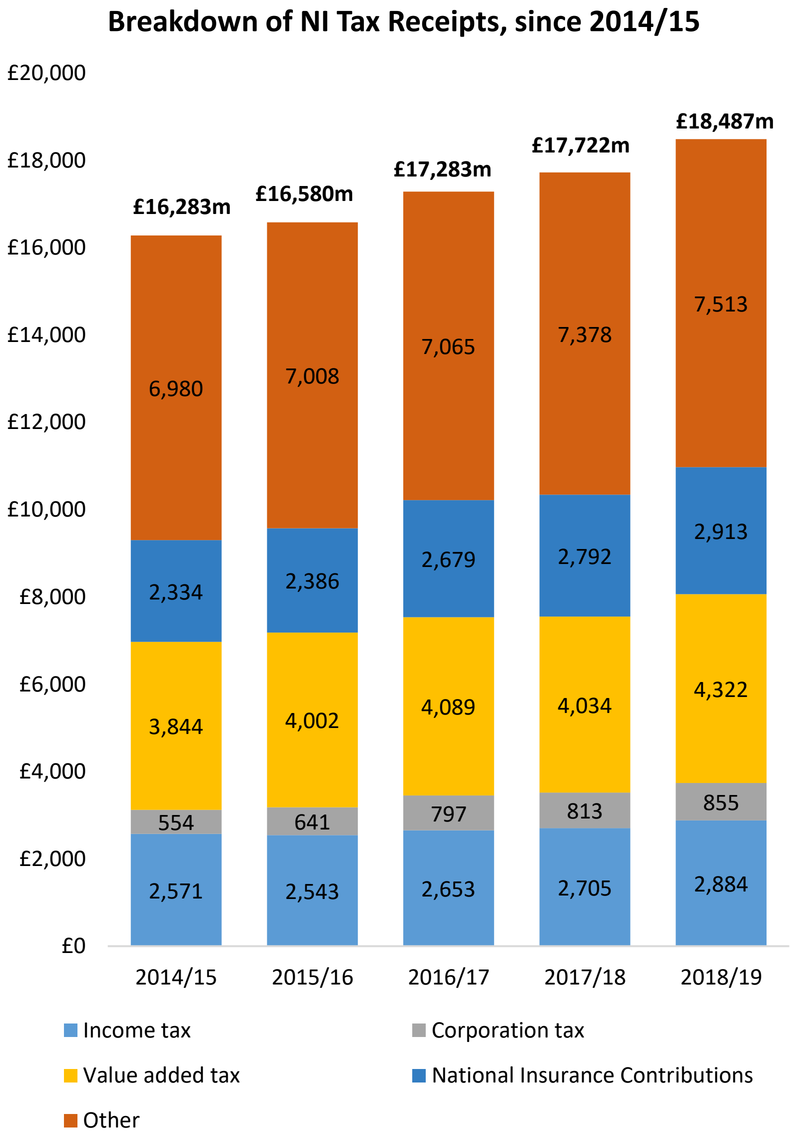
Source: Department of Finance NI - 2021-22 Draft Budget Consultation - https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Draft%20Budget%202021-22%2019.01.21.pdf

NI
Taxes

Overview of NI tax receipts



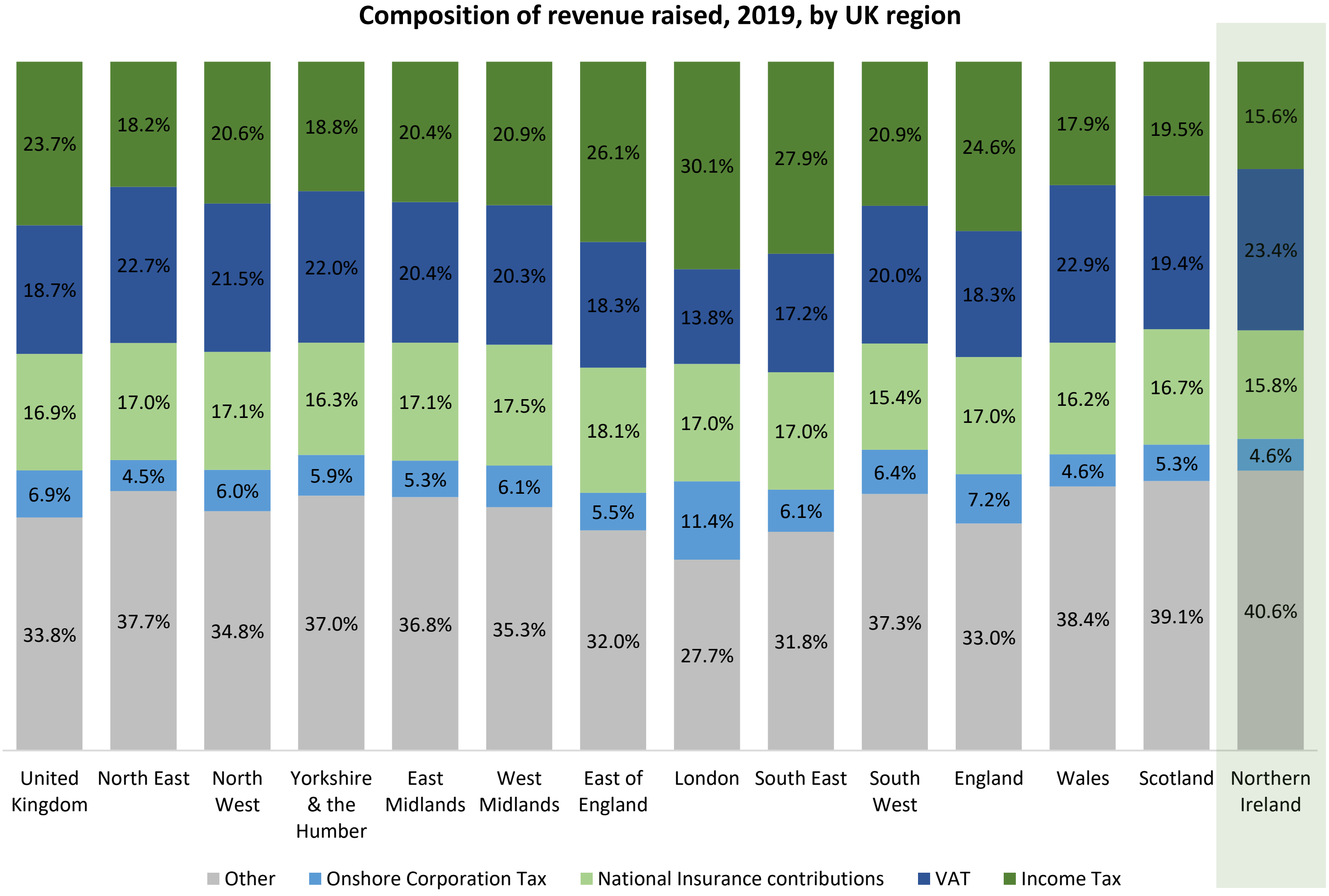




Source: ONS Country and Regional Public Sector Finances, FYE 2019: Revenue Tables

Tax Composition

- NI raised the lowest proportion of any UK region from Income Tax, but the highest proportion from VAT.
- NI NICs proportion also one of the lowest but much closer to most other regions.
- NI raises relatively higher proportion from consumption based taxes and lower from income and business taxes.



Source: ONS Country and Regional Public Sector Finances, FYE 2019

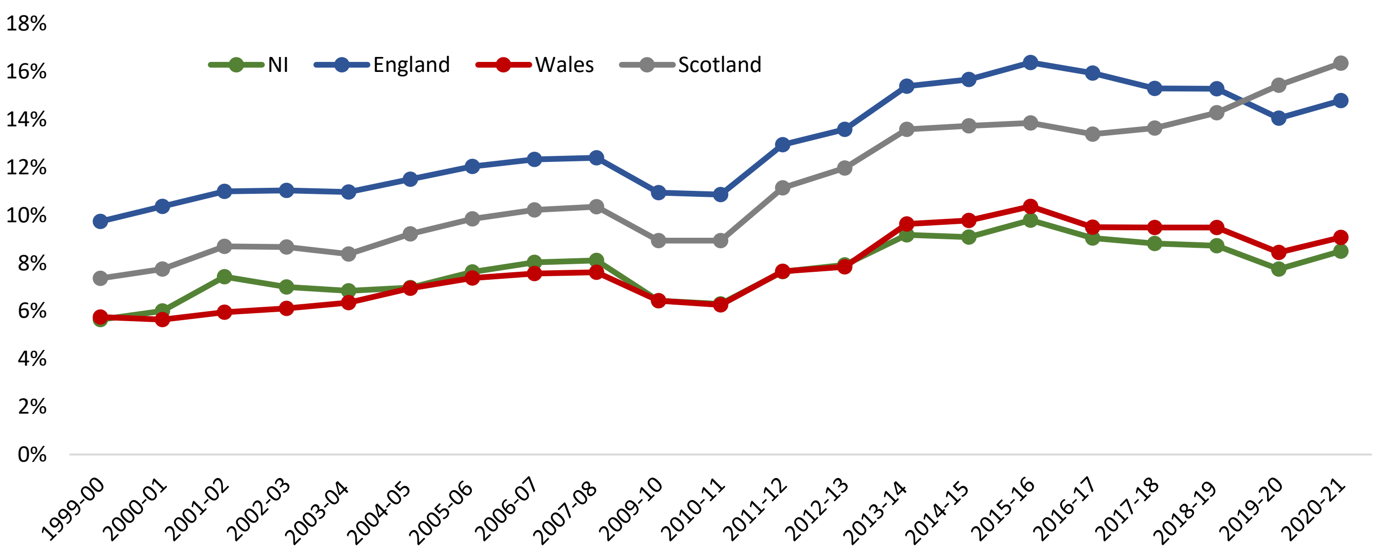
Income Tax

- NI highest UK region with tax payers falling under the Basic tax rate. Significant difference across UK regions

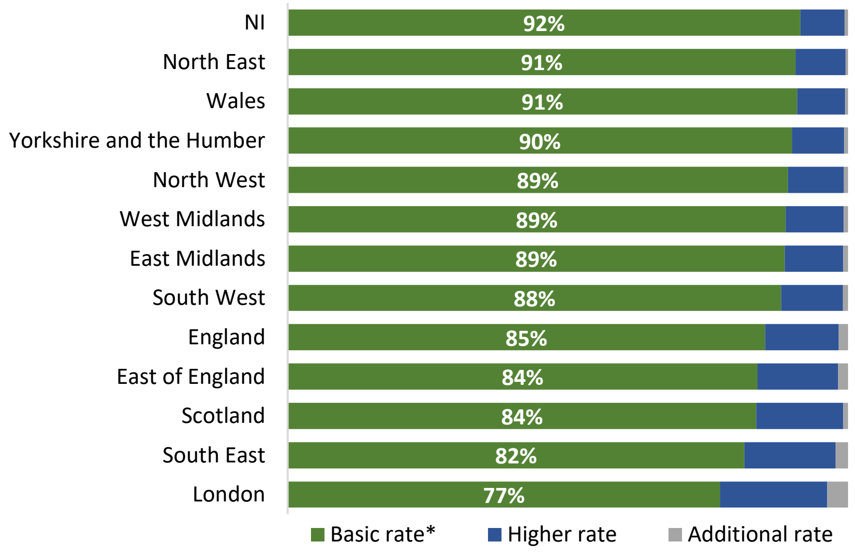
- Similar trends amongst UK countries since 1999/00 with regards to proportion of taxpayers in higher or additional rate categories.

	Basic rate*	Higher rate	Additional rate
London	77.2%	19.1%	3.7%
South East	81.6%	16.3%	2.2%
Scotland	83.7%	15.5%	0.8%
East of England	83.8%	14.4%	1.7%
England	85.3%	13.2%	1.6%
South West	88.1%	11.0%	0.9%
East Midlands	88.7%	10.5%	0.8%
West Midlands	88.8%	10.3%	0.8%
North West	89.1%	10.0%	0.7%
Yorkshire and the Humber	90.0%	9.3%	0.7%
Wales	90.9%	8.6%	0.5%
North East	91.3%	9.0%	0.4%
NI	91.6%	7.9%	0.6%

Taxpayers in Higher or additional rate



Tax Payers, by region, by marginal rate 2020/21



Source: National Statistics, Income Tax statistics and distributions, Survey of Personal Incomes

Tax Revenue – Comparison rUK per head

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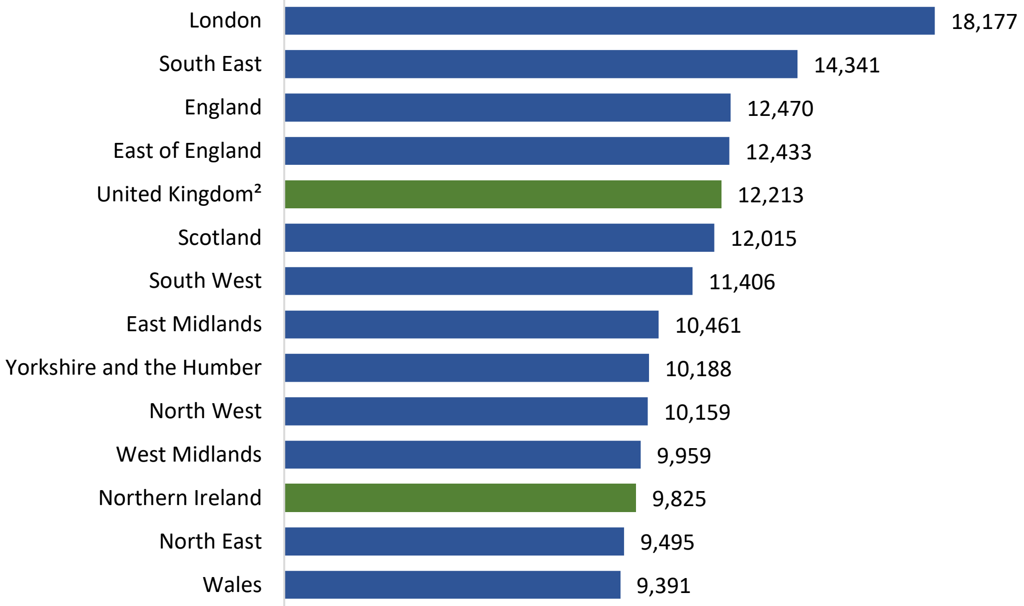
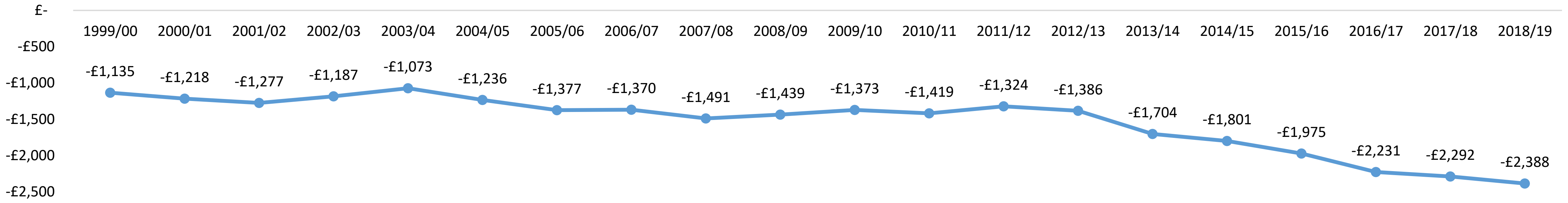
Regions, Average per head revenue differences against UK per head, 2000 to 2019

UK region, revenue per head (£), 2018/19, geographic basis



NI per head revenue difference against UK per head revenue, 2000 to 2019, £million, geographical share

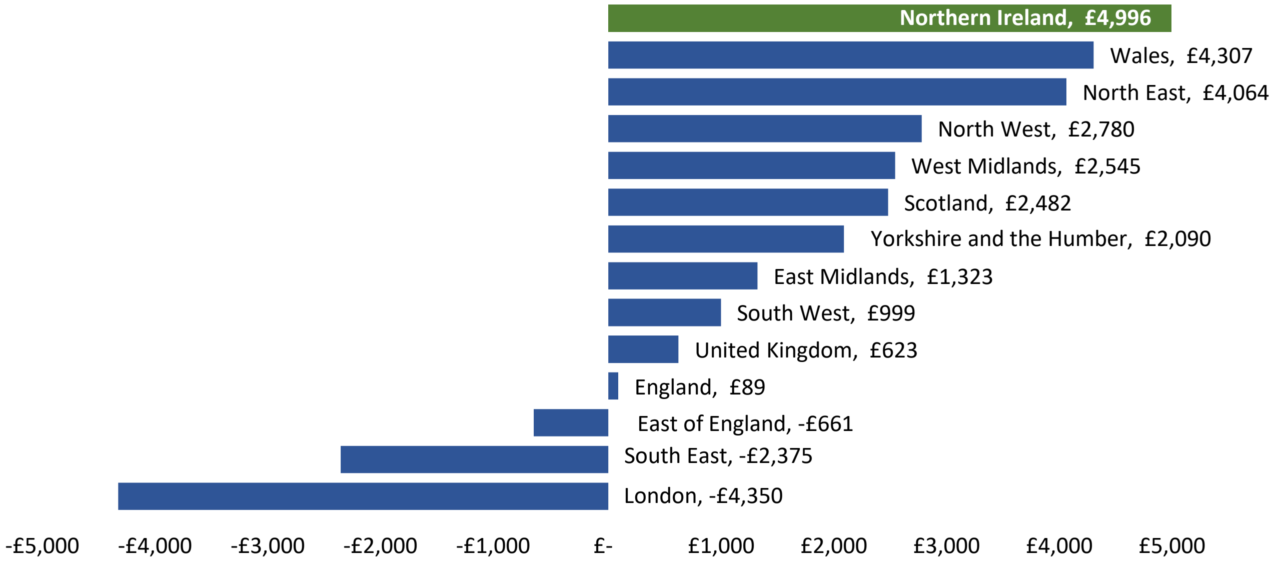


Source: ONS Country and Regional Public Sector Finances, FYE 2019

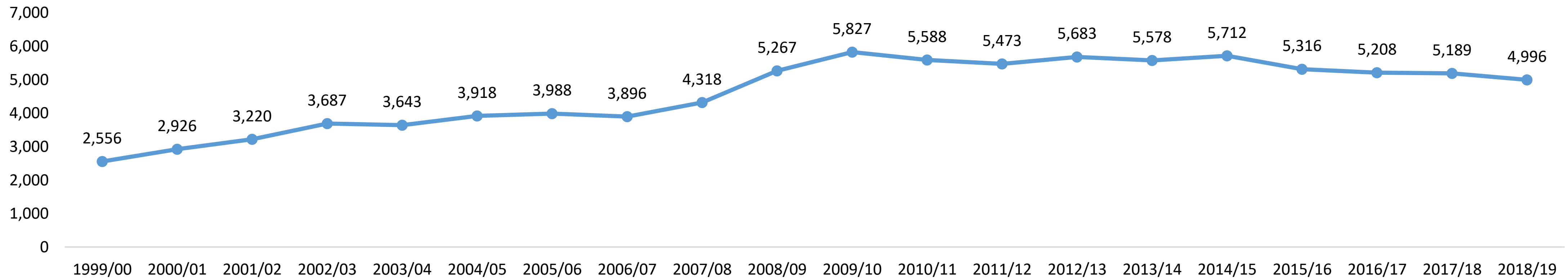
Receipts versus expenditure

- Northern Ireland had the highest net fiscal deficit per head at £4,996, in FYE 2019.
- Between FYE 2011 and FYE 2019, all countries and regions saw an improvement in their net fiscal balance, either a decreasing deficit or an increasing surplus
- However, the gap between the net fiscal balances of London and the South East and those of other countries and regions has increased over this period.
- NI deficit per head as high as £5,827m in 2009/10 and been declining every year since 2014/15.

Net Fiscal Deficit per head, 2018/19, £million, geographical basis



NI, Net Fiscal Deficit per head, since 1999/00, £million



Source: ONS Country and Regional Public Sector Finances, FYE 2019

Key takeaways

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- **Structural Weaknesses** – NI has persistent weaknesses to address (Productivity; Inactivity; Wages).

- **High Performing locations / Industries** – Belfast and sectors within NI (Manufacturing; Fin-tech; FDI) are high performing – but not enough of them!

- **Economic Growth / Recovery** – doesn't necessarily follow UK path.

- **Reliance on Public Sector / Low Value Added** – in terms of GVA / Jobs / Funding. 20% public spend above UK average and highest net fiscal deficit – but relatively higher need and structural issues with public service delivery (e.g. dual provision/ need for reform)

- **Taxes** – Relative to rUK, NI raises higher proportion from consumption based taxes and lower proportion from income and business taxes.

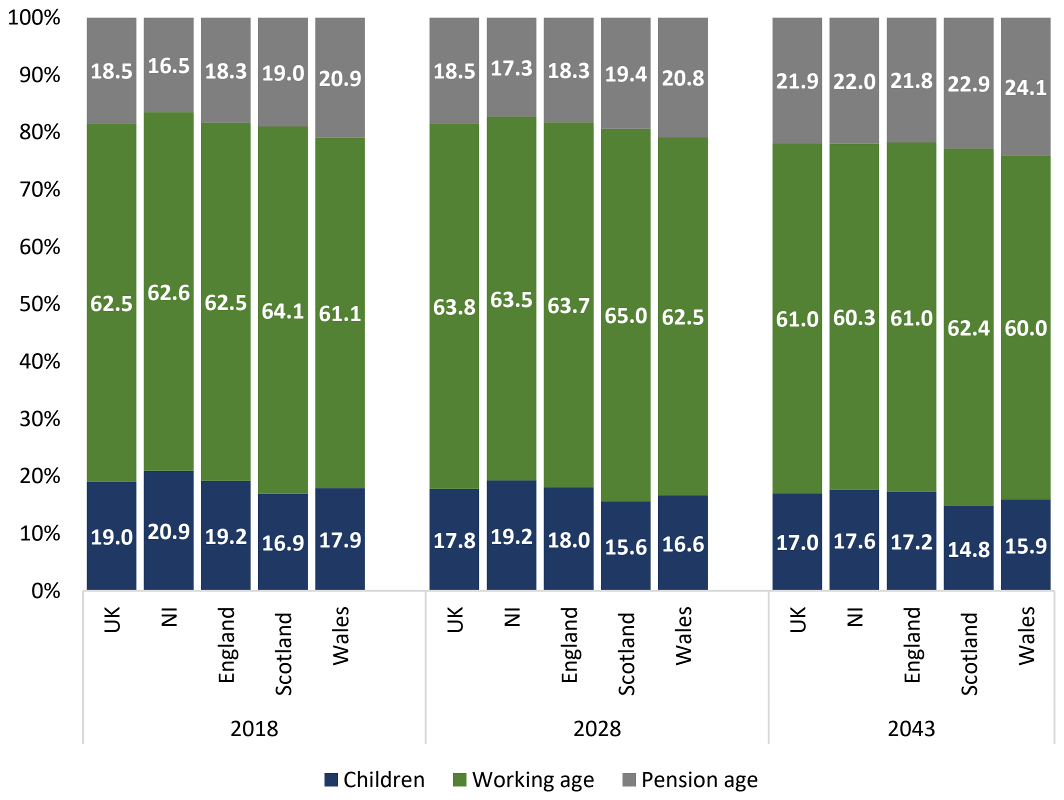
Supplementary information

Population comparison vs rUK

- **Between 2018 and 2028 England's population is projected to grow more quickly than the other UK nations**: 5.0% between mid 2018 and mid 2028, compared with 3.7% for Northern Ireland, 2.7% for Wales and 1.8% for Scotland.

- **Longer term, between 2018 and 2043, NI population predicted to grow at around half of the English rate but still faster than Scotland and Wales.** Between mid 2018 and mid 2043, England is projected to have the largest increase in population, at 10.3%. The projected increase over the same period for Northern Ireland is 5.7%, that for Wales is 3.7% and that for Scotland is 2.5%.

Population make up 2018 and projected for UK regions



Changes in population makeup 2018-2043, percentage point by region

	Children	Working age	Pension age
UK	-2.0%	-1.5%	+3.5%
NI	-3.3%	-2.2%	+5.5%
England	-2.0%	-1.5%	+3.5%
Scotland	-2.1%	-1.7%	+3.8%
Wales	-2.0%	-1.2%	+3.1%

- NI projected to experience a steeper decline in terms of proportion of children and people of working age, as well as the biggest increase across UK regions in terms of proportion of population of pension age between 2018 and 2043.

- By 2043 NI projected to go from having the smallest share of people of pension age of the UK nations (16.5% in 2018) to having the largest (22.0% in 2043).

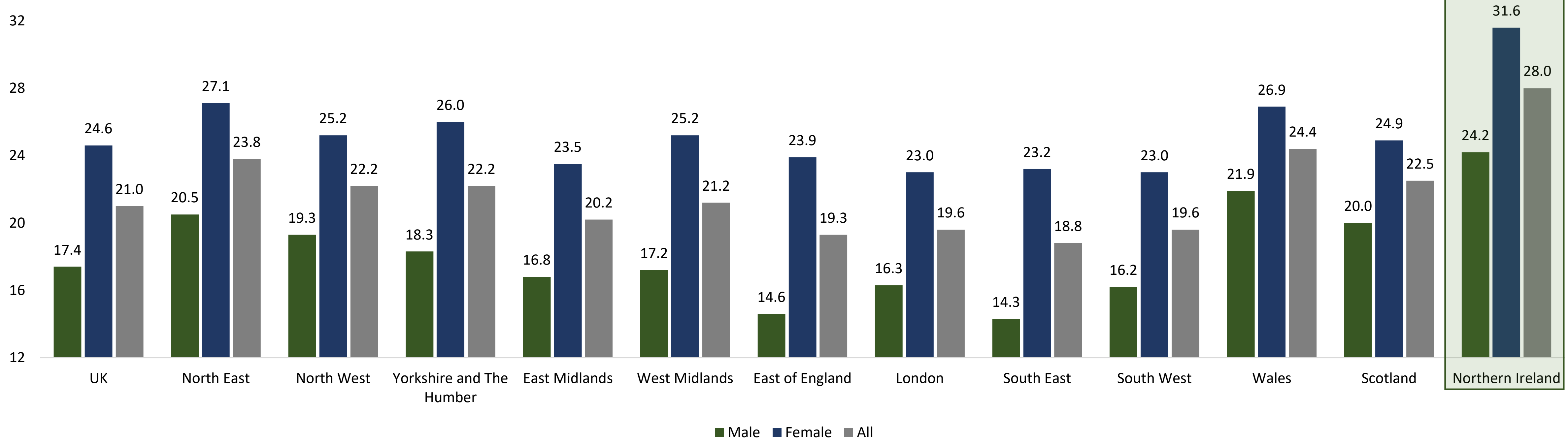
- NI currently has the highest share of children (20.9%) and this is projected to remain the case in 2043.

Source ONS: Principal projection - UK summary; 2018-based national population projections

Economic inactivity

- **Economic Inactivity** – Persistently worst performing of UK regions. True for both Males and Females across regions as well.
- Males - 24.2% in NI versus 17.4% in UK
- Females – 31.6% in NI versus 24.6% in UK

Economic inactivity % rate by region and gender, Jan 2021



Source: NISRA - Labour Market Report, March 2021; ONS Labour Force Survey, March 2021;

Economic inactivity reasons

- A major difference in reason for economic inactivity between NI and UK is in **Long-term sickness.**
- This is the case for both males and females.
- NI women have similar pattern to UK in terms of greater proportion than males looking after family/home as reason for inactivity.

Reasons for economic inactivity – UK versus NI, male & female, Jan 2021

	Student	Looking after family / home	Long-term sick	Retired	Other
UK	27.7%	18.4%	24.9%	13.0%	16.1%
NI	27.8%	16.8%	32.6%	12.2%	10.5%
UK -Male	34.0%	6.6%	27.9%	13.6%	17.9%
NI - Male	33.6%	4.7%	37.5%	12.4%	11.8%
UK – Female	23.4%	26.6%	22.8%	12.5%	14.8%
NI – Female	23.5%	26.0%	28.9%	11.9%	9.6%

- NISRA report from 2019 on economic inactivity in NI outlined that **when calculated as a proportion of the working age population**, the proportions of people inactive due to looking after family/home, due to study and due to retirement are also higher in NI than in the UK

2019 NISRA table on economic inactivity as proportion of working age population

	Total Working Age Population	Economic Inactivity Rate (%)	Student (%)	Family/Home (%)	Sick/ Disabled (%)	Retired (%)	Other (%)
NI	1,168,000	27.2	7.3	6.3	8.5	3.3	1.8
UK	41,250,000	21.7	5.8	5.1	5.4	2.9	2.5

Source: NISRA - Economic Inactivity in Northern Ireland, June 2019 & Labour Market Report, March 2021; ONS Labour Force Survey, March 2021;

Devolved powers for NI

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Transferred matters	Excepted matters	Reserved matters
Issues on which the Northern Ireland Assembly has full legislative powers:	HM government retains responsibility for matters of national importance, including:	These are issues where legislative authority generally rests with Westminster, but where the Northern Ireland Assembly can legislate with the consent of the Secretary of State. These include:
• health and social services • education • employment and skills • agriculture • social security • pensions and child support • housing • economic development • local government • environmental issues, including planning • transport • culture and sport • the Northern Ireland Civil Service • equal opportunities • justice and policing	• the constitution • Royal succession • international relations • defence and armed forces • nationality, immigration and asylum • elections • national security • nuclear energy • **UK-wide taxation** • currency • conferring of honours • international treaties	• firearms and explosives • financial services and pensions regulation • broadcasting • import and export controls • navigation and civil aviation • international trade and financial markets • telecommunications and postage • the foreshore and seabed • disqualification from Assembly membership • consumer safety • intellectual property

Source: [Devolution settlement: Northern Ireland - GOV.UK (www.gov.uk)]

Devolved taxes across the UK

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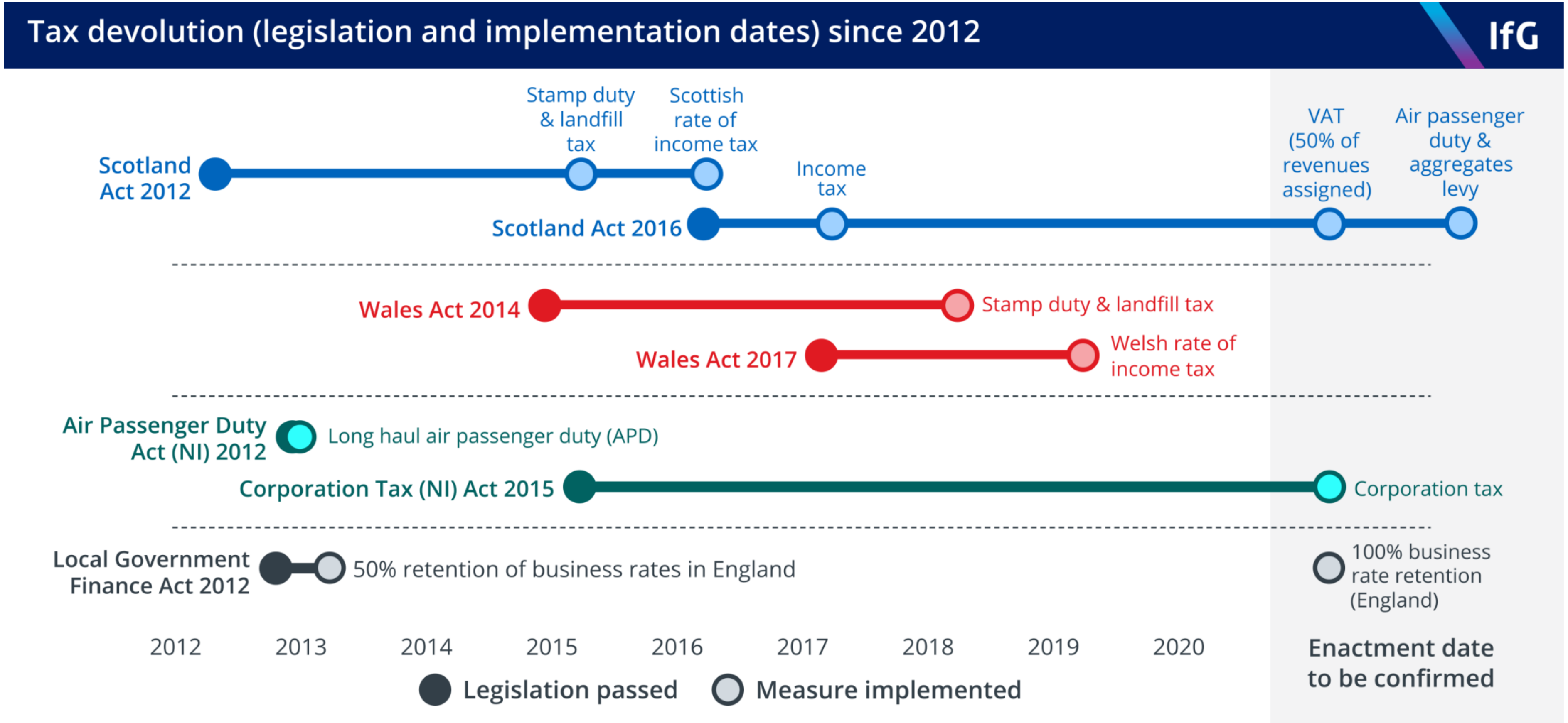

Source: Institute for Government analysis of legislation.gov.uk, the fiscal frameworks for Scotland and Wales, and House of Commons Library briefings.

BY-NC

- In the 2020/21 financial year, **devolved taxes and local property taxes** make up an estimated:
  - **31% of tax revenue in Scotland** (including assigned VAT revenue)
  - **20% in Wales**
  - **9% in Northern Ireland**
  - **9% in England**
- In Northern Ireland, Air Passenger Duty on long-haul flights originating from Northern Ireland has been devolved since January 2013, although the rate is currently set to zero.
- Regional and district rates (domestic and non-domestic) are already devolved in NI.

Source: Institute for Government - https://www.instituteforgovernment.org.uk/explainers/tax-and-devolution

Devolved spending across the UK

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- A significant difference for NI compared to other DAs is that almost all of DWP's spending responsibility is devolved (though parity broadly maintained).
- NI similar to Scotland in terms of Transport, Justice and Home Office spending.

Figure 1 **Percentage of UK government departments' spending responsibility that is devolved**

Department	Scotland	Wales	Northern Ireland
Education	100%	100%	100%
Housing, Communities and Local Government	100%	100%	100%
Health and Social Care	100%	100%	100%
Environment, Food and Rural Affairs	97%	97%	97%
Transport	92%	37%	95%
Digital, Culture, Media, and Sport	68%	68%	70%
Justice	100%	1%	100%
Home Office	74%	2%	74%
Work and Pensions	20%	0%	98%
Business, Energy and Industrial Strategy	7%	7%	7%
HMRC	4%	4%	3%
HM Treasury	0%	0%	0%
Cabinet Office	0%	0%	0%
Defence	0%	0%	0%
Foreign, Commonwealth and Development Office	0%	0%	0%
International Trade	0%	0%	0%

Source: Institute for Government analysis of HM Treasury, *Statement of funding policy*, 25 November 2020.

Source: , Institute for Government - Funding devolution: The Barnett formula in theory and practice, March 2020

NI Executive Budget – EU funding

- Table opposite shows the **total and average annual amounts of funding that NI has received from the EU between 2014-20** under the range of funding schemes. **A total of almost €3.9bn or €555m per annum.**
- **EU Funding makes up 3.1% of the Executive's Budget for 2021/22** – around £480m though this number is only indicative at this stage.
- More accurately this could be described as EU Replacement Funding as it covers a number of areas where NI previously received EU funding but where funding is now provided by UKG
- An example of this **Common Agricultural Policy** (CAP) funding –previously provided by EU but now provided by UKG – on average NI has received €327m each year between 2014-20.
- On **Structural Funds**, (such as PEACE or other ESF/ERDF funding) the UK will continue to participate in programmes funded under the current 2014-2020 Multiannual Financial Framework (MFF) until their closure, providing access to tails of funding in 2021-22 and beyond.
- Shared Prosperity Fund (SPF), proposed by the UK Government as a successor to EU Structural Funds. Some replacement funds will be managed at a UK wide level, including the Community Renewal Fund (forerunner to Shared Prosperity Fund), Levelling Up fund and Community Ownership Fund. However it is clear that SPF will not provide for full replacement of EU Structural Funds in 2021-22.
- The position on **Competitive Programmes** is mixed, as some of the programmes will not be replaced directly but UKG plans to participate in Horizon and a replacement for Erasmus has been put in place.

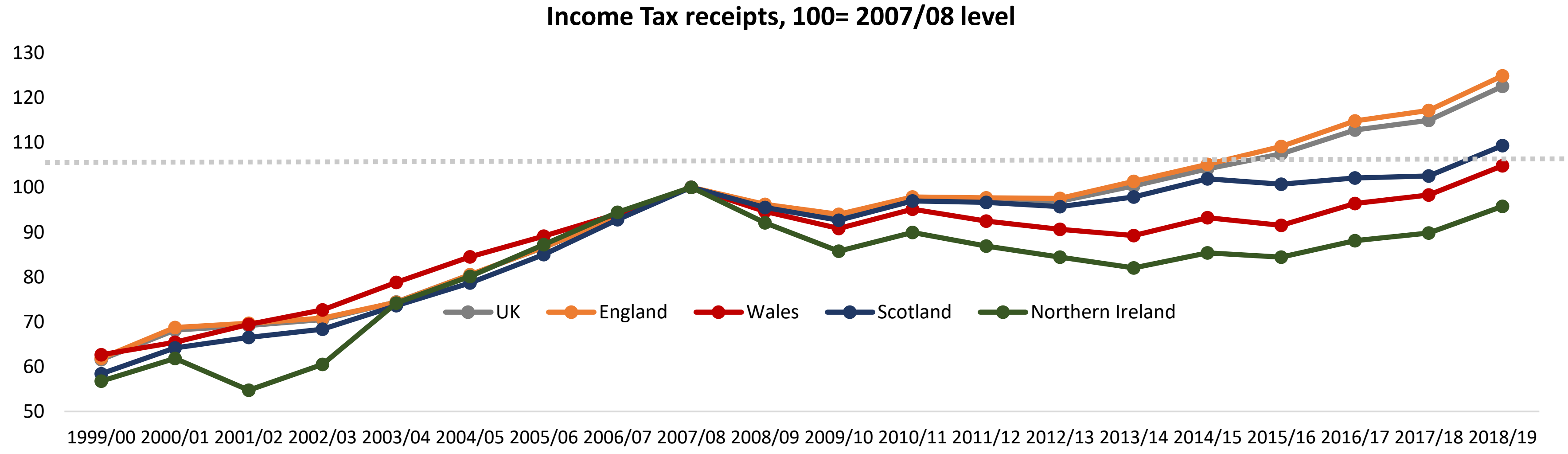
Allocations to NI from EU Funding for the 2014-20 MFF

	€m (NI share)	Annual Average (€m)
PEACE	179	25.57
INTERREG	144	20.57
ESF	210	30.00
ERDF	313	44.71
RDP	228	32.57
EMFF	20	2.86
CAP	2289	327.00
Horizon	104.1	14.87
Erasmus	39	5.57
CEF	27	3.86
Health	0.5	0.07
Interreg B&C	17	2.43
COSME	1.6	0.23
EIB	313.6	44.8
Total	**3885.8**	**555.11**

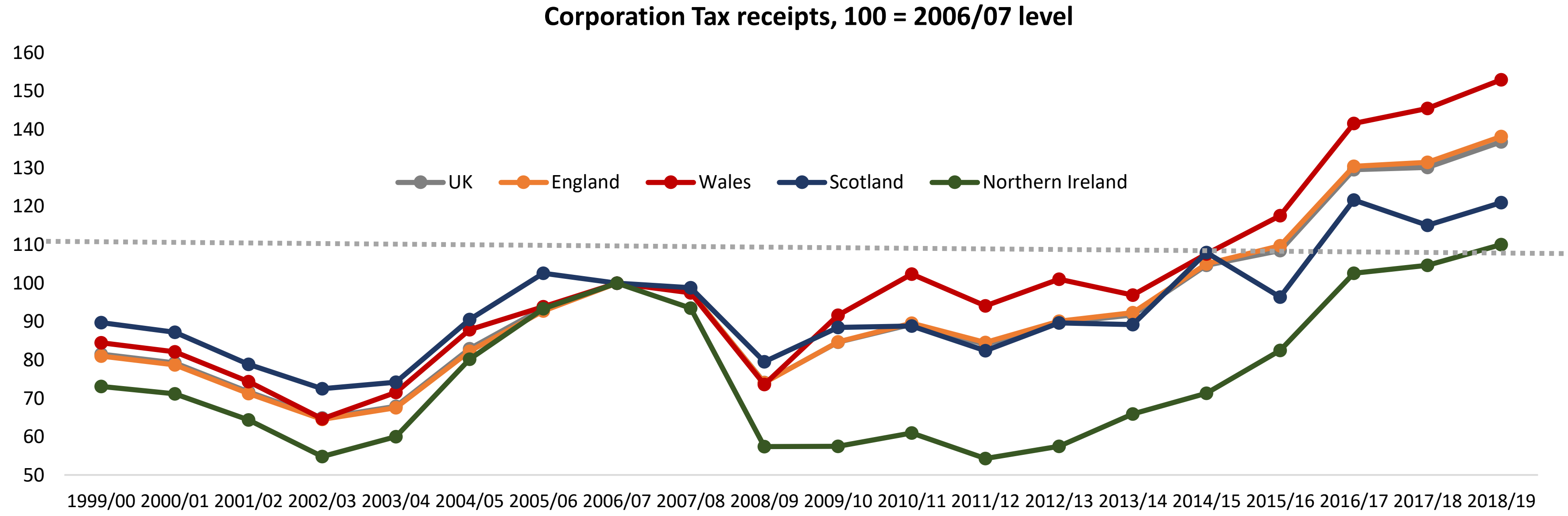
Source: DoF Public Spending Directorate and DoF European Division

Source: DoF 2021-22 Draft Budget Consultation - https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Draft%20Budget%202021-22%2019.01.21.pdf

NI tax receipts vs rUK



- Other UK nations had a smaller decline in income tax levels after 2007/08
- Income tax not yet recovered to pre financial crisis value, in NI but has for other nations

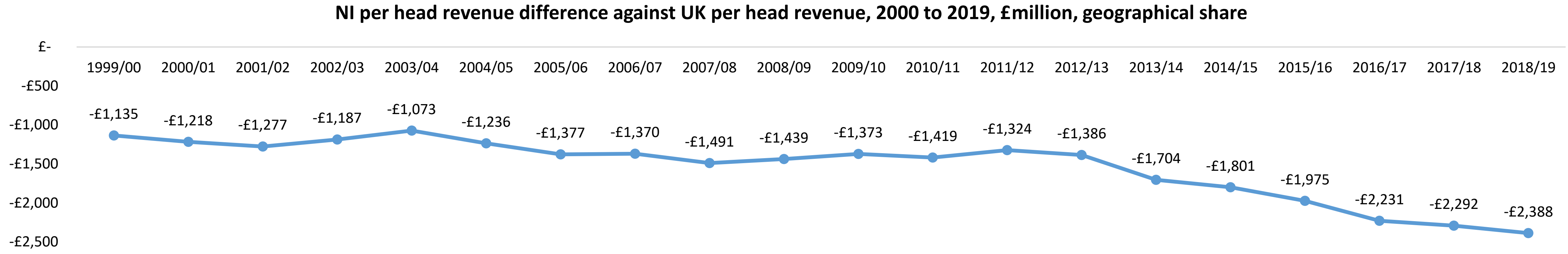


- Similar for Corporation Tax, relative to its 2006/07 level NI had a larger decline and took longer to recover.
- More volatility in CT levels but significant increase in receipts since 2015/16.

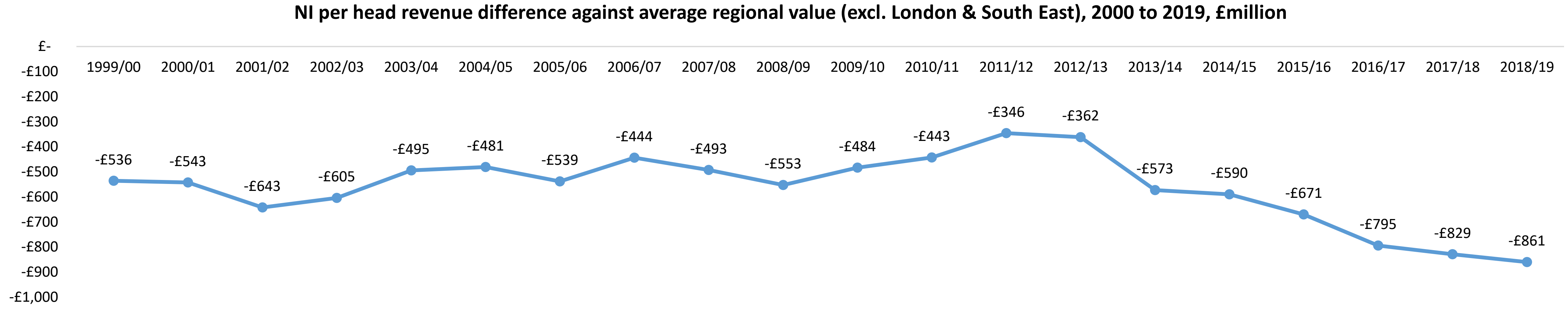
Source: ONS - Country and Regional Public Sector Finances, FYE 2019: Revenue Tables

Tax Revenue – Comparison rUK per head

The Independent Fiscal Commission NI

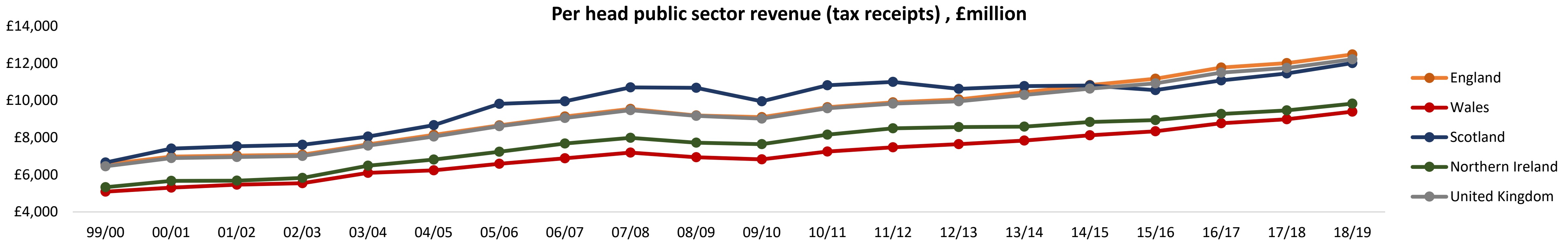


- Graph below compares the NI per head value against the average of other UK regions per head values – excluding London and South East.
- Similar pattern but values are smaller. Difference in 2018/19 only £861 – 1/3 of difference to entire UK as per above graph. Gap was particularly small in 2011/12 and 2012/13. but has widened since.

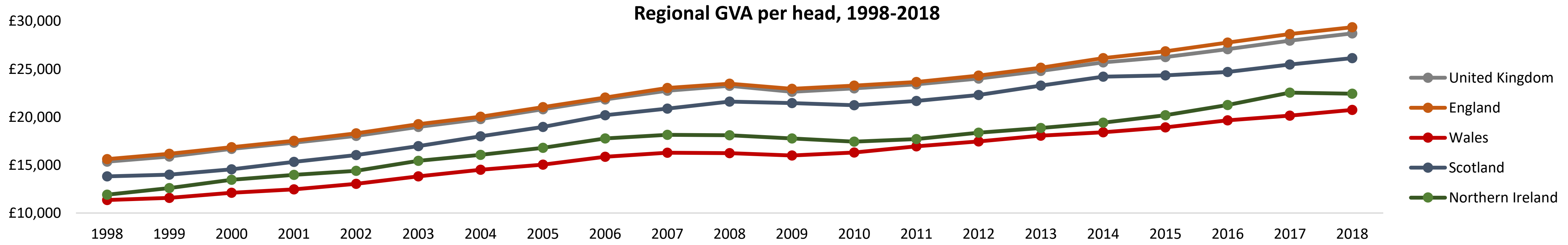


Source: ONS - Country and regional public sector finances: FYE 2019 and Commission calculations

Revenue and GVA per head trends versus rUK



Source: ONS Country and regional public sector finances: FYE 2019



Source: ONS - Regional GVA