
A Fiscal Commission for Northern Ireland

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Who we are

- › The Fraser of Allander Institute (FAI) at the University of Strathclyde entered Scottish public life in 1975. In the 45 years since, it has become established as a leading independent economic research institute focused on the Scottish economy, and more recently, devolved and regional analysis across the UK.
 - We undertake high quality applied economic research that has real-world impact.
 - We help to inform decision making within policy circles at both a national, devolved government and local level.
 - We help stimulate and inform public debate through the provision of facts and impartial insight.
 - We are impartial. Our outputs are regularly cited by all sides of the political spectrum.
 - Our team hold a number of advisory roles to both policymakers and business.
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Experience of Commissions in Scotland and Wales



Scotland: the Calman Commission

- › The Calman Commission was proposed by the three opposition parties at Holyrood in response to the newly elected SNP Government's launch of "The National Conversation" in 2007.
- › It was formally launched by the Secretary of State for Scotland in March 2008. The Commission was to consider options for further devolution to Scotland within the UK.
- › The final report was published in 2009, and a response published by the Secretary of State later in 2009. This led to the provisions in the Scotland Act 2012 which devolved new tax powers on Stamp Duty Land Tax and Landfill Tax to the Scottish Parliament. Some tax varying powers in IT were also included but were not used.

The election in 2011

- › The announcement of the devolution of these powers preceded the Holyrood election in 2011.
 - › This led to an unprecedented majority SNP Government being elected; so it is perhaps fair to say that these provisions did not whet the Scottish electorate's appetite for further powers for the Scottish Parliament.
 - › This led to the Edinburgh Agreement in 2011 and ultimately the Independence Referendum in 2014.
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Following Indyref...

- › Following the Independence referendum in 2014, the Smith Commission was set up to explore new options for devolution in Scotland.
 - › This had followed the infamous “Vow” that had been made a few days in advance of the referendum by the Prime Minister, the Deputy Prime Minister and the Leader of the Opposition that if there was a “No” vote in the Referendum, there would be a significant new package of powers devolved to the Scottish Parliament.
 - › Following the No Vote, David Cameron appointed the cross bench peer, Lord Smith of Kelvin, to lead the Commission on 19th September 2014.
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- › The members of the Commission were taken from all political parties in Scotland, including the SNP

 - › Terms of reference:
 - Form a substantial and cohesive package of powers, enabling the delivery of outcomes that are meaningful to the people of Scotland.
 - Strengthen the Scottish devolution settlement and the Scottish Parliament within the UK (including the Parliament's levels of financial accountability).
 - Aim to bring about a durable but responsive democratic constitutional settlement, which maintains Scotland's place in the UK and enhances mutual cooperation and partnership working.
 - Not be conditional on the conclusion of other political negotiations elsewhere in the UK.
 - Not cause detriment to the UK as a whole nor to any of its constituent parts.
 - Cause neither the UK Government nor the Scottish Government to gain or lose financially simply as a consequence of devolving a specific power.
 - Be implementable; be compatible with Scotland's and the UK's international obligations, including EU law; and be agreed with a broad understanding of the potential associated costs.
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- › The final agreement (published on 27 November 2014) included a number of provisions, including ensuring the permanence of the Parliament and the Government. A large part of the package was the range of financial powers proposed to be devolved to the Scottish Parliament.
 - › This included powers over the rates and bands of NSND income tax, APD, significant new social security powers and borrowing powers.
 - › This culminated in the Fiscal Framework negotiations and ultimately the agreement between the UK and Scottish Government that then underpinned the Scotland Act 2016.
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Experience in Wales - Holtham

- › The Holtham Commission was established the Welsh Executive in 2008
 - › Led by Professor Gerald Holtham. Terms of Reference were to:
 - look at the pros and cons of the present formula-based approach to the distribution of public expenditure resources to the Welsh Assembly Government; and
 - identify possible alternative funding mechanisms including the scope for the Welsh Assembly Government to have tax varying powers as well as greater powers to borrow.
 - › It concluded that the devolved government should be funded by a combination of a reformed block grant based on needs and revenue raised by increased powers of taxation.
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- › The Holtham recommendations were widely accepted across the political spectrum in Wales, and led to the establishment of the Silk Commission by the SoS for Wales in 2012. The Commission, chaired by Paul Silk, had eight unpaid members drawn from Welsh business, academia, the four main political parties and civic society.
 - › The terms of reference:
 - **Part I: financial accountability**
To review the case for the devolution of fiscal powers to the National Assembly for Wales and to recommend a package of powers that would improve the financial accountability of the Assembly, which are consistent with the United Kingdom's fiscal objectives and are likely to have a wide degree of support.
 - **Part II: powers of the National Assembly for Wales**
To review the powers of the National Assembly for Wales in the light of experience and to recommend modifications to the present constitutional arrangements that would enable the United Kingdom Parliament and the National Assembly for Wales to better serve the people of Wales.
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- › The commission published in two parts, the first in November 2012 and the second in March 2014. These reports have become known as Silk I and Silk II.
 - › Silk I led to the Wales Act 2014 which devolved Stamp Duty Land Tax and Landfill Tax to the then Welsh Assembly, along with some limited income tax rate varying powers. These powers were very much in the same areas as Scotland Act 2012.
 - › Silk II was much more comprehensive and wide ranging, and dealt with some of the fundamental issues with the model of Welsh devolution.
 - › One of the main recommendations was around the move to a “reserved powers model”, like the Scottish Parliament, rather than the conferred powers model that currently existed.
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St David's Day Agreement

- › This culminated in the document “Powers for a Purpose: Towards a Lasting Devolution Settlement for Wales”, published by the Secretary of State for Wales, also known as the St David's Day Agreement
 - › As well as accepting most of the recommendations in Silk I and Silk II, it also considered the recommendations of the Smith Commission in Scotland, to examine where it was possible for elements of this to be devolved to Wales.
 - › A similar process as for the new Scottish powers for agreeing the fiscal arrangements around new powers led to a fiscal framework agreement being produced in December 2016. A different method for adjusting the block grant was agreed.
 - › Following on from the recommendations of the Holtham Commission, this ensured the introduction of a reformed block grant for Wales, taking account of needs. This essentially introducing a funding floor, below which the level of funding for the now Welsh Government cannot go below: at 115% of the UK average level.
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Lessons for the Commission in NI



Principles and Terms of Reference

- › The principles and terms of reference will and should be a matter for the members of the Commission. In establishment of the Commission, it should not be limited in the comprehensive review of options for the reform of devolution in Northern Ireland.
 - › On reflection, a good starting point could be the Silk Commission Terms of Reference, which reflects the desire to have a wide ranging review of powers and funding arrangements, and is less constrictive than Smith.
 - › Explicit amendments could be around specific requirements to examine the package of powers devolved to the Scottish and Welsh Parliaments, and how this sits with already devolved powers around Corporation Tax.
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- › This secretariat will have an important role to provide analysis and intelligence to the Commission to allow it to consider options in an informed way – and of course, ensure the smooth operation of Commission business.
- › A Secretariat formed of officials with backgrounds in public finances, taxation (including policy costing and tax practitioners), constitutional law, economics, economic measurement and analysis of the UK and NI economy could be required. Of course, the Commission may choose to fill particular expertise with advisors rather than permanent members of the Secretariat.
- › To some extent, of course, the make-up of the Secretariat depends on the scope of the commission, and the Commission should have the freedom to bring in others to provide analysis on particular issues as their discussion evolves. The Commission will require this flexibility to ensure that decisions are evidence based and keep in mind the practicality of implementation of particular options.

Consultation and Engagement

- › The Commission will wish to consider which consultation activities it undertakes to ensure buy-in from stakeholders and civic society.
 - › Activities undertaken by similar processes in Scotland and Wales include:
 - Calls for Written Evidence
 - Verbal evidence from expert witnesses
 - Meetings with officials at all levels with Government (including UK)
 - Expert Seminars
 - Town Hall Meetings (across every local authority)
 - › The Silk Commission carried out all of these, but given the time constraints for Smith it was limited to the first three.
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Wider Infrastructure Considerations



- › The experience in both Scotland and Wales has led to the establishment of tax collection authorities, Revenue Scotland and Revenue Wales respectively.
 - › These organisations collect the newly fully devolved taxes, the replacements for Stamp Duty Land Tax and Landfill Tax. In Scotland, preparation for APD collection was also underway before delays to devolution.
 - › The costs of such a body need to be considered when thinking about the implementation costs of devolution. It is also important to consider issues like access to data and analytical capacity for the Government and Fiscal Council in order to facilitate policy costing and forecasting.
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- › Consideration must also be given to the Independent Fiscal Institution Infrastructure in NI
 - › Under the NDNA Agreement, a Fiscal Council is being established with an initial remit...
 - › But any proposals for a new package of powers will have to consider the possible expansion or amendment of the role of the Council and the consequent increases in resources required.
 - › It will be important also to reflect the wider infrastructure that exists which also impacts on the resources required (e.g. the analytical capacity of the Revenue Authority).
 - › The experience in Scotland has shown that there may also be a case for strengthening the Parliamentary Budget Scrutiny Function.
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Wider Capacity & Data Availability

- › The capacity of Government and Parliament needs to be examined in deciding how implementable the devolution of certain powers are: and, if implementable, how much capacity may need to be built and what that may cost
 - › This can include
 - Modelling capability – potentially requiring recruitment of new staff with new skills
 - Modelling capability – potentially requiring the development of new models as well as the expertise to operate them appropriately
 - Tax expertise – knowledge of these policy areas and the approach to costing policies
 - Development of new statistics (particularly around national accounts and public sector finances) to support this activity
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Lessons from Devolution in the UK



Revenues being transferred: Scotland Acts

Tax	Date of transfer	Revenue forecast 18/19 (£m)	Degree of control by Scottish Parliament
Land & Business Transactions Tax (LBTT)	2015	£588	Fully devolved; complete autonomy.
Landfill Tax	2015	£106	Fully devolved; complete autonomy.
Income tax	2017	£12,177	Scot Gov sets rates and bands. UK Gov defines tax base & sets allowances
Air Passenger Duty	tbc	£306	Fully devolved; complete autonomy
VAT	2020	£5,500	Assigned revenues; no autonomy
Aggregates Levy	tbc	£55	Fully devolved; complete autonomy

The new Scottish Budget process



- › BGA: counterfactual estimate of tax revenues foregone by UK Government
- › What is this counterfactual? Growth in devolved taxes per head in rUK.
- › So, if Scottish revenues grow faster than BGA, Scottish budget is better off than without tax devolution.....and vice versa

Use of new powers

- › The Scottish Government has used the powers devolved on Income Tax to create a new 5 band income tax system, which has been in place since 2018-19.

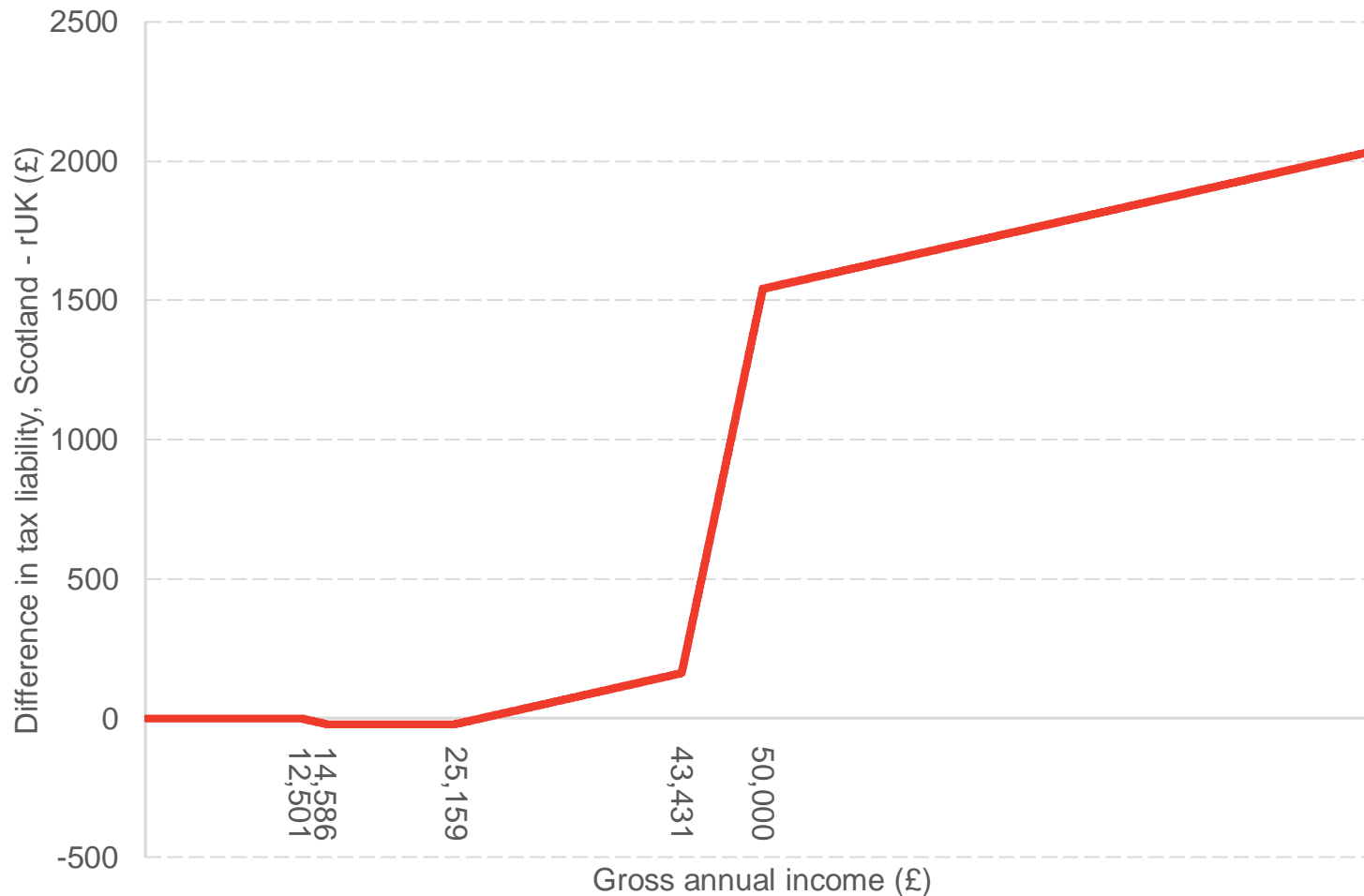
Scottish Income Tax Rates 2021-22

Band	Income Range	Rate
Starter Rate	Over £12,570 - £14,667	19%
Basic Rate	Over £14,667 - £25,296	20%
Intermediate Rate	Over £25,296 - £43,662	21%
Higher Rate	Over £43,662 - £150,000*	41%
Top Rate	Over £150,000**	46%

* assumes individuals are in receipt of the Standard UK Personal Allowance.

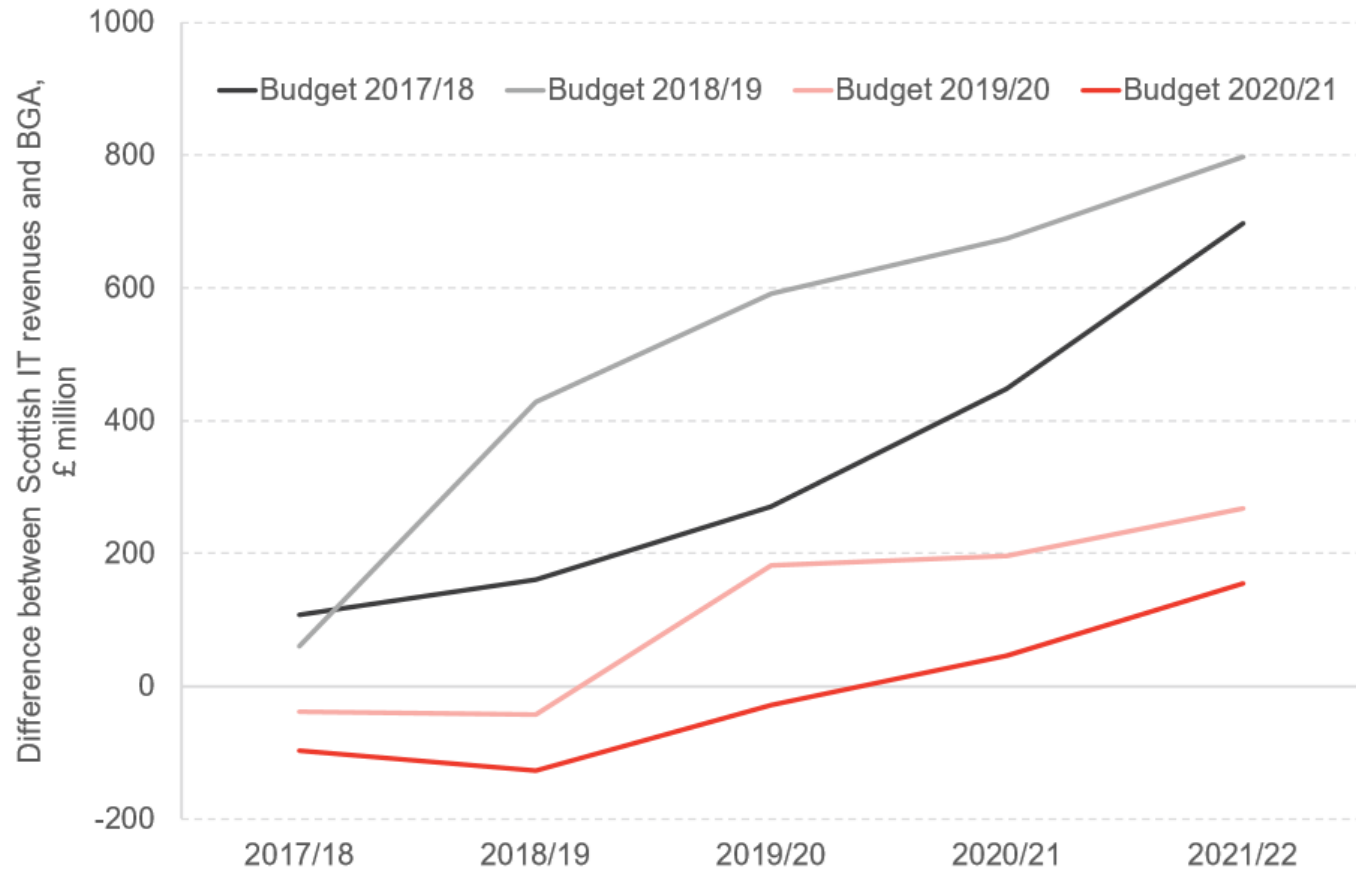
** those earning more than £100,000 will see their Personal Allowance reduced by £1 for every £2 earned over £100,000.

Tax policy divergence



- No real change in position from last year
- 54% of Scottish taxpayers will pay less than they would under UK policy – although the benefit is around £20 maximum!
- But the policy is revenue raising because it raises proportionately more from those in the upper part of the income distribution

Net Tax Position



- › Net tax position has changed significantly at every fiscal event..
- › Reflecting the fact it is the balance of very large numbers
- › Latest budget forecasts at end Jan put this at +£320 million
- › Reconciliation from the “over forecast” in 2018-19 applied -£309million

Devolved Budgeting

- › The devolution of fiscal powers is designed to increase power and accountability of the devolved parliaments.
- › However, in reality the devolution of significant powers has increased the interdependencies between fiscal events at the UK and devolved level.
- › As well as the outlook for the block grant, which is generally fairly predictable, resources are now determined by revenues raised in the area and the block grant adjustments.
- › Devolved processes are generally less flexible than at the UK level, with a number of bills having to be passed before the start of the financial year in order to collect revenue.
- › Essentially, devolution of major taxes has meant that it is more important than ever that the UK budget is done in a timely manner, in order for the Governments to have a good understanding of the spending envelope available to them.
- › This is particularly true given the very limited borrowing powers the devolved administrations have to cover any funding uncertainties.



Wider than fiscal issues

- › **Permanence** - Both the Scotland and Wales Act established the Scottish and Welsh Parliaments (and their respective Governments) as permanent parts of the UK constitutional arrangements.
 - › **Sewel Convention** - The Sewel Convention was enshrined in statute in both the Scotland Act 2016 and the Wales Act 2017. This states that:
 - “...it is recognised that the Parliament of the United Kingdom will not normally legislate with regard to devolved matters without the consent of the [Scottish/Welsh] Parliament”
 - › Inter-governmental relations
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