SINN FÉIN INITIAL SUBMISSION TO THE FISCAL COMMISSION

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1 Introduction

This paper provides an initial submission to the Fiscal Commission as it prepares an interim report. Sinn Féin welcomes the Commission's review of Stormont's fiscal powers, the first since power-sharing was established in 1998. Although Stormont assumed a range of important functions including economic development and health, its financial capacity to deliver on these responsibilities is limited in a number of respects. Stormont controls just one major tax lever (rates) and its budget envelope is largely determined by spending in England. Borrowing is capped and Treasury permission is required to switch from Capital to Resource. Flexibility to carry spending over from one year to the next is also heavily constrained. With little control over taxes, Assembly budget debates are confined to how resources are allocated between departments, omitting the crucial question of how public revenue is raised. Healthy democratic debate on economic policy is therefore constrained.

Multiple Commissions have already examined the fiscal powers in Scotland and Wales. Those devolved legislatures now exert greater control over their finances than Stormont. Yet the north has unique circumstances which suggest the need for greater financial control, not less. These include the north's geographical separation from Britain, the additional costs and complications arising from partition (for example two separate tax systems on a small island), the south of Ireland's superior economic performance, the Good Friday Agreement which contains safeguards intended to prevent a return to the discrimination of the past, and the outworkings of Brexit which has resulted in the island of Ireland remaining in the EU single market for goods. Greater control over its finances can help Stormont adapt to these particular circumstances.

By recommending ways to remove or reduce the severe financial limitations on Stormont, the Commission can provide the basis for an informed public discussion, and ultimately help better equip Stormont to deliver for all citizens.

2 The Executive's Tax Levers

Tax powers act as levers for a government's social, economic and environmental policy objectives and as sources of revenue. The Executive controls only one major tax – rates.[1] This is an important tax in revenue terms, raising approximately £1.2bn for Stormont and for Councils. However in the absence of other major tax powers, the Executive is highly dependent on the block grant which makes up approximately 91% of its total budget. The block grant is determined by the Barnett Formula which is calculated on the basis of changes to comparable public spending in England, and the north's population share.

The dangers of being so dependent on public spending in England were highlighted during the era of austerity. Between 2010 and 2015, when the economy was still recovering from the global financial crash, the block grant was cut by 8% before inflation is taken into account.[2] The Executive shifted resources from other Departments to Health and Education but with little ability to raise additional funds all public services faced huge challenges.

The fiscal powers of the legislatures in Scotland and Wales have been extensively reviewed and enhanced. In Scotland, the Calman Commission reported in 2009 while the Smith Commission, set up in the wake of the Independence referendum, published its report in 2014. Following these reviews Scotland now controls APD and Income Tax, and is due to take more control of VAT revenues. In Wales, the Holtham Commission reported in 2010 and the Silk Commission published two reports (in 2012 and 2014). Wales now has partial control over Income Tax. As a result of these developments fiscal devolution in the north has fallen behind Scotland and Wales. Whereas Stormont oversees 9% of tax revenue in the region the equivalent figure is 20% in Wales and 31% in Scotland.[3]

Although this is the first Commission to review Stormont's fiscal powers, NICVA published a study in 2013. It concluded that it would be desirable to transfer a range of taxes to the Executive including Air Passenger Duty; Income Tax; Corporation Tax; duties on tobacco, fuel and alcohol; and National Insurance Contributions. However the report expressed concern in relation to the practicalities of transferring some of these taxes and this is something the Commission could usefully re-examine and recommend solutions to.

The Commission should also consider the case for transferring the Crown Estate to Stormont. Its property portfolio here is valued at over £17m and its profits (typically over £1m per annum) are paid to the British Treasury. The portfolio includes the seabed out to 12 nautical miles, which is relevant to

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[1] Stormont also controls long-haul APD but this is a minor tax in revenue terms.
[2] Austerity in Northern Ireland. Where are we and where are we going? | NERI (nerinstitute.net)
[3] https://www.instituteforgovernment.org.uk/explainers/tax-and-devolution

important policy functions including renewable energy. The Smith Commission recommended that the Crown Estate' assets and profits be transferred to the Scottish Government.

3 Other Financial Constraints

A lack of control over tax revenue means the Executive is highly dependent on the budget periods set by Westminster. The British Government has repeatedly set a single-year budget, which makes it extremely difficult for the Executive to plan public services on a longer-term basis. The British Chancellor has pledged to introduce a multi-year budget and this is an NDNA commitment. Often, the British Government announces its budget late in the financial year, giving the Executive a very constrained period of time in which to plan, consult on, and agree its budget. Greater control over tax revenue would give the Executive more certainty over its future finances.

Longer-term planning is further constrained by the Budget Exchange Scheme. This restricts the Executive's ability to carry over funding from one year to the next to just 0.6% of its Resource budget and 1.5% of Capital. Any amount above this is surrendered to Treasury. This means for example that a Reserve Fund cannot be built up by the Executive to fund priorities or respond to unexpected events.

Dependence on the block grant is likely to be increased as a result of Brexit. EU funding provided approximately £4bn between 2014 and 2020 for Programmes such as the Single Farm Payment; the European Social Fund; and the EU Development Fund. This funding is unlikely to be replaced in full by the British Government. Furthermore, the Shared Prosperity Fund which will replace EU funding will be controlled by Westminster rather than the Executive.

Another result of Brexit is a loss of access to European Investment Bank lending. Under the Reinvestment and Reform Initiative (RRI) the Executive can borrow up to £200 million per annum for Capital projects, up to a total cap of £3bn. Repayments come from the Executive's Resource budget (£172m in 2020/21) and are linked to the life span of the underpinning asset, usually a maximum of 25 years. As at March 2020 the Executive had accessed £2.5bn of borrowing with outstanding debt totaling £1.6 billion. Although the Executive's Resource budget has been under immense pressure, the Executive can't borrow for Resource spending. This rule is based on the premise that Capital spending represents a long-term investment whereas Resource spending (much of which is spent on salaries) does not. This premise is deeply flawed – Resource funds teachers, nurses and other public sector workers who yield a long-term investment in the form of better social and economic outcomes. In turn, better outcomes decreases demand for public services, benefitting public finances.

There have been calls in some quarters for greater use of charges for public services. Such charges tend to have a detrimental impact on the finances of lower income families and their access to services. The principle of public services being available free to all on the basis of need has widespread

support from Sinn Féin and other parties. A focus on how Stormont could better fund public services from general taxation would therefore be a worthwhile line of inquiry for the Commission.

The Commission should also be aware that Stormont's lack of financial powers in coupled with a lack of financial information. As NICVAs research report *A Commentary on Economic Data in NI* identified, there are significant gaps in the availability and timeliness of local fiscal data and economic modelling capacity. What type of data and analysis is required to use tax levers in an evidence-based manner is therefore pertinent to the Commission's brief.

4 Conclusion

Over twenty years since Stormont's power-sharing government was established, the Commission's review of Stormont's fiscal powers is well overdue. Multiple reviews have taken place in Scotland and Wales, leading to changes in their devolution arrangements. The Commission's report can help ensure that Stormont's fiscal powers are up-to-date and fit for purpose. Greater fiscal control can enhance local democracy, help Stormont respond to the unique circumstances of the north, and better deliver for citizens.

As well as rigorously examining how additional tax levers could be transferred to Stormont, the Commission should examine the raft of other financial constraints placed upon the Executive. The type of fiscal data and analytical capacity required to exercise fiscal powers also merits consideration.

Sinn Féin looks forward to the Commission's initial report and we will submit a further response at that point.