Fiscal Devolution in Northern Ireland

Evidence to the Independent Fiscal Commission for Northern Ireland
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I wish to present evidence to the Commission on the following 15 points and will avoid including detailed descriptive material on fiscal devolution in Scotland and Wales which is available to the Commission. The comments are drawn from several academic books which I have authored or co-authored, but especially my books 'The Impact of Devolution on Social Policy' (2009) [Policy Press] [new edition to be published] and 'Comparing Devolved Governance' (2012) [Palgrave].

1. Devolving fiscal powers and accountability

The clearest background frameworks for considering fiscal devolution lies in two documents. The HM Treasury statements of funding policy [latest 2020]. 'Funding the Scottish Government, Welsh Government and Northern Ireland Executive' and also the Calman Commission [2009]. The statements of funding policy set out how UK Government funding is delivered and the other sources of funding available. This lists devolved resources, the block grant from Barnett, new taxes, rates, Scottish and Welsh income tax, borrowing and the Scottish and Welsh reserve. Calman produced the original rationale for increasing fiscal devolution, with income tax as the prime candidate for tax devolution plus the selection of a number of minor taxes which were later endorsed by reports from Smith, Holtham and Silk. Calman also set out the argument from greater fiscal accountability in that the electorate could hold a devolved government to account for decisions to raise and spend taxes. Thus, in Scotland and Wales, greater political accountability could be built by making the devolved governments responsible for generating some of their income. This accountability argument is not strong in Northern Ireland where voting behaviour is not likely to be influenced much by the parties' views on fiscal devolution.

2. Party attitudes to fiscal devolution

This is a crucial issue for the report and it is important that the Commission receives evidence from the political parties. Party attitudes are also significant in Scotland and Wales. In Scotland the local income tax has produced relatively small sums. The SNP is willing to use new devolved levers and is now seeking more borrowing powers, but overall sees fiscal devolution as very limited in value compared to the full fiscal autonomy that independence would bring. Fiscal devolution in Wales has also not been totally welcomed with open arms and Prof Mark Drakeford has pointed to the dominating fact that Wales is still dependent upon the UK for 80 per cent of its revenue. The announcement of the Fiscal Commission was met with strong criticism from the DUP and further criticism has followed from the Ulster Unionist party. The views of Sinn Fein have not been stated but the Minister of Finance seems unenthusiastic. The Alliance and SDLP parties may be more willing to engage with the issue.

3. Barnett Formula and Need

The Barnett Formula has served Northern Ireland well and proved beneficial in the allocation of resources (Heald. 2012). If anything, Northern Ireland has been overfunded in relation to need. The Barnett Formula has provided high expenditure per capita for Northern Ireland and its advantages are widely accepted and supported (Northern Ireland Assembly, (2011). This contrasts with the message from Wales that it did it not receive enough through Barnett to meet needs. This led to the Welsh Government Barnett uplift, adding a needs-based factor as recommended by the Holtham report. The danger with fiscal devolution is that along with the UK Government making block grant deductions and increasingly ignoring devolved fiscal arrangements, it will totally fragment and destabilise the well established Barnett-based arrangements for funding devolution.

4. By-passing Barnett and its consequences

Northern Ireland has received substantial sums of revenue which by-pass Barnett. These are associated with political negotiations following breakdowns in devolution. Agreements have usually involved a financial package from the UK Treasury which lies outside Barnett. These have included:

2006 – St Andrews Agreement had a financial package to help restore the Executive.

2010 – Hillsborough Castle Agreement with financial settlement to devolve justice.

2015 – A Fresh Start. Stormont House Agreement. This was underpinned by a financial package from the UK Government of £2 billion additional spending power.

2017 – Confidence and Supply Agreement between the Conservative Party and the DUP which included £1 billion funding for Northern Ireland.

2020 – New Decade, New Approach. Additional financial support for restoring devolution to support health, infrastructure and public services amounting to a £2 billion package, although only £760 million was new funding.

The political consequences of this pattern have implications for fiscal devolution. Why would political leaders in Northern Ireland face the complexities or blame for tax increases when they frequently have the alternative option of pressurising or negotiating Barnett plus funding from the UK Government to address political crises? It can be noted the £2.3 billion has been given to Northern Ireland to combat COVID.

5. Barnett Consequentials

Northern Ireland has benefitted from Barnett consequentials, especially during COVID-19. However, there has been no requirement that the Northern Ireland Executive spend the funding on what has produced the consequential. Professor David Heald (2012) had referred to the difficulties in finding any principles used to distribute consequential s. Even with COVID consequential funding the Department of Health in Northern Ireland failed to set up any panels of health experts or advisors, unlike Scotland, Wales and England. The definition of Barnett consequentials has been controversial at times, whether services correspond to services within the budget of the devolved administrations. A major controversy occurred over the Confidence and Supply Agreement when the Scottish and Welsh Governments maintained that the finance given to Northern Ireland should have given rise to Barnett consequentials, as the matters identified for expenditure were all devolved. Scotland claimed a loss of £2.9 billion, and Wales a loss of £1.7 billion. Both invoked the formal dispute resolution process of the Funding Policy but failed to change the Treasury's view. This incident seriously undermined the UK Government claim to treat devolved government equitably.

6. Charges and reductions in services

A presentation by the Fiscal Commission drew much attention by a suggestion that the Executive could consider increasing revenue by imposing charges or reducing expenditure. The claim was made that this could happen if policies in specified areas matched other parts of the UK. This is a highly dubious argument if one examines the services mentioned.

a/ university fees – if we look at Scotland we find no university fees, unlike Northern Ireland.

b/ prescription charges – Scotland and Wales do not have prescription charges. It is also highly likely that such charges would not raise any significant money, taking into account the scale of exemptions for age and illnesses, the administrative costs of means testing and the detection of fraud.

c/ concessions – again, most areas of Great Britain have travel concessions for pensioners. Northern Ireland has a generous scheme which can seen as; assisting health, as a form of social prescribing, promoting shopping in towns and encouraging cross-border contact.

d/ domestic water charges – this is an example of policy divergence but is a highly popular policy and supported by all the political parties. Technically water charges are still part of rates contribution and the Government pays Northern Ireland Water, a Government owned company, for services to non-domestic consumers.

e/ welfare mitigations – social security is a devolved matter although governed by a principle of parity and AME funding from the UK. Northern Ireland Government has funded welfare mitigations including the bedroom tax from block grant. It is noticeable that unusually the DUP and Sinn Fein both support welfare mitigations and have sought ways to replace the up-lift cut in universal credit.
The First and Deputy First Minister both joined the Scottish and Welsh ministers to demand the UK Government change policy on Universal Credit cuts.

f/rates [see below]

Another important service without charges in N. Ireland is domiciliary adult social care. On the other hand N. Ireland has car parking charges for hospitals, sometimes criticised as an illness tax and different from Scotland and Wales and parts of England. The issue of charges reflects not only a key element of devolution, the freedom for policy divergence but government attitudes to social policy, with the idea of progressive universalism dominant in Wales, social justice in Scotland but no clear consensus on values in N. Ireland.

7. Local rates

Local domestic rates are divided into two categories, a local district rate and a regional rate. The local district is set by the district councils and constitutes around 46 per cent of the total rate revenue raised, which is around 1.3 £ billion a year. This makes up around 8 per cent of the total Northern Ireland revenue. District councils are responsible for a very limited range of services in what is a minimalist local government system. Councils tend to vote annually for a small increase in rates and currently 3 of the 11 councils have frozen rates. The regional component of the rates is set by the Department. Originally the rationale for the regional rate was as a contribution to services which were delivered by local government in Great Britain but not in Northern Ireland, for example, health, education, housing, justice, infrastructure and social care. The regional component is increased annually by inflation or above in recent years. The domestic rate set is based on the capital value of properties and there are regular revaluations. There is no provision for a local referendum if a proposed rate rise is defined as excessive as in England or for establishing a social care percept, a specific sum to be spent on social care. It can be argued there is no real public accountability for the regional rate. Overall rates paid are lower per head than in Great Britain, although In GB it is many years since there was a property revaluation. The non-domestic rates in Northern Ireland have been frozen during COVID and there are demands for continuing reductions or even abolition, especially with the growth of on-line trading. It is far from clear how the rating system still anchored in local government and property taxation can be used to increase revenue substantially. Any attempt to create a new kind of wealth tax would totally undermine Barnett principles.

8. Corporation tax

A devolved power was passed into law in 2015 after a major campaign strongly supported by business and the unionist political parties. The power has never been used and at present corporation tax has become a non-issue. The Minister of Finance and Sinn Fein have shown no great interest in pursuing this. The main change in attitude has come from the unionist parties who no longer wish to make the corporation tax rate in Northern Ireland different from Great Britain where it has been increased, or make it the same rate as in the Republic of Ireland. This view was recently expressed in the main unionist newspaper, the Newsletter, as ‘the unionist parties are as one in their opposition to anything that divides this province socially, politically or economically from the rest of the UK’.

9. EU Funding

It is worth noting that despite Brexit Northern Ireland will still be in receipt of some direct EU funding. This will apply particularly to the EU Special Peace Fund which will continue as new Peace Plus combining Peace and INTERREG funding of some €6 billion for 2021 to 2027, with some support from the UK. Peace Funding has over the years operated as AME funding and was outside London involvement. The Peace funding covered projects in Northern Ireland and the Border counties of the South. Students in the N I universities can continue to participate in the Erasmus scheme under an arrangement with the Irish Government. More unnoticed are the cross-border implementation bodies who are continuing to operate post Brexit and can attract EU funding. Overall, however, the Minister of Finance along with Scottish and Welsh finance ministers, have expressed great concern at the proposed EU replacement Fund controlled by the UK Government as leading to substantial loss of revenue for all three countries.

10. Funding from Irish Government

Relatively unnoticed has been funding since the Good Friday Agreement from the Irish Government. An Irish Government contribution has been part of most negotiations to resolve crises. In 2020 the Irish Government committed €500 million to foster new investment develop opportunities on a north-south basis, as a follow up to a 'shared island' initiative. In 2021 a national capital investment programme including north-south infrastructure funding of €3.5 billion, to include: the A5 road, the Narrow Water Bridge and the Ulster Canal. There is also a Reconciliation Fund which awards funds to organisations working to build better relationships and covering 2021-2024. Funding has also been given to support the Erasmus scheme. Also significant has been funding for the single electricity market on the island of Ireland.

11. The range of options for minor taxes

It is likely that main candidates will be similar to those in Scotland and Wales; aggregates, landfill tax, stamp duty, but there has been little demand or interest in Northern Ireland and they may produce little revenue. There is much more support for Air Passenger Duty at the UK level which would bring economic benefits. Fuel duties, tobacco duty and alcohol duty are seen as difficult areas because of the problem of cross-border smuggling (PWC, 2013). Small geographic size may make devolved taxes technically difficult to operate in the UK (Heald, 2020). The Northern Ireland Audit Office has also thought there is little scope for new taxes, given the low tax base. Historically motor vehicle tax was devolved to Northern Ireland and collected and retained in Northern Ireland. It is far from clear that it not still a devolved matter and the transfer of this funding to Great Britain can be questioned. Outside taxation ideas have been floated of an Ulster savings bond which would make money available to the government.

12. The problem with NI programmes for government

The most recent versions of Programmes for Government in Northern Ireland in fact make no reference to fiscal issues or expenditure commitments. This is unlike the Scottish programme for government which contains a fiscal section and many specific financial commitments. The reason for this is the decision since 2018 to produce a programme for government based on a relatively unknown American methodology called Outcomes Based Accountability. This is an unusual outcomes formula based on imagined outcomes, working backwards to set out a small number of indicators and measuring them. This means no use of objectives, targets, inputs, actions or outputs. The 2021 PoG version did make a change to list priorities but remains committed to OBA. This type of methodology has been criticised for its illogicality, for example, in treating indicators as causes (T. Bovaird, 2014). There has been large expenditure in training civil servants and public officials in using this methodology, an exercise which excludes a revenue context.

13. Possible influence of Brexit and the Protocol

It is difficult at this stage to be specific about the fiscal impacts. Most statistics offered about the Protocol should be treated with scepticism. The only reliable figure to date is that up to £270 million has been spent on support for business by the UK Government on dealing with the implementation of the Protocol, outside Barnett. The Protocol may put restrictions on actions to make changes in trade related taxes. However, it can also be noted that the UK Internal Market Act also may impose restrictions on fiscal discretion for the devolved administrations, with the Scottish and Welsh Governments making complaints (Sargeant and Jack, 2014). This Act may prevent Northern Ireland in imposing new taxes. If the Commission is making comments on the Protocol it is useful to read closely the Northern Ireland High Court judgement which dismissed all the arguments in a case against the legality of the Protocol.

14. UK Government financial actions undermining devolution

The Scottish and Welsh Governments and some N.I. ministers have strongly criticised the UK Government for starting to spend directly in areas of direct devolved competence, often without consultation. This can cut across devolved policies, produce duplication and undermine devolution. Such activities are: the city deals funded by Treasury in part; the Levelling Up Fund which applies to the whole of the UK; the new UK Shared Prosperity Fund which aims to replace a suite of EU funding but under Treasury control, and the Internal Market Act 2020 which gives the UK Government more powers to intervene in funding devolved matters. Scottish and Welsh Governments have wholly opposed UK ministers having financial powers over devolved matters and seen this as usurping devolution (Welsh Government, 2021).

15. Fiscal Framework

With Scotland and Wales having a fiscal framework this may be suggested for Northern Ireland. However, both Scotland and Wales have expressed dissatisfaction with the frameworks and Wales has argued for a single fiscal framework with a rules-based approach agreed by the four countries.

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