

25 January 2022

RE: NI Fiscal Commission Interim Report – More fiscal devolution for Northern Ireland?

Dear Mr Johnson

Thank you for your recent communication and for the further opportunity to engage with the Fiscal Commission on this important work.

As stated previously, the Alliance Party supports the devolution of additional fiscal powers to the NI Assembly, to enable taxation and spending decisions to better reflect local policy priorities. However, Alliance is cognisant of the risks associated with any such devolution of powers in terms of resultant volatility in revenues and thus welcomes the Commission's careful consideration of this risk to financial sustainability.

In the current context of wasteful public expenditure, the Party is aware that there may be limited tolerance - quite justifiably - amongst the NI public for additional powers for the NI Executive. As detailed below, we believe that any further devolution of powers would necessitate enhanced budgetary scrutiny and administrative capacities within the Executive, to restore public faith. We would also make the separate, yet related, point that a substantive element of inefficiencies in NI public spending is attributable to the costs of division (estimated to be in the cost range of £400m-£830m per annum)<sup>1</sup>.

As requested in your letter, this response is structured around the four key consultative questions posed by the Commission. However, we would make the following preliminary points in support of the Fiscal Commission's work to date:

- The Interim Report states that the *NI Executive controls most of the spending on public services that happens within Northern Ireland – almost £9 in every £10 of 'identifiable' public spending. However, other than rates on businesses and households it has no real substantive powers to vary taxes and raises less than £1 in every £20 of Northern Ireland tax revenue.* With regards to this financial disconnect, when NI diverges from the UK in terms of revenue raising, via super parity, there is obviously a **direct cost** in terms of foregone revenue (and thus provision of services), but this also constrains the NI Executive's capacity to tax and fund services **strategically and in alignment with the specific needs and objectives of NI**. This also undermines the Executives ability to **implement taxation to (dis)incentivise (un)desirable behaviours and to complement local policymaking in other devolved areas**, for example taxation on tobacco/alcohol.
- This comparative lack of local revenue raising leaves NI particularly reliant on Westminster and provision of funds via Block Grant and Barnett consequentials. This is not a tenable position and makes the Executive less **accountable** to NI citizens.
- This is evidently an undesirable position in any scenario, but given the fact that NI is significantly poorer than the UK as a whole (as detailed in the interim report), **it is doubly important that fiscal policy be tailored to these specific needs**, rather than a one-size-fits-all tax regime. Furthermore, local tax policy should be cognisant of the physical land border between NI and ROI.

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<sup>1</sup> [https://www.ulster.ac.uk/\\_\\_data/assets/pdf\\_file/0007/86524/Cost-of-Division-Overview-Report.pdf](https://www.ulster.ac.uk/__data/assets/pdf_file/0007/86524/Cost-of-Division-Overview-Report.pdf)

- The above issues are further impeded by the impact that Covid-19 has had on public finances. In this environment **local revenue raising powers will arguably be even more vital in mitigating associated economic impacts and enabling sustainable recovery in NI.**

With regards to the specific questions presented in your letter:

QUESTION 1 – Do you agree with our understanding and representation of why fiscal devolution might be considered important and the contemporary context of Northern Ireland, as described in Chapter 1? If you disagree, can you explain where your analysis differs? Are there additional factors that we should also consider?

**Yes. The Alliance Party agrees with the rationale for additional fiscal devolution, as referenced in preliminary comments. However, it is vital that this be considered in the context of associated risks to revenue streams, as is the plan of the Fiscal Commission.**

**It is also essential that adequate capacity be in situ within the Executive to competently absorb and manage associated financial powers. Following the RHI scandal, public trust in the NI Executive's financial capacities is significantly diminished. The Alliance party would urge that any additional tax raising powers be underpinned by an associated drive to enhance financial and administrative capacities. This will be vital in restoring public faith and in minimising inefficiencies. Again, we would make the related point that there are also significant inefficiencies associated with the cost of division in NI - this is a noteworthy characteristic when considering the contemporary context of NI.**

**The detail as to how the Block Grant for NI would be adjusted in response to tax devolution is another crucial consideration in the broader debate as to the desirability (or otherwise) of additional powers and we look forward to further details on that point in the Commission's final report.**

QUESTION 2 - Do you agree with our understanding and our representation of the current Northern Ireland context? If you disagree, can you explain in relation to which aspects?

**Yes, we agree with the representation of the NI context and, specifically, the comparative disadvantages NI faces and will undoubtedly continue to face post Covid-19.**

**The pandemic has exacerbated inequality globally. As a means of redistributing wealth, tax policy will be doubly important in addressing this challenge locally and will play an important role in the NI Executive's ability to tackle poverty, reduce inequality and enable a fairer society.**

**The Alliance Party believes that the commission should also consider the opportunities associated with NI's unique access to both the UK and EU markets as part of the broader NI context.**

**Furthermore, the work of the Fiscal Commission and the Fiscal Council arguably involve some degree of overlap in that the likely success of devolved revenue raising powers will be a direct product of the effectiveness and efficiency of local Budgetary processes. The Alliance Party would also be supportive of an associated consideration as to how fiscal powers might align with an Infrastructure Commission for NI, as per that in situ in Scotland, to maximise the impact of additional revenues over longer time frames.**

QUESTION 3 - Do you agree with our analysis of the suitability or otherwise for devolution of the individual taxes listed in Chapter 4? If you disagree, can you explain where your own analysis may differ and how?

**The Alliance Party concurs with the identified tax options and would reiterate a preference for tax policies that are progressive, supportive of business and conducive to improved economic and social outcomes. We would also urge that policies that will incentivise green behaviours be prioritised, in accordance with the pursuance of a Green Recovery.**

QUESTION 4 - Do you agree with our conclusions regarding the prioritisation of specific taxes to be carried forward for further consideration in the second phase of our work? If you disagree, can you explain which taxes you believe should be treated differently and why? Can you provide information which would support or detract from the potential devolution of Excise Duties to Northern Ireland?

**We note that the Interim Report recommends a gradual phasing of any additional tax raising powers and concur with this as a means to easing any associated transition. The Commission is specifically recommending that NI should not seek the devolution of more than one 'major tax' at this time. However, we believe this should be balanced against any associated exposure that the Executive will face regarding volatility in tax revenue. It could be argued that the implementation of two major tax-raising powers concurrently would be beneficial in diversifying this risk. We would welcome an assessment as to the pros and cons of a dual tax devolution.**

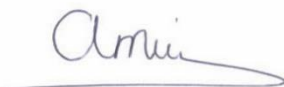
**Furthermore, we would welcome a consideration as to the potential role of a hypothecated tax source which is ringfenced specifically for the pursuance of a green, sustainable agenda to ensure that a minimal level of tax is designated to this outcome.**

**Finally, we welcome the fact that the Commission is considering broader demographic impacts, such as the likelihood of a reduced working age population in NI in coming years and associated fiscal implications. In this context, we would urge that these considerations also reflect the Brain Drain challenge, which continues to persist in NI, and the potential role of fiscal policy in reducing and/or reversing this tendency.**

Thanks again for the opportunity to contribute to the work of the Commission and we look forward to continuing to work with you constructively in the future.

Kind regards

Yours sincerely



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Alliance Party Finance Spokesperson

