NICVA response to the December 2021 Interim Report of the Fiscal Commission NI

January 2022

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Background

NICVA is the umbrella body for the voluntary, community and social enterprise (VCSE) sector in Northern Ireland with over 1100 members, who provide a wide range of services and activities for public benefit. These range from health, social care, and emergency services; advice and counselling, community development and peace-building; to environmental, arts, and sporting activities. NICVA's database of VCSE sector organisations holds records of over 6,100 organisations employing over 53,000 people across Northern Ireland. For further details on the NI VCSE sector visit NICVA 'State of the Sector' resource at - https://www.nicva.org/stateofthesector

General Comments

NICVA welcomes the establishment of the Fiscal Commission NI and its Interim Report as an important contribution to encouraging debate and consideration of the case for increasing the fiscal powers available to the NI Assembly, particularly at a time when NI public budgets are under enormous pressure and struggling to meet our society's needs. NICVA recognised the importance of fiscal devolution for the future well-being of NI society back in 2013, when through its Centre for Economic Empowerment (CEE) project it commissioned PwC to carry out a review of the Assembly's Fiscal Powers. (See - cee_fiscal_powers_report_2013.pdf (nicva.org)). This latest report by the Fiscal Commission NI reaffirms many of the conclusions and recommendations of PwC's report, which there is an even more pressing case to consider given our current public expenditure challenges.

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?

NICVA agrees with the Commission's arguments for considering fiscal devolution, namely to address why, while NI government is spending 20% more per head and receiving 15% less tax revenue than the UK average, NI remains substantially poorer than the UK as a whole with lower than UK average earnings and lower productivity. Given this and the fact the NI Assembly decides how £9 out of every £10 of public NI funding is spent, but only takes responsibility for how £1 in every

£20 of NI revenue is raised, shows there is both ample scope and an urgent need to consider how devolved fiscal powers could put NI on a more sustainable financial footing.

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?

NICVA generally agrees with the report's representation of the current NI context particularly in relation to the challenges outlined above. To these challenges could be added: financial pressure to deal with the current crisis in the NI health service and future growing demand; coping with the additional pressures of the Covid-19 pandemic; and dealing with the financial fallout of EU Exit, such as the expected net loss of substantial sums of NI domestic public funding, previously available under the funding allocations provided by EU structural funds and other EU funding, and not replaced in quantity or kind by new UK funding.[1]

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 you own analysis may differ and how?

NICVA would broadly support the Commission's analysis of the suitability or otherwise of devolution for the individual taxes listed in Chapter 4. We note the report identifies Income tax, Stamp duty, Air Passenger Duty, and Landfill Tax, as amongst the taxes most worthy of consideration for fiscal devolution, mirroring recommendations made in the NICVA-commissioned 2013 report. We would also highlight in relation to devolving Income Tax, that the 2013 PwC report identified possible downsides to this, due to "*considerable uncertainty about the extent of responsiveness on the part of employees to tax rates,"* as well as the possible knock-on requirements under EU law for consequent deductions in the Northern Ireland funding block[2]. Post-Brexit, and under the NI protocol arrangements, we are unsure whether the latter remains a consideration but may be something the Commission may wish to consider. Also, the Commission's report highlights at para 3.2.15 that any gain in revenue from devolving income tax in Scotland has to be weighed against the gains it would have received under the Barnett formula from increased UK level income tax revenue. A similar consideration needs to be fully considered

[1] https://www.bbc.co.uk/news/uk-northern-ireland-59972847

[2] From the 2013 NICVA-commissioned PwC report on NI Fiscal Powers - "*At the same time, there are other significant considerations relating to whether Income Tax should be devolved. For example, there is considerable uncertainty about the extent of responsiveness on the part of employees to tax rates. Additionally, as in other cases of tax devolution, EU law would require a deduction to be made from the Northern Ireland funding block and for that deduction to be indexed over time. If the indexing method chosen was that of the % change in Income Tax revenues in the whole of the UK this begs the question whether the future performance of the Northern Ireland economy makes it likely the actual growth in Income Tax revenues would exceed the deduction. This creates the risk that Income Tax deduction would lead to the Assembly having less resources in the future*."

for NI to ensure a real and substantial net gain in revenue would be likely to be achieved.

The Commission report's reservations around Corporation Tax echo reservations made in the 2013 report about these, and the fact that the Commission's conclusions in general broadly mirror those of the earlier report tends to reinforce our view that the Commission's recommendations are broadly sound.

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?

For the reasons outlined above, NICVA would broadly agree with the Commission's conclusions regarding the prioritisation of specific taxes to be carried forward for further consideration, including Income Tax (with consideration of the points made above), Stamp duty, Air Passenger Duty, and Landfill Tax. In NICVA's view, nothing should off the table for consideration, and since the context can change (for example post-Brexit) we would encourage periodic reviews of the options for fiscal devolution every few years.

For further information, please contact –

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