PIVOTAL

Fiscal Commission Northern Ireland - Interim Report

Consultation response from Pivotal

Pivotal is the independent public policy think tank for Northern Ireland. Pivotal is a new organisation which aims to help improve public policy in Northern Ireland, through promoting a greater use of evidence in decision-making and by involving a wider range of people in talking about policy issues that matter to them. Pivotal is independent of political parties and political ideologies, and we operate outside of government. We aim to enable discussion about public policy issues in Northern Ireland that is evidence-based, inclusive and accessible.

Pivotal welcomes the work of the Fiscal Commission Northern Ireland and this interim report. The report provides a comprehensive examination of the possibilities for further devolution of tax-raising powers, which has not been done before and is therefore much needed. The report includes a thorough assessment of the benefits that could come from increased devolution of tax-raising powers, but is also realistic about the challenges and limitations. The independent and expert nature of the report is particularly welcome; such external perspectives on policy issues are much needed in Northern Ireland.

In this short consultation response to the interim report, Pivotal's comments will focus on the overall case for increased fiscal devolution in Northern Ireland and the broad content of the report, rather than providing any views about the desirability or feasibility of devolving particular taxes. As a small think tank, unfortunately at this stage of our development we do not have the expertise or resources to provide informed comment about the detailed proposals on individual taxes.

Building greater understanding about fiscal devolution in Northern Ireland

As noted in the interim report, fiscal issues are not well understood in Northern Ireland given the limited existing powers. The detailed evidence and analysis in the report will greatly contribute to building better understanding. In particular, the report is helpful in highlighting the challenges associated with greater fiscal devolution, especially the potential reductions in the block grant and the greater volatility in the overall spending envelope that could result from the Executive's income becoming more dependent on the amount of tax raised in Northern Ireland. Given this lack of public understanding, it would be useful for the Commission to consider how it can ensure its work reaches a broad audience in Northern Ireland in appropriately accessible formats.

Rationale for increased devolution of fiscal powers

The ability to raise increased revenue and so boost the Northern Ireland Executive's spending power would seem to be the main motivation behind the commissioning of this work from the Fiscal Commission. Greater tax-raising powers may be seen by some as a solution to Northern Ireland's constrained public finance situation. However, as the report makes clear, devolution of fiscal powers can also be used to pursue other policy aims through incentivising particular behaviours or choices, for example in public health, economic activity or environmental policy. Changes to taxes can also be used to tailor policies more effectively for Northern Ireland's particular circumstances. In Pivotal's view, it would be helpful if the Commission's final report and the subsequent discussions within the Executive put significant weight on the use of fiscal powers as a policy lever to strengthen Northern Ireland's economy and society, rather than just as a way to raise more revenue.

Northern Ireland Executive's capacity to take on increased tax-raising powers

The interim report says that most stakeholders raised questions about the Executive's ability to take on greater tax-raising powers, given its record of instability and difficulties in providing effective government in Northern Ireland. Pivotal would strongly echo these concerns.

Pivotal's report Good Government in Northern Ireland (March 2020) assessed the Executive's record in providing effective government here. While acknowledging the difficulties of operating a multi-party coalition, our report highlighted particular problems including a focus on short-term problems, a lack of joined-up government, an absence of longer term planning and a failure to take tough choices.

As the Commission's interim report points out, the Executive already has significant autonomy over spending, but its record in allocating this funding effectively is poor. In evidence to the Northern Ireland Assembly's Finance Committee on the draft Budget for 2021-22 , Pivotal set out problems in the budget-setting process, namely a lack of strategy, no connection to a Programme for Government, lack of detail of why choices were made and a failure to address long-standing problems like public sector reform. The recent Northern Ireland Fiscal Council assessment of the draft Budget for 2022-25 raised similar issues. While welcoming the move to multi-year budgets, the Fiscal Council said that there was a lack of evidence of strategy or reform, little information about efficiencies, lack of detail of why choices were made and an absence of plans for the longer term transformation of services.

The Executive has also showed a reluctance to use the fiscal powers it has already to raise revenue through varying regional rates, for example the draft Budget for 2022-25 proposes freezing domestic and non-domestic rates, which would mean foregoing potential income of £175 million.

For further fiscal devolution to work, there would need to be a strong and effective working relationship between the Northern Ireland Executive and the UK Government, particularly the Treasury. It is concerning that this does not seem to be in place at present. We note that the Chief Secretary to the Treasury recently wrote to the Finance Minister expressing scepticism about the readiness of the Northern Ireland Executive to take on additional fiscal responsibility. This letter said that the Executive needs to develop and execute a plan for securing its fiscal sustainability, before looking at the merits of increasing fiscal powers. Because of these questions, the Treasury did not engage with the Fiscal Commission Northern Ireland as fully as it did with similar commissions in Scotland and Wales.

While the Fiscal Commission's work is very welcome, Pivotal's view at present is that the Executive's focus should be on getting the best possible outcomes from Northern Ireland's existing funding allocation through improving the budget-setting and budget management processes, rather than looking to secure increased tax-raising powers.

Similarly, fiscal devolution should not be seen as a 'silver bullet' to solve Northern Ireland's public finance problems or economic challenges. In Pivotal's view, the Executive would do better to focus its attention on the core challenges behind Northern Ireland's economic and social problems like low levels of skills, under-investment in infrastructure and the need for public sector reform.

'Super-parity' issues

The Fiscal Commission's interim report usefully highlights the 'super-parity' issues where the Northern Ireland Executive foregoes possible income by making a different policy choice to the rest of the UK. Most significant of these are the absence of water charges, various rates reliefs and welfare mitigations. The report helpfully concludes that the Executive could have £600-700 million extra available to spend on services if these were discontinued. It would be useful if the Commission's final report and subsequent discussions could include a significant focus on these issues as potential income sources, as well as the planned work on potential new revenue-raising powers.

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