Sustainable public finances and fiscal devolution

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NI Economics Conference, Agenda NI

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TLDL: Too long, didn't listen

- The two main sources of government revenues are taxes and social contributions. While for a certain period of time additional revenue requirements could be financed by acquiring debt, in the long run, revenues and expenditures should be balanced to guarantee the sustainability of public finances.

- Devolution is not a harbinger for sustainable public finances in NI, although NI Assembly can play a part.

- UK Government is responsible for the sustainability of UK public finances, of which Northern Ireland (and devolved Government) contributes its part.

- Too much credence being given to the idea that Northern Ireland's public finances woes can be fixed by:

  (a) further devolution of tax raising powers.

  (b) revenue raising via areas of so called 'super-parity'.

  (c) move to a needs-based system based on replication of Welsh model.

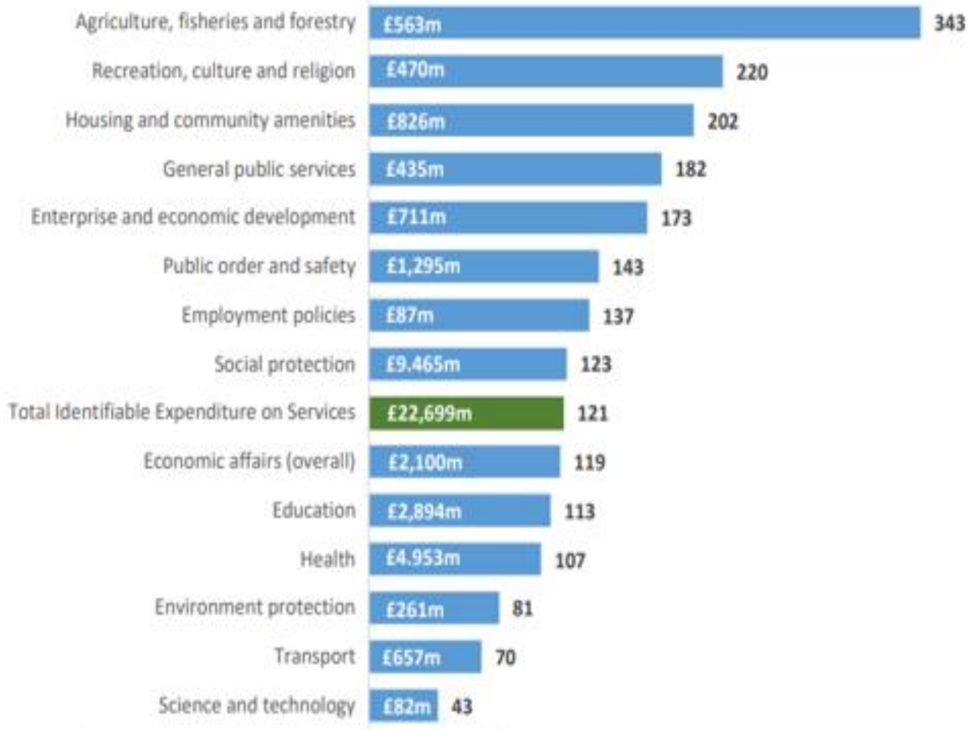
Context

- Context in the sense of ‘new’ history.
- Independent Fiscal Commission established in 2021 tasked with *‘carrying out research and put forward recommendations on powers to enhance the NI Assembly’s fiscal responsibilities and increase its ability to raise revenues to sustainably fund public services.’*
- Establishment of The Northern Ireland Fiscal Council in 2021.
- The Barnett squeeze.
- Consultations on revenue raising.
- Needs-based approach, Barnett Floor & ‘The Welsh model’.

Context

- Context over the longer-term Northern Ireland spends too much. Raises too little.
- Not fiscally responsible.
- Not fiscally sustainable.

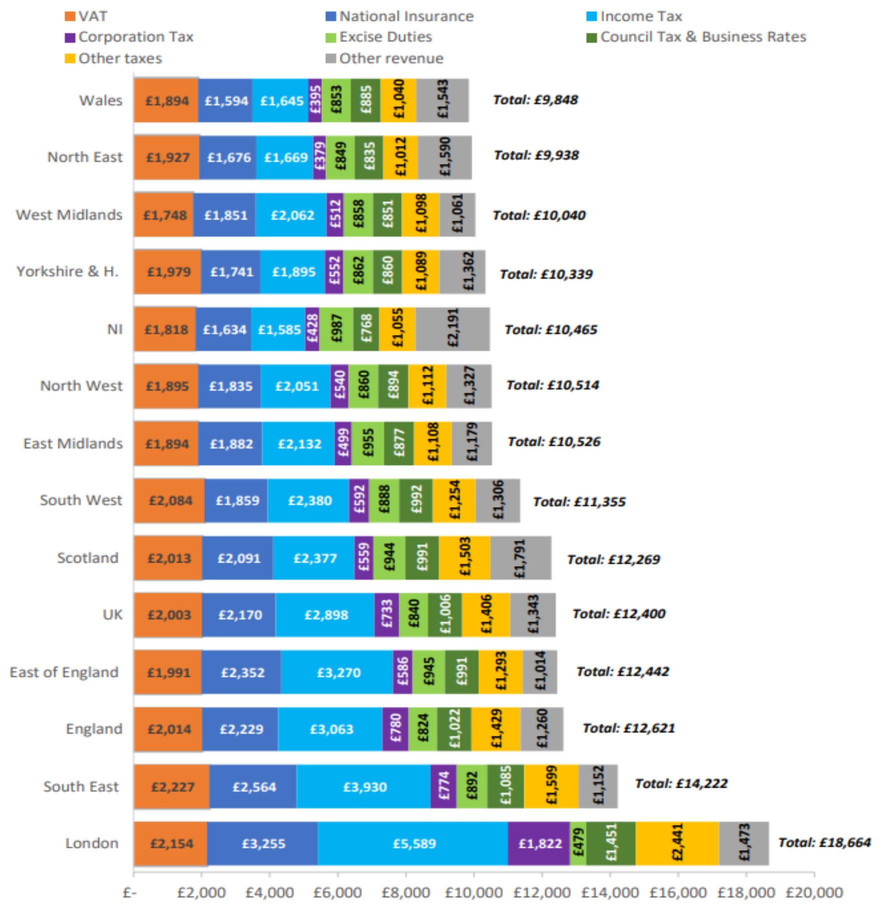
Chart 2.9 Northern Ireland identifiable expenditure on services by function, £ and per head indexed, UK = 100



Source: NISRA, HM Treasury Country and Regional Analysis 2020

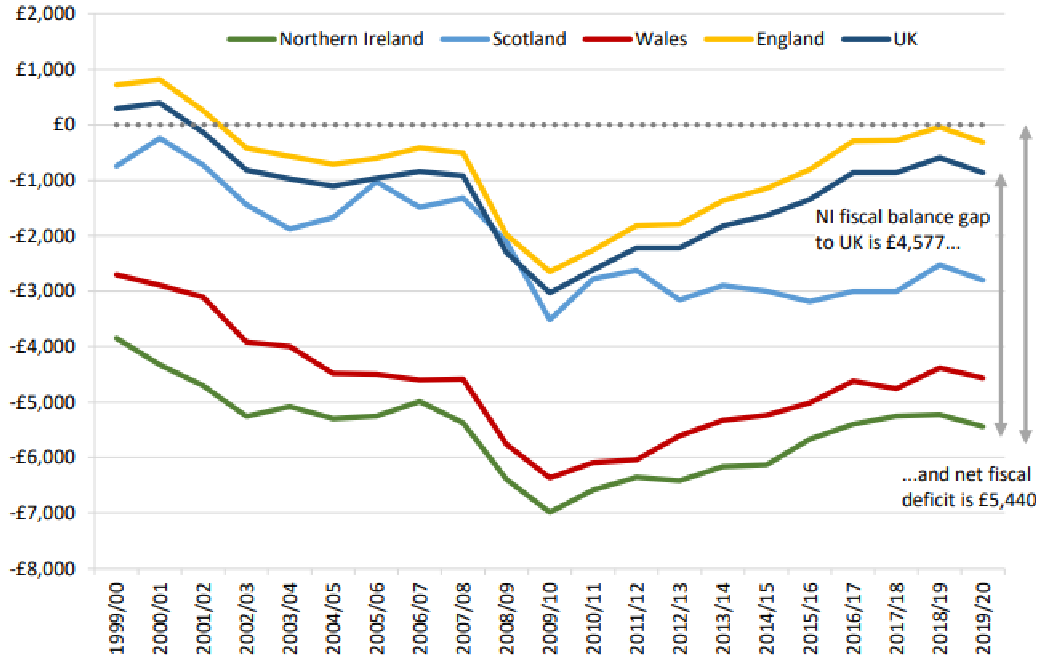
Note: These expenditure areas do not necessarily correspond to Northern Ireland departmental spend.

Chart 2.10 UK regions, composition of revenue per head (£), 2019/20, geographic basis



Source: ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables.

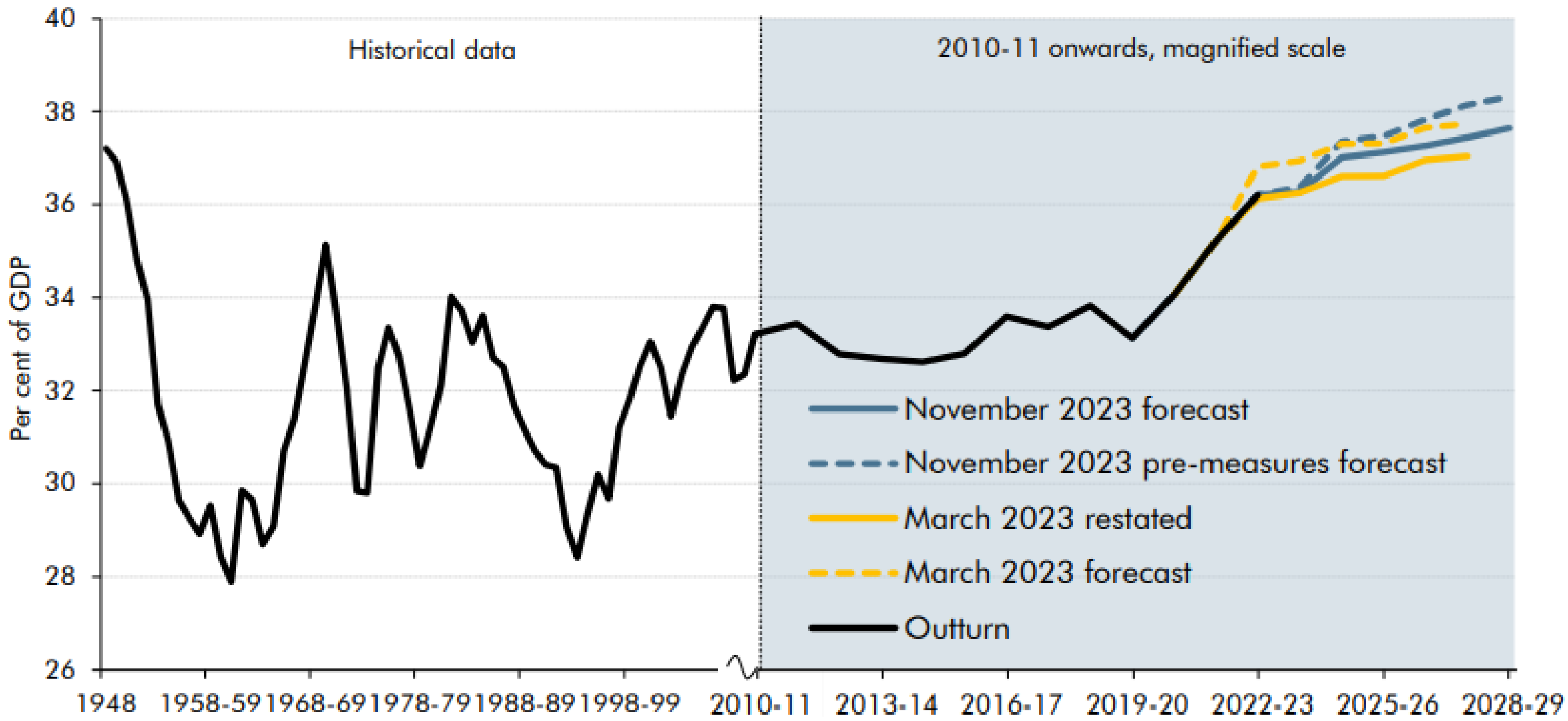
Chart 2.15 Northern Ireland Net Fiscal balances per head, since 1999/00, £, 2019-20 prices



Source: ONS Country and Regional Public Sector Finances, FYE 2020

UK taxable capacity was to the fore of discussion around Autumn Statement….

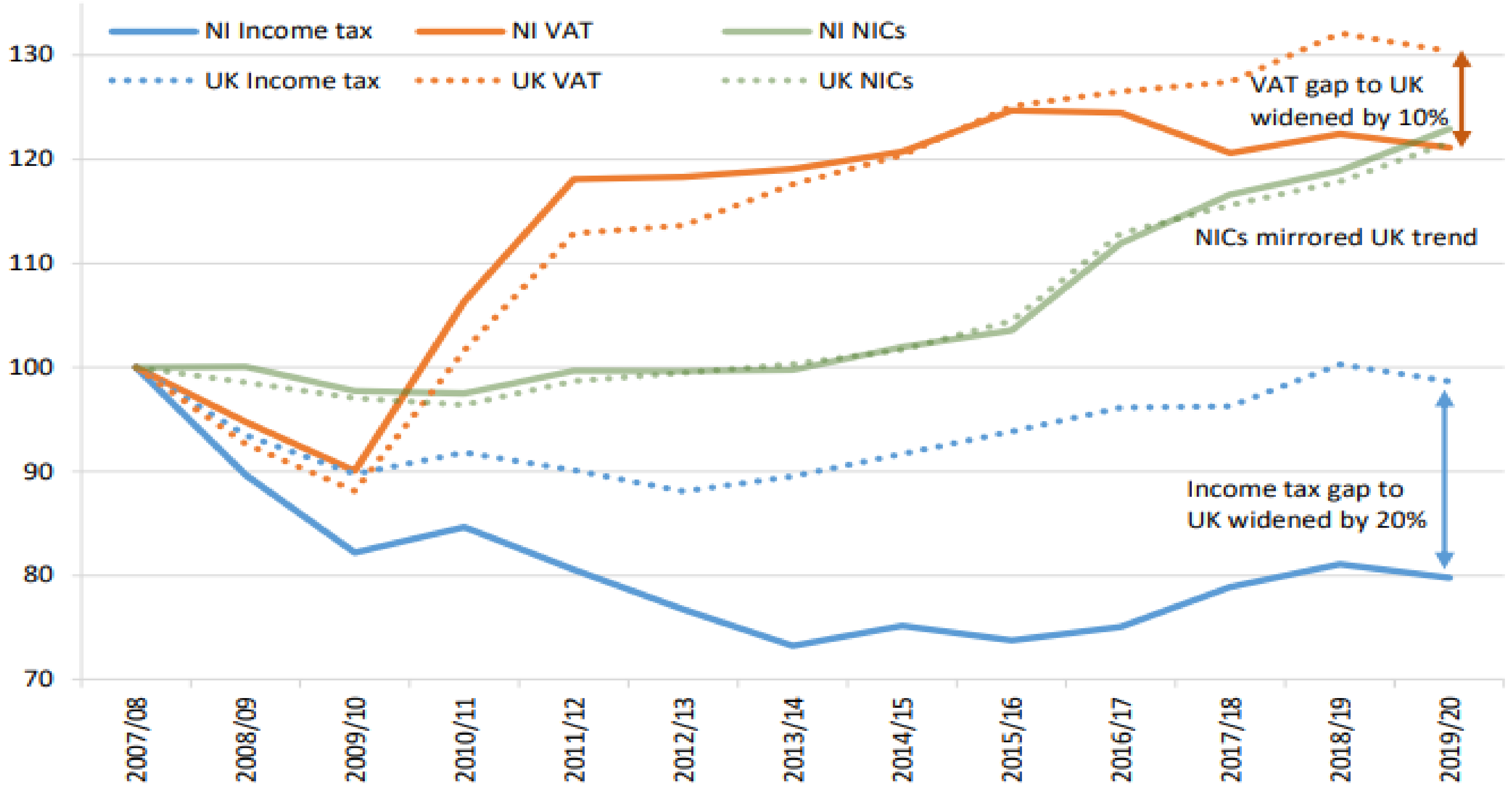
Chart 4.1: National Accounts taxes as a share of GDP



Note: For March 2023 forecast restated, the denominator is the latest nominal GDP outturn in 2022-23 grown forward using our March 2023 forecast.
Source: ONS, OBR

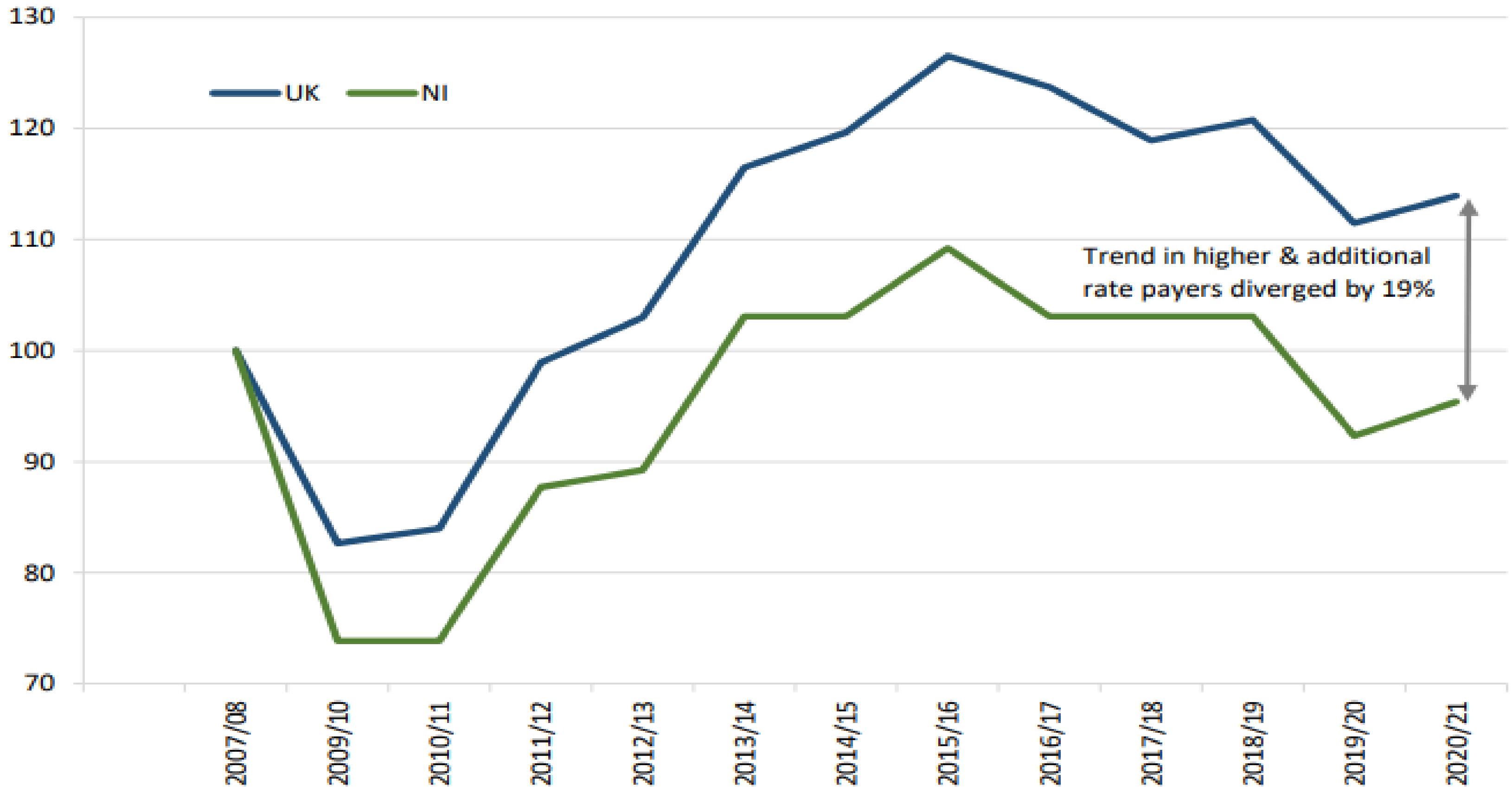
Source: OBR Economic and Fiscal Outlook, https://obr.uk/docs/dlm_uploads/E03004355_November-Economic-and-Fiscal-Outlook_Web-Accessible.pdf

Chart 2.11 Northern Ireland and UK Tax receipts: Income tax, VAT and NICs comparison in real terms, 2007/8=100



Source: ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables.

Chart 2.12 Index of number of higher and additional rate tax payers, 2007/08 = 100



Source: HMRC income tax payers by country[76]

Sustainable public finances via further devolution of tax raising powers?

The Independent Fiscal Commission NI

The Commission…

Terms of Reference	*"Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly's fiscal responsibilities, **increase its ability to raise revenues to sustainably fund public services**, and provide additional policy instruments. …"*
Established	• **By NI Finance Minister, Conor Murphy MLA, March 2021, Ministerial Statement** • **Report to Finance Minister ahead of new political mandate (elections, May 2022)**
Commissioners	• **Paul Johnson, Chair,** Director, Institute for Fiscal Studies • **Prof. Cathy Gormley-Heenan**, former deputy V/Chancellor Ulster University; • **Prof Iain McLean**, Emeritus Professor of Politics at Oxford University; and • **Dr. Lisa Wilson**, Senior Economist at the Nevin Economic Research Institute.

Key points ahead of further fiscal devolution

No reason in principle why, in the long term, a substantial fraction of current taxes could not be devolved

Northern Ireland should not seek the devolution of more than one 'major tax' at this time -

Arguably, Northern Ireland should look to pursue smaller taxes in the first instance

Northern Ireland should take on further powers gradually

Sustainable public finances via revenue raising via areas of so called ‘super-parity’

- A series of on-going consultations.
- DoF consultation framed around 4 key questions:
    - Are there other revenue raising measures that should be considered?
    - Are there any services/ programmes that should be stopped or reduced to divert funding to more critical services?
    - Are there public services that could be delivered in a different way?
    - Are there public services that could be delivered by others (e.g. local government, voluntary & community sector or private sector) or are there are other areas in which greater collaboration could deliver better outcomes?

Sustainable public finances via revenue raising via areas of so called ‘super-parity’

- Savings in the region of £980bn already been made.
- Still looking at the guts of £1bn overspend.

- Super-parity total impact in NI between £600m and £700m per annum (2021 estimates).
- That to be raised doesn’t necessarily equate with the total impact above.
- Ignores sub-parity.

Sustainable public finances via a needs-based system?

- Starts from premise that Northern Ireland funding model is to blame for lack of sustainability of NI public finances.
- Barnett squeeze. ‘The biggest threat to the sustainability of the Executive’s finances, in terms of its ability of deliver services comparable to those in the rest of the UK, is the Barnett squeeze.’
- Calls to move to a needs-based model.
- Little discussion/critical analysis over what NI relative need is.
- Replication of Holtham Commission methodology not without question. Issues of which were even brought up in that Commission.

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