

**Devolution of more fiscal powers to Northern Ireland – Pivotal’s response to Department of Finance consultation**

Pivotal is an independent public policy think tank for Northern Ireland. Pivotal seeks to contribute to improved policy-making here by promoting a greater use of evidence and involving a wider range of people in talking about policy issues. Pivotal is independent of political parties and operates outside of government. You can read more about Pivotal on our [website](http://www.pivotalppf.org/) .

Pivotal welcomes the work of the Fiscal Commission NI about the possible devolution of more fiscal powers here. The Fiscal Commission reports have provided a thorough analysis of the issues, giving an independent and expert view. The detailed data and analysis in their reports are very helpful. We are pleased that the Department of Finance (DoF) has kept the process moving forward by running this public consultation. We would encourage politicians and civil servants in Northern Ireland to build on the momentum created by the Fiscal Commission’s work to ensure these issues are given full consideration. We note the current absence of an Executive and therefore the reduced likelihood of any imminent political discussion, but would encourage a returning Executive to re-engage with these issues. It is important that this valuable work does not find itself left on the shelf now that an informed conversation has started.

In this short response to DoF’s consultation, we set out Pivotal’s views on the headline question of greater devolution of fiscal powers to Northern Ireland. We do not have the expertise to give adequately informed views about the desirability of the options for devolution of different taxes.

**The outlook for Northern Ireland’s future block grant allocations is bleak – so consideration of increased fiscal powers is welcome as a potential part of the policy response**

While the Autumn Statement on 17 November 2022 gave some limited additional funding to Northern Ireland over the next two years, beyond April 2025 the expectation is that public spending allocations will be extremely constrained (see for example [IFS response to Autumn Statement](https://ifs.org.uk/articles/autumn-statement-2022-response)). In addition, the [Northern Ireland Fiscal Council](https://www.nifiscalcouncil.org/news/sustainability-report-2022) has highlighted how the ‘Barnett squeeze’ is gradually reducing the premium in spending per head from which Northern Ireland has historically benefited.

Given that Northern Ireland is already facing serious difficulties with public sector budgets before these upcoming increased pressures, it is sensible to consider raising more revenue locally as one possible element of a potential policy response.

**There is a need for realism from politicians about Northern Ireland’s public finances and the possible need for increased revenue raising**

In the face of this bleak outlook for future block grant allocations, there is a need for a fuller conversation about how to ensure adequate funding to maintain public services in Northern Ireland at an acceptable standard. In that context, we welcome the Fiscal Commission’s consideration of increased revenue raising as a possible policy option. Existing political discussions about public finances in Northern Ireland tend to be limited to comments about the block grant being insufficient and calls for increased funding from the UK Government. The political discourse needs to be broader and deeper than this, especially given the outlook for the coming years.

In the first instance, there is an obvious need to get the very best from existing spending through reforms to how public services are delivered. Often these difficult choices about reform have been avoided in the past, when in fact they would result in better services for the public in the longer term (see for example the evidence in the recent [NI Fiscal Council report on the sustainability of the health system](https://www.nifiscalcouncil.org/publications/sustainability-report-2022-special-focus-health)). Second, more revenue may need to be raised locally as a way to ensure sufficient funding. While this may not be popular, it may be a necessary policy choice to maintain public services at an acceptable standard. We would urge politicians to acknowledge this reality rather than closing down any suggestions of additional revenue raising here.

**A well-informed public conversation is needed**

Fiscal issues are not well understood in Northern Ireland given the limited existing powers. An informed public conversation about potential fiscal devolution is needed, both about the possibility of greater fiscal powers in principle and about the range of options in terms of specific measures. The prevailing political discourse mentioned above creates an environment where any more local revenue raising is seen as undesirable, when in fact it could make a positive impact both through raising funding to maintain public services and/or through incentivising behavioural change.

This public conversation needs to be informed by clear information that reaches a wider audience. There are obviously complex issues in this debate that need to be explained in an accessible way. The potential benefits should be set out so that people can see the rationale for raising more revenue locally. Similarly, the risks of increased fiscal powers need to be understood, especially the potential for reductions and/or volatility in the block grant as a result of changes to the amount of revenue raised.

**Most people are sceptical about the ability of the Executive to take on increased fiscal powers – and its track record would suggest it may be unwilling to do so**

In principle, we would agree that devolving powers to a more local level is often desirable, since it means local decision-making and accountability based on local issues and priorities. However, the Fiscal Commission’s report noted a resounding message from almost all consultees questioning the Northern Ireland Executive’s capacity to take on the devolution of fiscal powers, both in terms of its stability and its ability to reach coherent and consistent policy decisions. It is notable also that the Treasury has said that getting Northern Ireland’s public finances onto a sustainable footing is a pre-condition of any devolution of corporation tax powers. Unfortunately, the current absence of an Executive and the actions that have been needed to manage a forecast budgetary overspend in 2022-23 will have further undermined confidence in the Executive’s capacity.

Pivotal’s earlier work on how government works here (see for example [Good Government in Northern Ireland](https://www.pivotalppf.org/cmsfiles/Publications/Good-Government-in-Northern-Ireland.pdf)) echoes many of these points. Since devolution in 1999, the Executive has not functioned for more than 40% of the time. When it has been in place, it has struggled with instability and poor decision-making. As a result, difficult choices have been avoided, there has been little longer term planning and cross-government working has been lacking. Unfortunately this track record does not suggest that the Executive is in a strong position to take on new fiscal powers.

In addition, the Executive has a poor record in managing its own budget setting (for example see assessments by the [NI Fiscal Council](https://www.nifiscalcouncil.org/)). It would be reasonable to argue that the Executive’s focus should instead 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.

Moreover, the Northern Ireland Executive’s decisions to date seem to demonstrate a reluctance to take on greater responsibility for raising revenue here. For example, the Fiscal Commission report sets out ‘super-parity’ measures totalling £600-700 million per year where potential revenue is foregone through particular policy choices, with the most significant being domestic water charges. In addition, the Executive has generally chosen not to raise significant new revenue by increasing the regional rate. While some argue that increased fiscal powers might help build the Executive’s capacity and stability through having more responsibility, there is little evidence of this being true from looking at the use of the existing set of fiscal powers.

**An incremental approach to any fiscal devolution would seem wise**

Any change to fiscal powers in Northern Ireland should come over a long time period and in the context of a sustained political and public discussion, as has been the case in Scotland and Wales. Small initial steps would seem appropriate, which could be built on over time. In the first instance, new tax measures could be used to incentivise certain behaviours in areas with a strong evidence base (and ideally popular support), for example to pursue public health, economic or environmental objectives. Any extra revenue raised could be used to fund particular projects to demonstrate a clear and tangible benefit. This could be an opportunity for Northern Ireland to take a distinctive approach in some important policy areas.

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