



Northern Ireland
Fiscal Council

Bringing transparency to NI's public finances

#NIFCAnnualConference

Is the NI Financial Package enough?



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NI's funding and spending

18 September 2023

NI Fiscal Council
Annual Conference

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@TheIFS



Economic
and Social
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Presentation available at:

<https://ifs.org.uk/publications/nis-funding-and-spending>

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The NI Fiscal package: is it enough?



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For NIFC Conference Sep 2023



Summary and disclaimer

IM was a member of NI Fiscal Commission but

- Commission reports speak for themselves
- Interim report: <https://www.fiscalcommissionni.org/evidence/fcni-interim-report-more-fiscal-devolution-northern-ireland>
- Final report: <https://www.fiscalcommissionni.org/evidence/fcni-final-report-more-fiscal-devolution-northern-ireland>
- Commissioned by, and welcomed by, Finance Minister
- All NI parties gave evidence, no serious dissent from our conclusions reported
- Pleased that Fiscal Council is taking this on, need restored Assembly to take decisions
- ... and engage with UK Govt.

A brief history of needs assessments

NB, the Barnett distribution is NOT based on relative need!

- HM Treasury 1979 (based on 1976 data)
 - Prepared in anticipation of devolution to Sc, Wales
 - With input from territorial departments but not fully accepted by Scottish Office
 - ‘Needs’ for services that would have been devolved under 1978 Acts
 - Therefore **excludes social protection**, as does Barnett Formula
 - Relative needs: Scotland getting ‘too much’, Wales ‘too little’; NI ‘about right’

United Kingdom Government Needs Assessments 1979 and 1993 and actual levels of spending per capita (in index terms)

		recommended in 1979 Needs Assessment study	according to 1993 Treasury Needs Assessments	recommended in 1993 Treasury Needs Assessments
England	100	100	100	100
Scotland	122	116	133	115
Wales	106	109	122	112
Northern Ireland	135	131	127	122

More needs assessments: NIFC's in context

- 1993 HMT assessment never published; no input from territorial departments
- Not revealed until HL Select Committee Report on Barnett Formula:
 - <https://publications.parliament.uk/pa/ld200809/ldselect/ldbarnett/139/13907.htm>
- HMT officials interested in transitioning to relative needs:
 - But, politics (especially in Scotland)
 - So Barnett has continued to run
 - Unfairness to Wales, noted by Holtham
 - 'Fixed' by Wales floor, 2016

How robust is NIFC Needs Assessment?

- Uses Holtham methodology
- Less 'gameable' than prior methods
- Goodhart's Law: 'When a measure becomes a target, it ceases to be a valid measure'
- Your magic number: **124**
- **Reminder: this excludes social protection**
- Sensitivity analysis (unlike HMT 1976 and 1993 exercises)

If 124 is the right number, how to reach it?

- Barnett allocation is outside NI's control
- Need to look at tax side as well
- But 'SoSNI has already set the Regional Rate for 2023/24. This is the only major locally determined tax' (*The NIO's 2023-24 Budget for Northern Ireland: initial summary*)
- Therefore, only flexibility is on fees, charges, super parity
- 'Super parity' is a strange circumlocution for 'deciding not to charge for water'
- NI needs elected politicians to decide these trade-offs....
- Set its own tax rates, and ...
- Consider the recommendations of the FCNI

Thank you

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Fiscal devolution in Wales: pointers for Northern Ireland?

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Presentation for Northern Ireland Fiscal Commission Conference

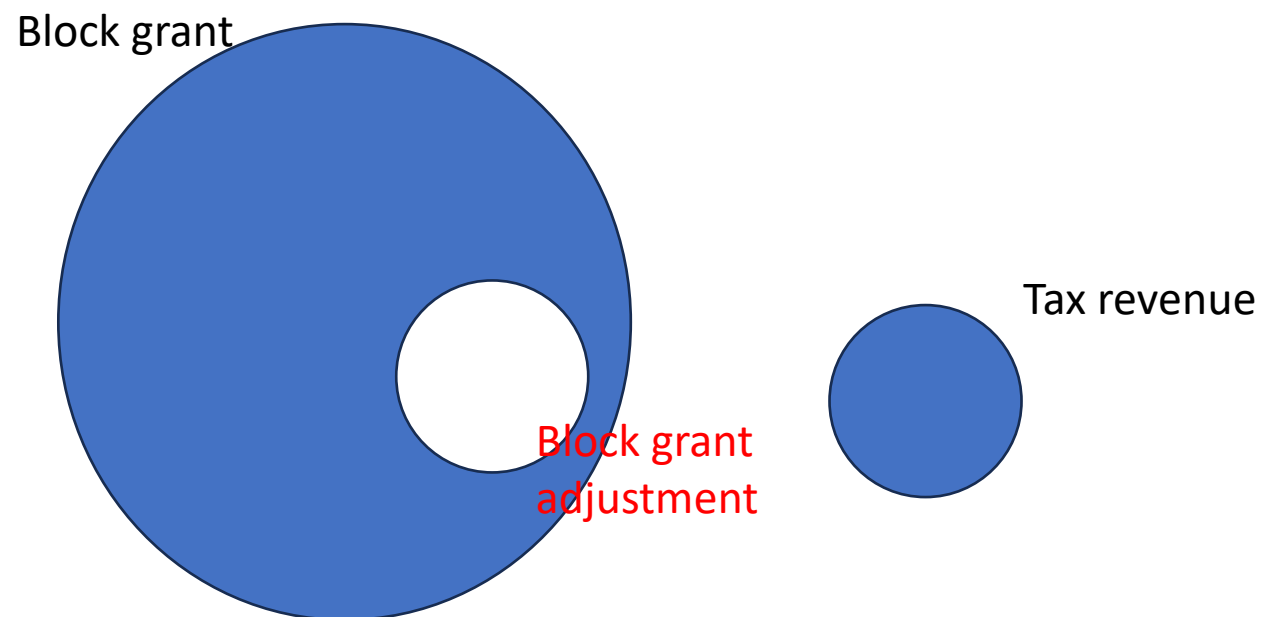
18th September 2023

Divide and rule 1: dividing the topics

- The Independent Commission, established by the Welsh government, produced two reports: the first on the operation of the Barnett formula, the second on the options for devolution of taxes.
- Another Commission, chaired by Paul Silk, was set up by the UK government to consider tax devolution but was excluded from considering the Barnett formula.
- Separation of tax devolution and the functioning of the block grant is not possible; devolution of a tax is grounds for reducing the block grant. The formula for that reduction is critical in determining whether the tax is worth having.
- Theoretical concessions on tax devolution can be nullified in practice by setting an exorbitant price for them.

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- Tax devolution creates a hole in the block grant, the price of the tax
- The task is to ensure the little blue ball grows relative to the hole in the big blue ball



*Pointer: discussion should not become too compartmentalized;
block grant adjustment must be discussed alongside tax
devolution*

Bettering Barnett

- Arguments for relating the level of block grants to needs began with devolution but have always been fiercely resisted by the UK government and Treasury
- The objections were philosophical and practical; one person's need was simply another person's preference. The job of assessing changing needs was not only philosophically fraught but extremely time-consuming and difficult.
- Yet the UK government makes needs judgments all the time in its distribution of expenditures across England.
- In the Welsh case, relative needs were determined by analysing cross-England distribution decisions and applying them to Wales – firstly by a detailed examination of government formulae and then by modelling the decisions and using the model to update estimates of relative need.
- While a needs- based formula continues to be resisted these calculations were accepted as the basis for putting a “floor” under the Welsh block grant to prevent Welsh expenditure per head falling below 115 per cent of the English level. So incremental progress is possible.



EQUATION

Spend/head =

$a*(\text{dependency ratio})+b*(\text{benefit rate})+c*(\text{sparsity rate})+d*(\text{long-term illness rate}) +$

....



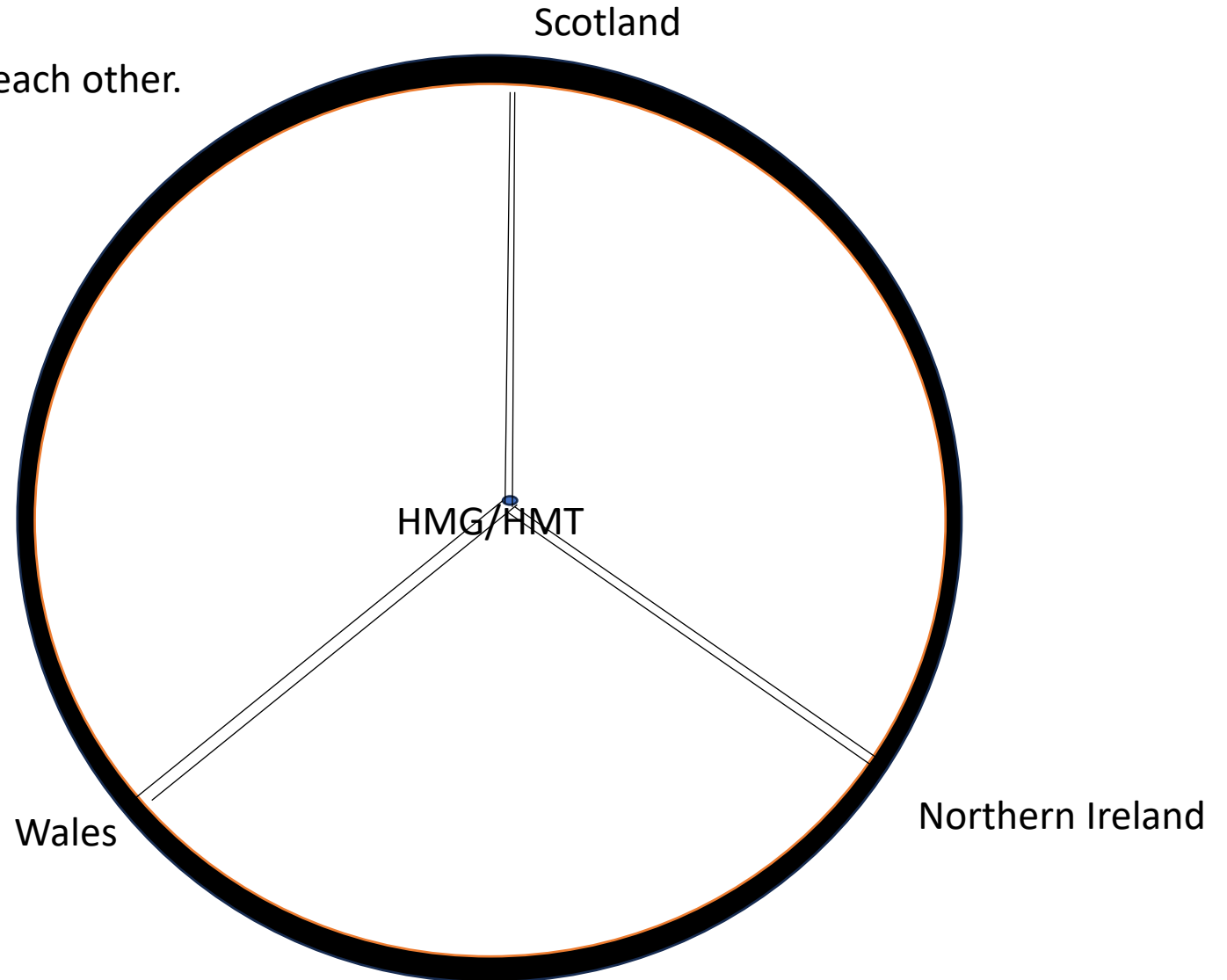
*Pointer: Hard comparisons and appeals to consistency beat appeals to abstract justice or fairness.
Especially when the politics are right*

Divide and rule 2: dividing the countries

- Opposition to reform of Barnett arises because all analysis shows Scotland receives a larger grant than justified by relative need. With the SNP riding high and Scotland having the major part of the UK's oil reserves, HMG wanted no fight with the Scots, especially to benefit others who were electorally less significant.
- The Welsh floor resulted through the efforts of a Conservative Secretary of State for Wales who convinced the Prime Minister and Chancellor that it would be helpful to the Conservative party in Wales while the cost would be macroeconomically insignificant.
- When he was negotiating the deal Stephen Crabb asked to be briefed on the intellectual justification for the floor – and was pleased to find that it had a solid justification outside political advantage.
- The deal was treated as ad hoc with no implications for the Barnett formula elsewhere in the UK.

Pointer: politics has always trumped reason or consistency in this area and the devolved territories do not always have the same interests. HMG likes to keep them apart so they should talk to each other more.

- The UK government and Treasury like to keep talks radial – up and down the spokes.
- But wheels work better with a rim
- Peripheral players should keep talking to each other.



Devolving a tax: all or nothing?

- Taxes can be devolved or assigned. Devolution implies that tax rates or thresholds can be altered. Assignment means the devolved government gets the revenues of a tax but has no power to change it.
- Given that the tax base of Northern Ireland and Wales is weaker than that of the UK as a whole, assignment is rarely a good option. It confers no policy levers and is likely to afford less revenue than the country's share of expenditures financed by the UK tax base.
- Devolution of a tax has been treated as a binary decision, a tax being either devolved or not devolved. Yet a tax can be devolved but the permissible changes to it can be restricted or the devolution can depend on certain conditions. This conditional devolution is often the best arrangement. I argue it would be true of Corporation Tax which could be conditionally devolved to Northern Ireland or Wales whereas a full devolution would raise legitimate fears of excessive tax competition and a general decline in revenues.
- The sharing of the income tax base in Wales was also done in a way that minimised restrictions on what the Welsh government could do with tax rates but that was not necessarily to the Welsh advantage.

The best thing since

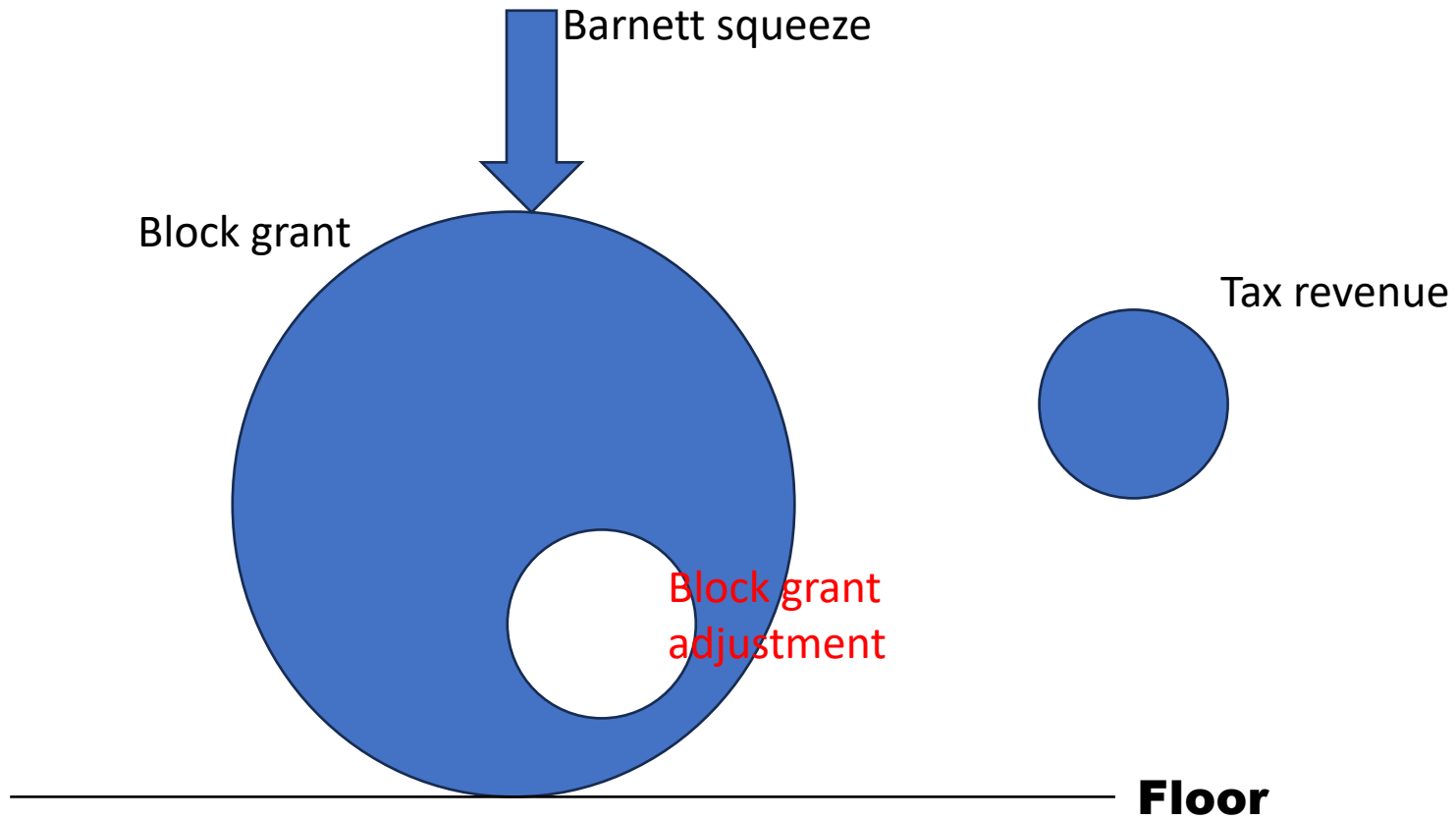


You can slice and dice bread.
Why not taxes?

Pointer: look for mutually beneficial compromise on individual taxes

Fiscal devolution: the unresolved tension

- Devolving more powers and making governments more accountable conflicts with ensuring a reasonably uniform level of public services for all citizens of the UK.
- There has always been fear in Wales that the powers conferred by devolution will be insufficient to change the course of the economy so public service levels could fall continually below English levels as Wales is thrown back upon its own, more limited, resources.
- If the integrity of the UK and the equality of its citizens is taken seriously, however, there should be a “backstop” against indefinite divergence of public service standards. It is not easy to craft such a backstop to minimize the tension between the two objectives.
- Nevertheless, a readjustment of the block grant in view of changed relative GDP levels should happen at intervals. These should be long enough – at least ten years - that they do not remove incentives for politicians to improve their tax base.
- *Pointer: Don't settle for a quick fix, thinking the future will look after itself. Remember Barnett was “temporary”!*



- A floor stops the big blue ball getting too small
- But, to stop the hole growing faster than the little ball indefinitely, you need

a backstop !

