



## Knowledge Exchange Seminar Series (KESS)

*...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-based policy and law-making within Northern Ireland*



# Finance and the devolution finance debates

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# INTRODUCTION

Since 2007, there have been intensive (if disjointed) debates about devolution finance in Scotland and Wales

And there is evidence of increasing public concern in England too

The problems with the Barnett formula are becoming greater and clearer – though it has proved remarkably durable to date

N Ireland has largely opted out of those debates

Will survey debates in Scotland and Wales, then talk about problems with Barnett

# SCOTLAND

- Key concepts in the debate: ‘fiscal autonomy’ and ‘fiscal accountability’
- The pro-union side: Calman Commission, reported 2009, largely enacted in the Scotland Act 2012
  - Partial devolution of 10 ‘points’ of income tax
  - Plus smaller taxes – stamp duty land tax, landfill tax (not air passenger duty)
  - Power to introduce new taxes
  - And a ‘proportionate’ cut in the block grant

# SCOTLAND 2

## More on Calman

- Implementation underway – SDLT & landfill tax devolved 2015, income tax starts 2016 and due to move to ‘actual’ numbers 2019
- Means Scotland will raise c. 30 per cent of devolved spending
- Major administrative issues
  - Identifying ‘Scottish’ taxpayers
  - Calculating and adjusting cut in block grant

# SCOTLAND 3

Alternative to Calman: ‘full fiscal responsibility’

- All taxes in/for Scotland set by Scottish Parliament & collected by Scottish Govt
- With a contribution remitted to UK for common UK-wide public services
- Pensions? Impact on other parts of UK?

Lack of support from other (pro-union) parties - though some in public opinion

# SCOTLAND 4: What happens after a referendum No vote?

Pro-union parties committed to further fiscal devolution

- Likely to embrace outright devolution of income tax
- Plus some other taxes – but what? (All options have problems)
- Impact on the block grant
  - Politics of Barnett (difficult in England)
  - How far can one keep making ‘proportionate cuts’?

# WALES

Debate began after Labour-Plaid Cymru coalition  
2007.

Holtham Report, 2010: Wales underfunded by c. 2-  
3 points, = c£300 million

- The problem of Barnett convergence

Silk: The Welsh Calman.

- Part 1 report published November 2012
- UK Govt response delayed from ‘spring 2013’
- Remit deliberately excluded block grant/‘fair funding’ issues (Oct 2012 agreement)

# WALES 2

Silk proposals broadly like those of Calman

- Devolution of 10 ‘points’ of income tax
- Plus smaller taxes (SDLT, landfill tax, aggregates levy, APD)
- And cut in block grant etc
- Major difference: no ‘lockstep’ – Welsh rate of IT could be different for different tax bands

Problems:

- Implications of block grant being below relative need
  - Will such a complicated system allow for ‘financial accountability’?
- Political resistance (Sec of State the sticking point)

# PROBLEMS WITH BARNETT

- The implicit tie to public services in England – do devolved governments want a tweaked version of whatever happens in England?
  - Scotland and Wales clearly to the ‘left’ of England
- UK Govt protection of real-terms health and schools spending has sheltered much of the block grant
  - What happens if that ends?
- Convergence is part of Barnett.
  - Demography a big part of that: a territory with a growing population loses per capita spending, accelerating convergence

# PROBLEMS WITH BARNETT 2

- What happens if/when N Ireland's grant hits the level of relative need?
  - Currently at about 127 per cent of UK average spending on block grant functions
  - Needs figure (per Holtham) is 121 – so not a lot of convergence is needed
- Treasury continues to determine how the *Statement of Funding Policy* is framed and how it is applied
  - UK Secretaries of State, not devolved ministers, 'assent' to the SFP
  - Decisions about Barnett can be highly contentious – e.g. consequentials for the 2012 London Olympics
  - Implications of fiscal devolution with cuts in Barnett – how 'notional' can Barnett get?

# THE DEVO MORE PROPOSALS

- Designed to work for Wales and N Ireland as well as Scotland
- On tax side: extensive fiscal devolution on top of Calman package (and some small taxes)
  - All personal income tax
  - Assigned share of 10 points (of 20) of VAT
- This accounts for 56 per cent of NI Executive DEL spending
  - And perhaps employers' NI contributions, and alcohol/tobacco duties
- On grant side: a simple grant based on relative need, in the gap between reasonable expectation of tax revenues and the overall needs-related level of public spending

# IMPLICATIONS OF THE FINANCE DEBATES FOR NORTHERN IRELAND

- The status quo is changing; and changing quite fast
- Barnett is no longer a safe haven, nor can it be taken for granted
- A serious engagement in these debates is needed – which means thinking hard about the governance of N Ireland
- Corporation tax devolution was a side-issue, distracting attention from this (and probably undesirable anyway)



The Open University



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