Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Fiscal Powers: A Review of the Fiscal Powers of the NI Assembly (NICVA Briefing)

25 September 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Peter Weir

Witnesses:

Mr Seamus McAleavey	Northern Ireland Council for Voluntary Action
Dr Esmond Birnie	PricewaterhouseCoopers

The Chairperson: I welcome to the meeting Seamus McAleavey, chief executive of Northern Ireland Council for Voluntary Action (NICVA), and Esmond Birnie, chief economist of PricewaterhouseCoopers (PwC). Gentlemen, you are very welcome. Seamus, do you want to give us an overview of the report first before we go to questions?

Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action): Thank you, Chair, and thanks to the Committee for the invitation to speak to you on this issue. I will give you some background and then pass to Esmond, who will highlight some of the key aspects of the report.

The Northern Ireland Council for Voluntary Action has a strong interest in the shape and development of the economy in Northern Ireland, as voluntary and community organisations are interested in a prosperous economy that is likely to deliver jobs and help people on low incomes and the unemployed.

I represented the voluntary sector on the Economic Development Forum for 10 years, a body that was set up by Strategy 2010. Although the Economic Development Forum did a lot of work during that period, one of the things that it recognised was that if we were to change direction and improve the economy, Northern Ireland would have to find four or five key levers that it might change and on which to take a risk in order to alter the outcome in future. That was never realised until this point.

When the recession really kicked in in 2008, the Northern Ireland Council for Voluntary Action gave increased consideration to the economy. Our organisation set up a project — the Centre for Economic Empowerment — and we have commissioned a number of pieces of research. Today, we are talking about one of them. The purpose of commissioning the research, and particularly this paper, is to inform ourselves and the debate. In asking PricewaterhouseCoopers to do this, we had no preconceived idea. We were neither for nor against devolving tax powers, and we made it very clear to PwC that we wanted to explore the options. It was about informing ourselves, and informing the debate, as to whether things could be done to change things here for the better.

We recognise as well that major discussions are going on in this area in Scotland and Wales. There will also be discussions in Westminster, and Northern Ireland should not be left behind, or we might find that other people will make decisions by which we are affected. There has even been talk at various times of reforming the Barnett formula. There could come a time when it could change, and Government could take a different attitude to it that might not be to our benefit. The two elements — the Northern Ireland block grant and annually managed expenditure (AME) — could change and we need to think about how we position ourselves for the future.

I turn to the outlook for the Northern Ireland economy. Going back to the Economic Development Forum, to change things for the better will require bold, very risky steps. We do not say that they can be taken lightly. However, some of the things that we talk about today may be part of a package that the Assembly would look at. I will now pass over to Esmond.

Dr Esmond Birnie (PricewaterhouseCoopers): Thank you very much, Seamus. It is good to be back. I want to say four things by way of introduction to this report. Seamus mentioned the context. Why would we wish to consider enhanced fiscal powers? There are several things. Notwithstanding that, undoubtedly, we now have the beginnings of an upswing in the economy, the Northern Ireland economy is still underperforming and has been for decades. The fiscal powers of the Assembly and the Executive are limited: the regional rate; limited borrowing powers; part of air passenger duty, which I know you have considered in the past; and the few new taxes that have been introduced, such as the retail levy, the one on plastic bags and so forth. As Seamus said, unlike Scotland and Wales, there has been no comprehensive review of the powers of this devolved Administration.

How might we evaluate which taxes could be devolved or which would be most appropriate for that? For Wales, Professor Gerry Holtham outlined six criteria. We consider them in the table on page 38 of the report, using the so-called traffic-light system, from increased accountability through to what would be the impact on the tax base elsewhere in the UK. That may not be a consideration for this Assembly, but it is likely to influence the view of the Treasury about which taxes it might wish to see devolved. However, to simplify it, on page 39 we focused on just two ways of evaluating which taxes might be devolved. One is how feasible — how easy or how difficult — it might be, and the other dimension is what the scale of the economic impact might be. It seemed to us that four taxes were highly feasible, but only the last two of the four would have a high degree of impact. The four with high feasibility were landfill tax, stamp duty, air passenger duty (APD) and income tax, but only in the case of the latter two would there be high impact.

What might the leading candidates for tax devolution be? Obviously, look to the broad economic principles that have been used in Scotland, Wales, and, indeed, in general thinking about fiscal devolution around the world. The following four seem to be highlighted: stamp duty, landfill tax, the rest of air passenger duty — obviously, the international or long-haul aspect has already been devolved — and income tax. The first three of those are what we might call minor taxes in terms of the scale of revenues collected — between £60 million in the case of air passenger duty and up to £135 million for stamp duty. I know that there was some laughter earlier about £1 million not being a large amount of money, but, relatively speaking, although those represent around £100 million each, they are small compared with the total tax take here. Really, only income tax is a major tax, at an estimated £2·6 billion in 2010-11. It would certainly contribute to the agenda of increasing accountability: a sort of, "No representation without taxation", which is, obviously, the flip side of the more common phrase, "No taxation without representation."

There are some important considerations that relate to income tax in particular. How might the labour supply react to changes in the rate of taxation? That is, obviously, an important economic question. More particularly, are there differences in the extent of likely response according to which rate of tax you change? Of course, there are three main rates at the moment — 20p, the basic rate; 40p, the higher rate; and the even higher rate, which used to be 50p but is now 45p. Linked to that there are, almost inevitably, policy trade-offs. You might wish to have an income tax system that promotes more equality and is more progressive, to use the jargon for tax systems; that maximises tax revenue; and that incentivises high-income entrepreneurial individuals. You cannot do all three things at once. I suppose that suggests, if you have devolved income tax powers, that you are legitimately into the realm of a political debate about what you, and, indeed, the electorate, prefer among those options.

With respect to any devolution of income tax in particular, given that there would be a deduction from the block grant in line with the implications of the Azores judgement and European Union law, there would have to be some system of projecting that deduction into the future and indexing it forward. Care would have to be taken, and, no doubt, that would be a point of negotiation with the Treasury in London as to which index method is used. There is an element of a gamble about that procedure, because, if the economy grows slowly, and the amount of revenue raised from the devolved tax grows more slowly than expected, you might end up with less money in your block grant than hitherto.

Finally, I will sum up some key messages from the report. There is scope to devolve some tax powers. The experience elsewhere is relevant. We concentrated mainly on Scotland and Wales, but the mayoralty in London may also be relevant and perhaps fiscal devolution in other parts of the world too. Yes; there is a risk to the size of the block grant, but you have to weigh that against gains in accountability and acquiring extra policy levers. This is not a game-changer, but could be a helpful complement to other policies, notably those to promote economic competitiveness.

As Seamus said, tough times are almost certainly coming, even given the beginnings of economic recovery, with respect to the system of funding for the devolved Government here. Barnett formula reform was hinted at by the coalition in London in its 2010 programme for government, so that is still on the table and will almost certainly be returned to after the next general election. There are implications for the level of spending here from welfare reform. Partly linked to that, as the Chancellor of the Exchequer stated in his spending round in June, there will be an attempt for the first time to control the annually managed expenditure element of public spending in the UK. Hitherto, it was said that it was demand-led, mainly welfare benefit-related and simply went up — not often down — in line with the state of the economy. Now, George Osborne is indicating that that is not acceptable. If a control or capping system is applied, that will have implications for the block grant and size of funding to the North and devolved government.

The implication of all that is that it may, at first glance, seem that the most risk-averse and safety-first strategy is to sit still and do nothing about fiscal devolution. I do not think that is a viable option because major changes in the total level of funding for government in Northern Ireland, along with funding for Wales and Scotland, are coming down the tracks. It is better to be prepared for that now and take your own initiative, rather than to have, perhaps, a less acceptable outcome imposed from outside.

The Chairperson: Thank you. The report is timely. There is climate for the British Government and the Executive to look at further fiscal devolution. We will all have different views on the content of the report but the fact that there is an analysis of such detail on paper is a step forward for local economics. The event at the Metropolitan Arts Centre (MAC) was a great success for those who attended.

I have a number of questions. The difficulty is tying down figures. You will not get accurate figures but accurate estimates, I suppose. Part of the problem is that when you go toe to toe with the Treasury, it has its own political objectives, perhaps to discourage some of the debate about devolving further powers. How would this debate be enhanced if we had more accurate revenue figures?

Mr McAleavey: I will start, Chair. That is an area that concerns us. We are about to commission another piece of work to look at the quality of data. We do not know the position vis-à-vis separating those things out because Northern Ireland is just lumped in with the rest of the UK on a lot of the big issues. Therefore, we have a concern that the quality of data makes it difficult to make some of these judgements. If we can find information that would shine light on where the gaps may be, we would be happy to pass that on to the Committee and the Assembly.

Dr Birnie: I agree. We make preliminary suggestions on page 48 of the report about data. The leader of the Opposition, Mr Miliband, suggested that his party's policies should be subject to scrutiny from the Office for Budget Responsibility (OBR). That is an interesting suggestion. We are saying that the OBR should look at regional-level data because, at the moment, its task is basically to mark George Osborne's homework with respect to the Budget, public spending and tax, UK-wide.

There is a large table on page 36 of the report showing the most up-to-date data on the size of all tax revenues raised in Northern Ireland for 2010-11. It has to be stated that, although it has an official stamp on it — the data derives from a DFP paper — many of those figures, inevitably, under the current conditions, are estimates. You apportion a certain amount of the total — notably corporation tax but some of the other taxes too — across the whole of the UK using various indicators, which are felt to be probably a reasonably accurate way of doing it. That reflects a method already applied by statisticians in Scotland; hence the rather unpleasant acronym GERS, which stand for Government Expenditure and Revenue Scotland. However, Seamus is right, and I am glad that further investigation is being done. If we had better data, we would be clear about the baseline and how much tax is actually collected here. I think that the figures in table 8 on page 36 are broadly accurate, but there may be question marks about some of them. That is a concern.

The Chairperson: I know that a number of those indicators are the result of the family household surveys and things like that. Surely, in this age of IT, when everything is put into computers and spreadsheets and databases, it should be easier to get accurate figures.

Dr Birnie: It should be easier, Chair, but there is always a trade-off. The business community, in particular, would complain about the burden of too many surveys. Policymakers, especially DFP and the Northern Ireland Statistics and Research Agency (NISRA), are striking a balance between not placing too much of a burden on businesses and households to fill in information, and getting some information, which we do need.

The Chairperson: If an agency is gathering tax and that information is put into a computer somewhere, surely that can all be tallied up and separated out according to geographical location.

Mr McAleavey: You are talking about government's own figures from the HMRC and others. Those are the sorts of things that we would like to find out whether it is possible to divide out for Northern Ireland. There is a suggestion that we are blind about that and we really do not know the true facts on any of this.

The Chairperson: The Committee is going to consider looking at the effect of the Barnett formula. In your view, should we be focusing on any particular aspects of that?

Mr McAleavey: There is a worry. The current Government have transferred rates relief to Northern Ireland, as you have talked about in Committee, and taken 10% off that. That is now, effectively, part of the block. What would happen if they decided to cap AME or something like that? Effectively, that would be a major change to how things are funded in Northern Ireland. Our thinking is that, in any review of Barnett, it is unlikely that the Government are going to come at it with a way to improve the situation for revenues in Northern Ireland. You have to be concerned about that.

Dr Birnie: I suppose that what has to be considered is what alternative might be coming down the line. Over the years, since the 1970s, when Joel Barnett devised his formula, even he has expressed surprise that it is still in place and implied that something new and improved might be desirable. What might that alternative be? People have talked about a needs-based formula. It is worth looking at what Gerry Holtham's report for devolution in Wales, back in 2010, indicated in that respect. He suggested that, although you could produce a very complex needs-based formula, he thought that it could be reduced to about five or six indicators. He therefore produced estimates for the three territories: Scotland, Wales and Northern Ireland. What drives a lot of this at a London and UK-wide level is that it looks very likely that Barnett is giving Wales a "poor" deal, relative to its measured needs — by Holtham's formula — whereas Scotland is going in the opposite direction. The position for us is much less clear. I remember that, in the first period of devolution, at the start of the previous decade, there were the beginnings of a needs measurement exercise for public spending in NI. However, that was curtailed by the suspension in 2002, so were left unclear about how the level of public spending per head here, which is roughly 20% above the UK average, might compare with the level of needs. People often say, perhaps glibly, "We have tremendous social needs", and we do. However, whether they are 20% above the UK average or the English average is much less clear. Therefore, one of the main areas that would benefit from investigation is what type of workable needs-based formula might be applied here.

Mr Weir: Gentlemen, thank you for your paper, which is very useful, particularly when we delve into the data. To strike a balance, it is important in a potentially changing scenario that we have researched the options from our point of view as a region to consider the best alternatives. We have to be slightly careful about whether there is an agenda that seeks to change things to the detriment of the devolved areas, which may well at times be the Government's hidden or not so hidden intention. We must not allow something of a self-fulfilling prophecy by almost making arguments that eases their path and help them move in a direction. That is where a balance needs to be struck.

From the fiscal devolution side, to what extent have issues of concerns over additionality been examined? Leave aside, for the moment, the issue of our looking at lowering taxes and the implications of the Azores judgement. First, if you look, for example, at income tax, there is a danger that there is a certain political imperative, particularly on the part of the current Westminster Government, to make cuts to the regions, including Northern Ireland. When you increase flexibility, the danger is that that is taken and effectively banked by central government. You could be in a situation where, if you have the power to, for example, vary income tax by 3p in the pound, or whatever formula, the Westminster Government may use that to say, "Well, we are going to cut the block grant by x amount. You have the power, if you really want to use it, to increase taxation over and above the rest of the UK. If you want the same level of public expenditure as you have at the minute, you have the opportunity to raise taxation." Flexibility could simply used as an excuse to make wider cuts.

Secondly, particularly in areas of taxation, there has been a little flexibility around some of the fringe issues, such as APD, which have not had the level of implication that I just mentioned. However, when you are talking about income tax, which is uniform throughout the United Kingdom, the flip side of the parity coin is benefits. To what extent would a variation in income tax potentially leave the door open to a statement that wage levels are lower in Northern Ireland than in other parts of the United Kingdom, and, consequently, if there is a variation in income tax, from a central government point of view, the case is made for regional variations in public sector pay and welfare benefits? Might central government say, "Well, actually, you don't need quite as much as that; we are going to set the rate for jobseeker's allowance in Belfast at 5% less than it is in Birmingham, and 10% below that in London"? To what extent is there a risk that variation, particularly in income tax, which is seen as the big-ticket parity item, could become a device for varying benefits?

Thirdly, I understand this from a broader philosophical point of view, but I wonder how it bears up to a practical point of view: it seems that one of the major arguments for this is a sense of the Assembly, indeed regional government, being more accountable. If, as a result of changes, there is cutting of public expenditure and benefit rates, I do not think that it will really wash with the man or woman who comes in to claim jobseeker's allowance and is told that, due to those changes, his or her jobseeker's allowance is down by £5 a week, but, not to worry because, as a region, we are a lot more accountable. From that point of view, with regard to the focus on priorities, I am a little concerned about whether, at times, the philosophy may have too great a bearing compared with the practical implications. Perhaps you could answer those three questions.

Dr Birnie: Thank you very much. On your point on additionality, it all comes down to the fine detail of negotiation. The precedent that was set by the Scotland Act 2012 with respect to the Scottish rate of income tax is probably, if we go down the route of income tax variation, the one that we would follow. In other words, Scotland, by 2015-16, will have the power of a 10p variation. At present, it is a 3p variation relative to the UK rates: 20p, 40p, and 45p. However, the block grant from, as it were, London to Scotland is reduced in line with the amount that it is estimated would be raised if the Scottish Parliament voted to vary its income tax rates. Presumably, if we went down that route, we would do the same. It would not be a loss.

Mr Weir: The complication with that, and where the fear lies, is that you can have, at the time of any form of devolution of power, a particular agreement with the Government, but nobody knows what is in the future. There may come a situation with a future Chancellor who could have a certain devolutionist, integrationist target on a different level from that, who says, "I am a Conservative Chancellor, so I am really looking at the marginal constituencies, particularly in parts of England, that are crucial to whether my Government get re-elected." Irrespective of any agreement that is reached, that Chancellor may announce that he or she will, in the next year, reduce the amount that goes to regional Governments by £20 billion across the board. Perhaps he or she will use that to cut tax, save it elsewhere and say that, actually, if devolved Governments want to argue with that and make the money up, they have the individual powers to raise it themselves. That is where the problem is. Irrespective of whatever agreement there is with Treasury at a particular time, the political imperative somewhere down the line — perhaps, relatively soon — might be to tell devolved Governments that they have the power and that there is a way to save money at Westminster and redirect it. One way or another; it might be a way to cut the deficit or, alternatively, redirect it to areas where they think, cynically, there is a better chance of its helping the Government of the day to be re-elected.

Dr Birnie: Well, that could happen in the future. However, I have to say that I think that there is a considerable possibility that a future Government in Westminster could decide independently of whether there are income tax-raising powers in Northern Ireland to hand the devolved Administrations a much tougher budget settlement. My response to your challenge, Peter, is that it is better to be forewarned and forearmed, as it were, with a wider range of economic tools in order to try to generate the economic growth that would enable us to pay for the various social services, etc, which we might desire in the future.

Your second point was about parity. I know that it is a considerable concern for many people. It was raised when the report was being written. We consider that on pages 33 and 34. In a sense, my response to the parity question would be similar to your point about a lack of additionality. The Government here might feel that parity is sacrosanct. I do not think that the Treasury will take that attitude in the future. The most secure position for Northern Ireland to generate the wealth from our regional economy, which would enable us to have as high a level of social protection, benefits, etc, as possible, is to start to take fiscal levers now to generate the economic incentives to grow the economy. As part of welfare reform and as part of capping and controlling annually managed expenditure, the Treasury will start to negotiate with the devolved Administrations, and you can either sit back and wait until something is imposed on us, which could be very unfavourable, or we can try to pre-empt it, be proactive and try to strike a deal that is to our benefit whereby, in a sense, we would take greater control of the social welfare and social security budget. We must remember that, on paper, the Assembly has devolved powers for social welfare. Those have not really been used but, on paper, they are there.

Mr Weir: It is useful to have the arguments ready and the stuff drafted. To some extent, it comes down to a judgement call on strategy. Some things that could be fairly detrimental to Northern Ireland could come down the pipeline. Therefore, sketching out a pathway that effectively builds that into the equation raises the question of whether you are helping to ease the argument of the Government to go down that route, and make their job easier.

Dr Birnie: They may do it anyway.

Mr Weir: It strikes me that if, at some stage, a delegation says, "We do not believe that there should be regional rates for social security benefits. That will damage people in Northern Ireland", but, essentially, you have accepted variations in income tax and changes to parity anyway, that could make the argument an awful lot weaker. There is a judgement call to be made.

I understand the philosophical argument from the point of view of saying that, if you have this, you have greater accountability. However, I wonder whether a lot of people will look more at the practicalities of whether something is advantageous or disadvantageous? I suspect that saying that something is more accountable when it actually means that there is less money in somebody's pocket will not cut a great deal of ice with them.

Mr McAleavey: You are absolutely right, Peter. I do not think that people would consider that a fair deal at all. You would be telling people that it would be good for the quality of democracy, but that they are much worse off. We were pro-devolution because we think that it is important that there is a good relationship between those who elect the people who govern, and those who actually govern. The philosophical element is that, if you have responsibility for raising the money as well, it puts certain pressure on you in how that money is spent because you are responsible to those people. However, we clearly have to proceed with caution. We may really want to change the direction of the economy, but other work that Esmond has done has showed that nothing has changed. For every 20-odd strategies produced in the past 50 years, we have not changed one little bit. If we really want to try to make that change, we will have to pick four or five things. Yes; that will be risky. Do we have the belief in ourselves that we might be able to govern the place better and produce a better set of economic policies that will increase overall wealth, and, therefore, benefit people? That is the risk. You have to make very careful and balanced judgements. You are right: people will vote with their pocketbook, as they say.

Mr McCallister: Chair, you and I were at the launch, and it was a very interesting event. The discussion is fascinating, but are we completely behind the curve? I listened to what Peter said, and we are a bit reluctant about taking these powers. However, if you listen to what the Welsh First Minister, Carwyn Jones, said last week and if you listen to Alex Salmond, they seem to be forging ahead down this road. Are we completely behind the curve, and are we likely to lose out? Bear in mind that in the discussion, Alex Salmond seemed to be against it, even though Scotland is doing rather well under the current arrangements while Wales is doing quite badly. From opposite ends of the spectrum, they both seem to be enthusiastic about moving ahead and maximising devolution.

Dr Birnie: In answer to your questions, John, we are behind the curve, and we are likely to lose out. Although we thought that Scotland and Wales were the two most obvious comparators for the report, there are also Boris Johnson's proposals that London should have new tax-raising powers. Look at the way in which George Osborne has applied some if not all of the proposals in Lord Heseltine's report from late last year about decentralising funding and decision-making to big cities in England outside of London — places such as Manchester and Birmingham, which are not dissimilar in population size to Northern Ireland. To answer your questions: yes and yes.

Mr McCallister: Those cities are not dissimilar, and in parts of the north of England, there is still a huge reliance on public sector employment.

Dr Birnie: They are like us in that regard.

Mr McCallister: Regions such as Wales and north-east England are not dissimilar in an economic sense. Like us, they have probably had a plethora of strategies going back as far as you like to try to change things, but they have not solved the problem. Does it come down to the fact that we have not quite caught on that we have a Government, not just something that shares out money? Are we reluctant because we do not think that we are quite up to it, or we do not want to make unpopular decisions?

Dr Birnie: The whole point of devolution could be questioned if you simply always follow what is happening in Whitehall in lockstep. That is one consideration in the debate about parity. Although you could say that some of the points about accountability are up there and concern high political theory, and that there can be no taxation without representation and no representation without taxation, there is a point about the governance quality of institutions and decision-making. As Seamus said, in principle, there should be a linkage between taking a decision about where you spend money and where you raise the money for that decision. Perhaps if there were more accountability about raising revenue and decision-making about spending, the allocation of spending would become more self-responsible, mature and of a better quality. In the long run, that could have major positive implications for economic performance, quite apart from any social and general political benefits that might flow from it.

Mr McCallister: It could help to normalise our politics. I accept that it could be in the long run.

It seems from the report, and with the turnout at the launch, that there is less enthusiasm about considering corporation tax only or even its benefits. Is it now time for the Northern Ireland Government or the Department of Finance to change their tack and look at other options?

Dr Birnie: I do not think that it is necessary to change tack, but there should be a recognition of where we are at. The Prime Minister has said that no decision will be taken until after this time next year and after the result of the Scottish referendum is known, so the process has clearly been elongated. I understand that assurance has been given that background preparatory work is in process, if there then happens to be a positive decision after September 2014. Even if the decision is positive, there are questions about whether it will be feasible to make all the legislative changes in time, before the next general election. Of course, we do not know the result of the general election or whether a different UK Government would take an entirely different view about the devolution of corporation tax.

The situation is as it always has been: the undoubted benefits from the incentive effect of a lower headline rate of corporation tax on investment, both domestic and foreign direct investment, was always likely to be maximised if it were part of a wider package of policies and reforms and, indeed, also promoting the benefits of our current tax system. The UK has a competitive tax system, in the context of the G7, the G20, the headline rate that is going down to 20% by 2015, the patent box and R&D tax credits, which particularly aim at promoting research and development. Those should be promoted very intensively, even now, regardless of what happens to the corporation tax-varying power that has now been pushed into the future. We are uncertain as to whether it is coming. There will, in any case, be delays in the legislation and the economic impact, and other things can be done, such as granting tax reliefs and making the most of our current system.

Mr McCallister: That is one of the concerns. We become so fixated on one tool that we lose out on others. You touched on some of the costs of administering the tax. I would also like to hear your views not only on varying the rates of tax but on whether it would be desirable to look at changing the levels of personal allowances or tax breaks on capital expenditure, such as allowances for R&D

expenditure, and extending those in Northern Ireland. How far do you see that that can be pushed? Should we go for a "devo max" argument?

Dr Birnie: If we were to go for "devo max", in a sense, the sky is the limit. You might well ask why we should just look at the rate of income tax. You are right, John. You might look at thresholds and, given the features of Northern Ireland's distribution of income and poverty, you might say that there is a strong case for altering the tax-free allowance, the threshold or whatever you want to call it. Interestingly, none of the devolution proposals elsewhere in the UK has gone in that direction, and I can see why. The Treasury would very much want to retain that power at the centre of the UK. However, in principle, there could be arguments for it.

Tax allowances on investment and so forth should be looked at. Interestingly, enterprise zones, which were mentioned in 2010 but then became sidelined in the process and debate on corporation tax, are perhaps coming back. If the Executive go down the route of enterprise zones — at least 24 have been introduced in GB in the past few years — they would have to consider what type of capital allowances might be introduced. Would they be the same as in England, Scotland and Wales, or would they be more generous?

The usual considerations apply. If you start to change things greatly from the UK average, you may find that the Treasury would impose a burden on the Northern Ireland block grant. The fact that enterprise zones are coming back on the agenda means that they merit consideration. They are not without problems. There were two enterprise zones in Northern Ireland in the 1980s, so we can look at what that experience teaches us about what works and what does not work.

Mr McCallister: Thank you. It is an interesting subject.

Mr Cree: As was said, it is an excellent and timely piece of work. There is plenty of food for thought. Tax-varying powers really means tax-increasing powers, does it not? Scotland has 105% of need of England, and we have more than 120%. Therefore, we are not exactly in the same position as Scotland. As you both will know, there has been an attempt to try to get our economy to converge with that of the greater south-east, for what seems like generations. That has not happened, and, in fact, it has gone the other way. Although the report is excellent, and we should consider it and move ahead on many points, we must not lose touch with reality. We have a different base to anywhere else. How important is it that the gap in which convergence was meant to take place has widened and is still there like a great black hole?

Dr Birnie: You pinpoint a key feature of Northern Ireland's economic performance, and it is disappointing that, for decades, there has been a lack of convergence in underlying productivity and incomes per head. The tie-up between the report and our discussions this morning is that there have been some 16 major economic reviews and strategies since the mid-1950s. Not much has changed, and perhaps fiscal variation is a set of tools that should be added to the set of policy instruments that, although not a game changer or a magic wand, would be helpful.

Leslie, you said that the power to vary taxes means tax increases, but that does not have to be the case. The Assembly has already taken the power with APD on long-haul flights and reduced it, so it could mean a reduction. You are right to say that we have to look at where we start from. Northern Ireland is a regional economy within the UK, is relatively poor and has "underperformed", according to a range of indicators, for decades. Notably, according to Department of Finance and Personnel (DFP) studies in recent years, it is a regional economy that receives a very substantial net transfer of funding from the UK Exchequer in the order of £10 billion. So, out of public spending here of about £23 billion per annum — there are various ways to measure that — regional tax, subject to all the caveats about data reliability, raises around £12 billion or £13 billion. Whatever way you want to put it, there is a subsidy, subvention or transfer — that is putting it bluntly.

Most commentators on fiscal devolution are not saying that we will move to fiscal autonomy. That would involve massive changes in living standards and levels of public spending. However, we are looking at a situation similar to that which is envisaged for Wales and Scotland: there continues to be a block grant allocation from Westminster, and, subject to some of Peter's points, that would have to be negotiated very carefully to avoid detriment in the future as far as possible. You would then have the fiscal powers to enable you, at the margins, to make meaningful decisions about policies and perhaps to raise more revenues when it is appropriate, as it sometimes is, or to cut taxes if it were judged that that creates an overwhelming economic benefit and perhaps, in due course, raise other tax revenues, as was the case with air passenger duty.

Mr Cree: APD came at a cost to the block grant, of course.

Dr Birnie: It did.

Mr Cree: We can subsidise all these things, but, in reality, it does not help the economy.

Mr McAleavey: Unless you get a return for it.

Mr Cree: Unless you get a return. The jury is out on that one, obviously.

Mr McAleavey: We are trying to explore the situation, Leslie. That is the key thing.

I mentioned the economic development forum. Back in the noughties, as they are referred to, the UK was doing very well, the Republic of Ireland was doing very, very well economically and Northern Ireland appeared to be doing reasonably well. It was doing better than it had been previously, and we were congratulating ourselves. However, our forecasting for the economic development forum, based on a range of indicators that we selected, showed that we were looking at flat-line development over the next number of years and, in some cases, something worse. When everywhere else was booming, the best that we were heading for was flat-line development. We were totally reliant on public expenditure, and when that gets a knock, we get hit hard. Exploration is about constantly looking for the things that you could do differently that would have a reasonable chance of improving our prospects. That is what we are trying to look for. That is not without its risk, and I am not saying that if you did those things, everything would be great.

Mr Cree: I am not criticising the report; it is very helpful. The real key, I guess, is to try to stimulate the private sector. Against a background of tax and devolution, it gives us flexibility, but I just do not see how we can translate that directly to the bottom line of these companies to get things moving. In fairness, that is probably another exercise, but they are all related. It is a good job, and I thank you for it.

Mr Mitchel McLaughlin: It is an excellent report. In a sense, the elephant in the room is the size of this region and, obviously, the economy that it can support. Despite the constitutional differences around the table, even if we had the most competitive private sector in the world, it would simply be too small.

Two interesting things, not surprisingly, are not reflected in your report. You have managed to walk quite a difficult line on this one, and there is plenty of meat for the parties to look at. There is a lot of common resolve to try to bear down on what we can do. In my view, there probably is a recognition that the dependency on the block grant and the overwhelming dependency on the public sector, which the report refers to, are, in fact, a long-standing consequence of partition. I am not making party political arguments here.

I think that we are looking at what we can do on an island basis. When we talk about APD and being competitive, or when we talk about corporation tax rates, we are looking at how we can mutually survive, compete or cooperate in those kinds of circumstances. However, we are a long way from resolving those outstanding issues. The previous Finance Minister — again, not surprisingly, this is not in the report — said that he was not interested in further devolution of fiscal powers because he is a unionist. He did not offer an economic rationale. However, I perfectly understood what he was saying and why he said it. That has to be part of the debate that we have to have between us.

In my view, the report, quite correctly, points to the lack of success of various initiatives and departures over many years. We might be forced into further initiatives — for example, George Osborne's ambitions to cap AME, and so on. We will be faced with the consequences. People who are living in poverty are probably surviving on their benefit support. Any downward pressure on that will create a crisis, and we will have to respond to that. We have to take powers or exercise powers that we have to address the question of need. Esmond, you referred to our early discussions. I am not quite sure of the dates, but I remember a discussion about need being a strategic threshold to advance. For many evolutionary and, ultimately, understandable reasons, we ran into problems, and the focus shifted.

Whether or not there are changes in Westminster Governments, we will find that we can chug along, having, perhaps subconsciously, bought into the idea of staying behind the curve, tucked in behind the safety net of the block grant. Alternatively, we can try to grow the economy, bring people out of economic inactivity and start to give reasons for the private sector to grow, become competitive and prosper. Your report implies all that, which is why I found it very useful, and it will stand examination over time. The document is ahead of the curve as far as the willingness of the parties to agree a strategic development for our economy is concerned. I think that it trips up on, "The Shinners are at their work hollowing out the union", or "The unionists are concerned about taking any more powers away from Westminster".

The evolution of the size of the subvention is in itself testimony to how damaging that relationship has been to our ability to manage and grow our economy. We have to take those powers and do something positive with them.

Mr McAleavey: From NICVA's point of view, as I state in the foreword, we are not looking at it from a constitutional or political point of view. We are looking at economic prosperity and its social impact. The political aspect is a matter for politicians. An element of the debate that concerns me is that I do not like people taking ideological positions based on ignorance. It is important to get information and facts, then to take your position. That is fine. That is what we are trying to do, and that is certainly what Esmond and PwC have done with the report.

We are in an incredibly difficult position. Ten years ago, Northern Ireland sat between a rock and a hard place economically — between economic policy in the Republic of Ireland and at Westminster. Take things like fuel duty. What was Northern Ireland losing then? It was losing about £500 million at one point, because duty was much lower in the South than it was here, and people were quite legitimately filling up their tanks in the South. We are in a difficult position.

Mr Mitchel McLaughlin: Freight companies were transferring their operations, and why would they not?

Mr McAleavey: Absolutely; haulage companies looked at all of that. Business knows what it needs to do. The biggest exports for businesses here are to the South, so you are right that we cannot live in our own wee isolated world. There is no doubt about that. Regardless of anybody's political opinion, we have to consider all that. We are trying to focus clearly on the economic impact and, from my point of view, the social impact.

Dr Birnie: I do not have much to add to what Seamus said. In response to your points, Mitchel, I would not get too depressed about the idea that we are a very small region and are going to do badly. There is considerable evidence around Europe, and perhaps in other parts of the world, that small countries can be economically prosperous, although sometimes the examples get damaged. Ten years ago, I would have cited Iceland, which is a tiny state with a population about the size of Belfast, and was highly prosperous. Obviously, it has had its banking problems, but, that said, it seems to be recovering. Finland, Denmark and Norway prove that you can be small and prosperous. I agree with Seamus about Northern Ireland's relationship with the rest of the UK and with the Republic of Ireland. One of the complications with tax devolution and varying our rates would be that we could have tax competition with Great Britain, but we could also have it, as we did in the past with fuel duties, with the Republic of Ireland.

There has been a lot of debate in England, and to some extent here as well, about whether the best way to deal with alcohol abuse is a minimum price per unit, and so on. There are deficiencies in that policy. If you impose a minimum price, it creates a windfall benefit for retailers. An alternative — here you are into the realm of fiscal devolution — is to have a regional variation in excise duty on drink. We could do that, and it could lead to benefits in health, and so forth. However, the problem would be whether people would simply travel across the border to buy alcohol and bring it back. Those are constraints. We consider some of them at the end of the report in a quite unwieldy table, where we look at the six criteria. We look at how a tax change here would impact on trade and flows of people, money and trade between Northern Ireland and the Republic of Ireland, let alone between Northern Ireland and Great Britain. A view would have to be taken on those matters when you come to make decisions on whether or not to devolve this tax or that tax.

Mr Mitchel McLaughlin: My argument is not a thesis that the economy is too small to prosper per se. However, if we do not have the fiscal tools in our toolbox, the outcome is guaranteed. I genuinely understand and accept that there are issues about the political relationships between the parties and the competing constitutional aspirations. If we are talking about fiscal powers in that context, it should be a given; it should not impede the discussion or consideration of ideas. Any decisions that we take will have constitutional implications as well as social, economic and political ones. We are all adults, and we do these things with our eyes wide open. If we keep doing the same things, getting the same outcomes and fighting about the things that, at the end of the day, will keep us rooted in that position, people would be entitled to be disappointed. We could add value to what you have presented. I hope that people take the opportunity to do so.

The Chairperson: Esmond, have you looked at vehicle excise duty and analysed its possible devolution?

Dr Birnie: We have considered it. It would require much more detailed investigation. Interestingly, an issue about North/South relations might emerge. Would people register their vehicles south of the border to escape if the rate were jacked up? It should be considered. It is a moderately large revenue tax: it was £167 million in 2010-11. There are all sorts of other policy reasons why you might want to vary it, such as to promote certain types of fuel-efficient or environmentally friendly cars.

Mr McAleavey: Tax is not just all about raising money. It is used to shape policy, as it was with the plastic bag tax.

Mr Girvan: I want to go back to a table on page 36 of the report. Has any calculation ever been done of benefit that the Northern Ireland economy receives, as that is not included under the Barnett formula or in our block grant? I ask that because we have a fairly heavy dependence on benefits compared with the other regions of the United Kingdom. Mention is made of looking at this from a social point of view, but there is also a socialist aspect to it, which I do not want to get into.

Mr Mitchel McLaughlin: Oh, go ahead.

Mr Girvan: I want to find out how that impacts, because it automatically relates to income tax-generating powers. That is spending, so money is being passed into businesses that are making money or creating employment.

I appreciate that we are running behind. I have some reservations about people talking about our borrowing ability, because we are not on a level playing field with other regions, owing to our lower reinvestment and reform initiative (RRI) level, which probably impacts on what we can borrow.

Dr Birnie: Thanks, Paul. I will take your questions in reverse order. The Executive have that existing RRI borrowing power. It is up to £200 million per annum. It is not a free gift of money, so it differs from the standard block grant, but it is a relatively attractive option, in that the interest rate that has to be paid is closer to the sort of standard public borrowing rates. It is down towards 3% rather than 6%, 10%, or whatever. My recommendation is that the Executive should continue to use that power prudently, to use that awful word. Obviously, it is sensible to borrow if you are borrowing to invest and to create stronger economic and social infrastructure for the future.

As to the total size of benefits, I think that Seamus's centre is going to publish a paper about welfare reform at the start of next month, so there will be figures in that. It is said that a rough figure of £4 billion or so per annum comes into the Northern Ireland economy through funding for welfare benefits. It is a large chunk of the annually managed expenditure. In fact, it is probably more than £4 billion per annum now.

Up until now, that has always been so-called demand-led. In other words, if the economy worsens and unemployment increases, the Executive do not need to worry about the money coming in to fund it. One of the points that we were making earlier was that that world is probably changing and going, so I think that there will be an increasing onus on the Executive to think more strategically about welfare policy and perhaps anticipate a cap being applied at UK level that will feed down to the Northern Ireland level. It is better to prepare for that now than to wait until it happens, because if we do wait, there will be a crisis, and some very difficult decisions might have to be made about reducing the amounts paid to individuals and about all the sorts of issues that Mr Weir was hinting at in one of his questions.

Mr McAleavey: To follow up on Esmond's point, we have academics from Sheffield Hallam University looking at the government figures for us, and we will be in a position to publish a report. The figures will probably show that Northern Ireland will be hit hardest. We are looking at this from an economic point of view. We have worked with the Minister for Social Development, Nelson McCausland, on welfare reform issues. We now have to look at what the impact of reforms is likely to be on the reduction of expenditure on the Northern Ireland economy as well. We will have figures for that next month. We have always expected that they will be substantial. We have always expected the sum to be in the region of £500 million less. The point that we were making at the start is that if the Chancellor, at some point, decided to cap AME, it would change everything. In effect, it would do away with it. It then becomes all of our problem. It would be our decision on what benefits to pay, because if benefit were capped and squeezed, you would then have decisions to take.

Those are difficult issues that we need to think about. It is about being forewarned and forearmed, and thinking about reforms before somebody just applies them to us.

The Chairperson: The Minister is waiting outside, and we are running about half an hour behind, so I will need to get wrapped up shortly. *[Laughter.]*

Mr Mitchel McLaughlin: Guess who will get a dirty look when the Minister walks in. *[Laughter.]*

Mr D Bradley: Not wishing to hold the Minister up for too long, I will say that there seems to be quite a high level of risk aversion in the system in Northern Ireland. There may be a political element to that. Some people think that the more that you devolve, the weaker that the union becomes. That is not necessarily the view of everyone.

Air passenger duty on long-haul flights was devolved in a short period because of the threat to flights. There was a cost to that, although it was not huge. Leslie said that it was not certain whether that cost would be recouped, but it was felt that that connectivity was necessary for the economy.

The Chair mentioned vehicle tax. We now have 300 jobs under threat by the possible removal of the Driver and Vehicle Agency (DVA) service to Swansea. That may provide an impetus for people here to seek that tax to be devolved to here. It sometimes seems that we can move quite quickly and effectively.

We may be in danger of giving the impression at times that this is all that we need to do for everything in the garden to be much rosier, whereas these are basic tools that can be useful but are not the be-all and end-all. Nonetheless, it would be useful to have them.

The report mentions the importance of research and development and innovation in our indigenous and other businesses and industry. The resources available from Europe for research and development have not been fully utilised by the Executive. It strikes me that that is an important area in which we have to develop, because it is important that we have an export-based economy. That is one of the keys to improving prosperity. I welcome the report, and hopefully it will open a debate that will lead to developments in those areas.

The Chair made the point that we do not have all the figures and information available to us to be able to cost some of the measures. The danger is that that increases the aversion to risk and, therefore, underpins the status quo.

Dr Birnie: I agree. A debate would be welcome and timely. Improving the material information used in that debate would be helpful, too.

The Chairperson: Seamus and Esmond, thank you very much.