



Department of

**Finance**

An Roinn

**Airgeadais**

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# Consultation on devolution of more fiscal powers

Consultation Document  
October 2022

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## Foreword

In March 2021 I announced the establishment of the Independent Fiscal Commission to complete a comprehensive, formal review of our options for further fiscal devolution for consideration by the Executive. The Commission published its final report in May 2022 and where I indicated at its launch, that I believe there should be a period of public debate on their recommendations around devolution of fiscal powers locally.

The Commission's report comes almost 25 years after the Good Friday Agreement, and is the first to forensically examine the fiscal powers of the Executive. This report was overdue given the multiple Commissions that have considered the fiscal powers of the governments in Scotland and Wales, and where both have since assumed more control of their tax affairs.

The Executive only has one major fiscal lever at present, and that is the revenue raised through the rating system each year, to be spent on central public services and supporting citizens. However this is equivalent to less than £1 in every £20 of tax revenue estimated to be raised here.

The principle is clear – increased fiscal powers for a future Executive would allow locally elected and accountable ministers to set taxes more in line with local needs and circumstances. Our options to raise revenue for public services, accelerate economic development, and encourage the transition to zero carbon would be enhanced significantly. It is clear from the Scottish and Welsh experiences that it takes time to deliver the devolution of new fiscal levers. It is crucial that we start the process of considering this now to provide a new Executive, when it is established, with the information that it needs to take informed decisions on fiscal devolution.

With the publishing of the Commission's landmark report, we now have an extensive evidence base for continuing this conversation. The Commission have recommended the devolution of an initial suite of powers, with the possibility of other powers being acquired afterwards. It has also outlined the budgetary management tools and safeguards required to ensure that devolution can operate effectively. Additionally, the Commission have proposed a local revenue authority to oversee the administration of any devolved local taxes.

Whilst it will be for an incoming Finance Minister to bring recommendations on this matter to the Executive, it is important to continue the public and political discussion on the subject of which fiscal powers the Assembly could feasibly have and positively use here. This process will take some time and the Commission have provided a comprehensive starting point for that discussion. However, I am keen that the Department provides an opportunity for all interested stakeholders to put forward their views on the recommendations from the Commission's report.

Therefore I am launching a public consultation seeking responses on a series of questions covering all aspects of the recommendations and I would encourage you to consider those and share your views with the Department. The response to this consultation will be important in shaping how the Department takes forward the next steps regarding fiscal devolution.

**Conor Murphy MLA**  
**Minister of Finance**

## Introduction and purpose of this Consultation

On 12th March 2021, the Finance Minister, Conor Murphy MLA, announced the establishment of the Independent Fiscal Commission via a Written Ministerial Statement to the NI Assembly.

The Commission was established to carry out a comprehensive review of the case for increasing fiscal powers available to the Assembly. In line with the terms of reference, the Commission carried 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.

The Commission's membership consisted of experts from across the fields of economics and politics. It was chaired by Paul Johnson, Director of the Institute for Fiscal Studies and supported by Professor Cathy Gormley-Heenan, former deputy Vice-Chancellor of the Ulster University; Professor Iain McLean, Emeritus Professor of Politics at Oxford University; and Dr Lisa Wilson, Senior Economist at the Nevin Economic Research Institute.

As identified by the Commission, we currently control most of the spending on public services here – almost £9 in every £10 of 'identifiable' public spending. However, other than rates on businesses and households, a returning Executive has no real substantive powers to vary taxes, and where it is estimated that we are only responsible for less than £1 in every £20 of revenue raised locally. This is in contrast to the Scottish and Welsh Governments which have more local tax powers.

The Commission's work explored the case for devolving additional tax powers. In doing so, it considered the economic context, current fiscal powers, the possible reasons for additional devolution, and the potential risks and rewards from such devolution. The Commission's interim report identified the potential benefits of greater local control over taxation, with additional fiscal powers enabling locally elected Ministers to set taxes in line with local needs and circumstances

The Commission's final report then looked further at the case for devolving excise duties, the scope of devolution of income tax, the administration of devolved taxes, and the complex fiscal framework issues which will require further consideration as part of any devolution process.

This final report was published on 19th May 2022, entitled '[More fiscal devolution for Northern Ireland?](#)', and it made a total of 23 recommendations which provide a comprehensive framework for delivering enhanced fiscal powers here. The report also discusses the risks and rewards which devolution can bring, as well as considering some of the fiscal tools and approaches that can help manage those risks.

The Department is now considering the Commission's report and as part of that, is now seeking formal stakeholder engagement on the recommendations made by the Commission, via this public consultation, in order to inform policy considerations and next steps that can be presented by an incoming Finance Minister to the Executive. This will likely be a long-term journey as it has been in Scotland and Wales. Further fiscal devolution could undoubtedly have a meaningful impact for all citizens here and the Department intends to maintain engagement with stakeholders, both through this consultation, and as this work progresses.

The Department welcomes responses to this consultation from all groups and individuals. The questions provided in this document are provided as a guide for any response, but the Department welcomes any views or comments on the subject.

## The Commission's final recommendations

An overview of the 23 recommendations made by the Commission are detailed below. Full details of the Commission's work can be found in full version of its final report, available here- ['More fiscal devolution for Northern Ireland?'](#)

### Data reliability

1. That the NI Executive should work with ONS, HMRC and NISRA to improve data on tax receipts in Northern Ireland.

### Corporation tax devolution

2. There is value in the NI Executive seeking to complete the devolution of corporation tax.

### Income tax devolution

3. That powers over the income tax base and income tax administration remain reserved at this time.
4. That the taxation of dividends and savings income should be devolved to the NI Assembly.
5. That If the NI Executive is keen to maximise the flexibility of its tax varying powers and its accountability to the local electorate, it is the Commission's view that devolving revenues, rates and band-setting powers in full, as in Scotland, would be preferable. An alternative would be the Welsh model of partial devolution, which would involve less financial risk, but also provide less flexibility.

### Apprenticeship levy devolution

6. That, if powers over income tax are devolved to the NI Assembly in future, the apprenticeship levy should be devolved in parallel.
7. That if the apprenticeship levy is devolved to the NI Assembly, it continues to be administered by HMRC, given the synergies with income tax administration.

### SDLT, APD and landfill tax devolution

8. Full devolution of revenues and tax powers relating to stamp duty land tax (SDLT), air passenger duty (APD) and landfill tax.
9. That if the devolution of SDLT, APD and landfill tax is pursued and implemented, the NI Executive should establish a local revenue authority to administer these fully devolved taxes.

## Devolution of excise duties

10. That there would be value in the NI Executive seeking devolution of excise duties, albeit, over the longer term.

## Principles for implementing fiscal devolution

11. The Commission identified a number of principles for implementing fiscal devolution, namely:
  - i. That neither the budget of the NI Executive nor of the rest of the UK should be immediately better or worse off simply as a result of the devolution of a tax.
  - ii. That, as far as possible, following tax devolution the NI Executive should neither gain nor lose from fiscal risks or trends that can reasonably be predicted in advance, and which it has limited capacity to meaningfully influence.
  - iii. That the NI budget should capture, as far as possible, the full revenue impacts of its tax policy decisions, whether they be to raise or reduce revenue.
  - iv. That, as far as possible, the NI budget should not be exposed to the effects of tax policy changes made by the UK Government, for taxes that have been devolved to the NI Executive. And nor should rUK be exposed to the consequences from changes to devolved taxes in Northern Ireland.
  - v. That, as far as possible, the UK Government should bear the risks of revenue shocks that impact the whole of the UK equally.

## Operationalising principles for fiscal devolution

12. That, following tax devolution to Northern Ireland, the block grant adjustment (BGA) mechanisms that are adopted control for the budgetary risks arising from Northern Ireland's different starting distribution of taxpayers. Northern Ireland's BGAs should be indexed to tax growth in England as a whole, not, for example, England excluding London and the South East.
13. That the BGA mechanism takes account of relative population growth. In our view, the NI budget should not, as a result of tax devolution, be exposed to the risk of differential population growth relative to England.
14. That there should be some limited element of fiscal insurance built into tax devolution arrangements.
15. That the NI Executive should be able to borrow to cover negative forecast errors in full.
16. That the NI Executive should be able to borrow a modest amount to fund discretionary resource spending.
17. That, following devolution of tax responsibilities to Northern Ireland, the Budget Exchange mechanism should be replaced by a Northern Ireland Reserve, to provide flexibility to respond to the additional revenue risks the NI Executive's budget would face. If there is to be a cap on the Reserve, it should be set to be at least in line with the cap in Wales (which is £350m or 12.3% of devolved revenues in 2021/22), relative to the value of revenues devolved.
18. As a key condition for devolution, that forecasts are made by an independent body and not by the NI Executive, and that the NI Fiscal Council is tasked with forecasting revenues for any devolved taxes.

19. That the NI Executive fiscal framework should make provision for compensatory payments to be made in both directions between the UK Government and NI Executive, when policies related to the taxes we propose are devolved, have spill-over effects, and that the NI Executive and the UK Government should be required to publish their positions and the evidence underlying them if no agreement on compensatory payments can be reached
20. That dispute resolution processes in any future fiscal framework for Northern Ireland should have access to and be embedded within the new Intergovernmental Relations system between the UK Government and devolved administrations, which sets out new principles and infrastructure arrangements to support the resolution of intergovernmental disputes.
21. That if further tax powers and revenues were devolved, following the agreement of an NI Executive fiscal framework, it would be appropriate to review the terms of the overall framework at that point.

### **New taxes**

22. That the NI Executive and the UK Government agree an implementation process for the introduction of any new taxes in Northern Ireland.

### **Wider implications for devolution across the UK**

23. That the UK Government instigates a review to consider developing and implementing a shared institutional framework for fiscal devolution across the UK.

## Consultation Questions

### Question 1

Do you think the Executive should be provided with more fiscal powers like the Scottish and Welsh administrations have? What are your reasons for saying that?

### Question 2

Which taxes that the Commission recommends for devolution do you think that the Executive should seek to prioritise? Why do you say that?

### Question 3

What are your views regarding the timing for devolution of the taxes as recommended by the Commission?

### Question 4

What are your views as to how the Executive could best make use of any additional fiscal powers? Should the Executive be seeking such powers to raise or lower certain taxes? Where might the Executive use taxes as policy levers to change behaviours? And do you think increased local taxation should be used to better fund public services in line with local needs and circumstances?

### Question 5

What are your views on how any newly devolved fiscal powers might be administered?

### Question 6

Are there any other issues related to fiscal devolution, perhaps not covered in the Commission's Final Report or where you have a different opinion, which in your view should be considered by the Executive?

## How to respond

Please submit your comments by 29 November 2022, in any of the following ways.

Complete our online form at:

<https://consultations2.nidirect.gov.uk/dof/more-fiscal-devolution-for-northern-ireland>

Email your responses to the questions raised in this consultation document to:

[spd@finance-ni.gov.uk](mailto:spd@finance-ni.gov.uk)

Paper responses may be sent to:

**Strategic Policy Division  
Department of Finance  
9 Lanyon Place  
Belfast  
BT1 3LP**

This consultation will close on 29 November 2022. Responses received after this date will only be considered in exceptional circumstances and with prior agreement from the Department.

Following the closing date, all responses will be analysed and the Department will publish a summary of responses to the consultation.

## Your rights

Under the Data Protection Legislation, you have the right:

- To be informed of the personal data held about you and to access it.
- To require us to rectify inaccuracies in that data.
- To (in certain circumstances) object to or restrict processing.
- For (in certain circumstances) your data to be ‘erased’.
- To (in certain circumstances) data portability.
- To lodge a complaint with the Information Commissioner’s Office (ICO) who is our independent regulator for data protection.

Responses to consultations are likely to be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tell us.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.



