Smart Money:
Better options for Northern Ireland's public finances

NIC ICTU Policy Paper September 2023

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions
Northern Ireland Committee

Foreword

by Gerry Murphy

Assistant General Secretary, ICTU

Northern Ireland's public finances are a mess. This needs to be addressed and the conversation needs to start now.

This involves a wider discussion that we are used to. The current problem of budgets and resources is impacting upon every part of our economy and every corner of this society, and the solution must involve all of these stakeholders.

The trade unions of Northern Ireland represent over 200,000 workers across every sector and have fresh ideas to offer this conversation. We have detailed proposals for dealing with the short-term matter of the NI budget, the medium-term planning for ambitious capital investment and for reforms to drive better delivery of public services for every citizen, and the longer-term realignment of the economy.

It is time to make those first steps away from the precariousness of political and economic life here, and properly plan for an economy which serves the society we have become, with space and time to embrace the talents of everyone here.

This can be summarised into four steps:

- We need to drop the debt that is currently crippling our finances;
- We need a mechanism to enable real transformation of public services;
- The Barnett Formula is redundant and should be replaced;
- Tax changes need to be made at Westminster.

The current problem of budgets and resources is impacting upon every part of our economy

Introduction

Northern Ireland's public services are not sustainable under the path of public spending outlined by the most recent Northern Ireland budget. The current predicament reflects the public spending environment that departments have been subjected to over the last number of years. While it can be argued that significant reforms could make Northern Ireland's public finances more sustainable, there are significant limitations to such a strategy.

The only path to sustainable public finances is for immediate and unnecessary obstacles to be removed and a realistic programme of investment that would allow the space for reforms. In reality however, there needs to be a reassessment of the model of spending in the UK and a move toward European levels of taxation.

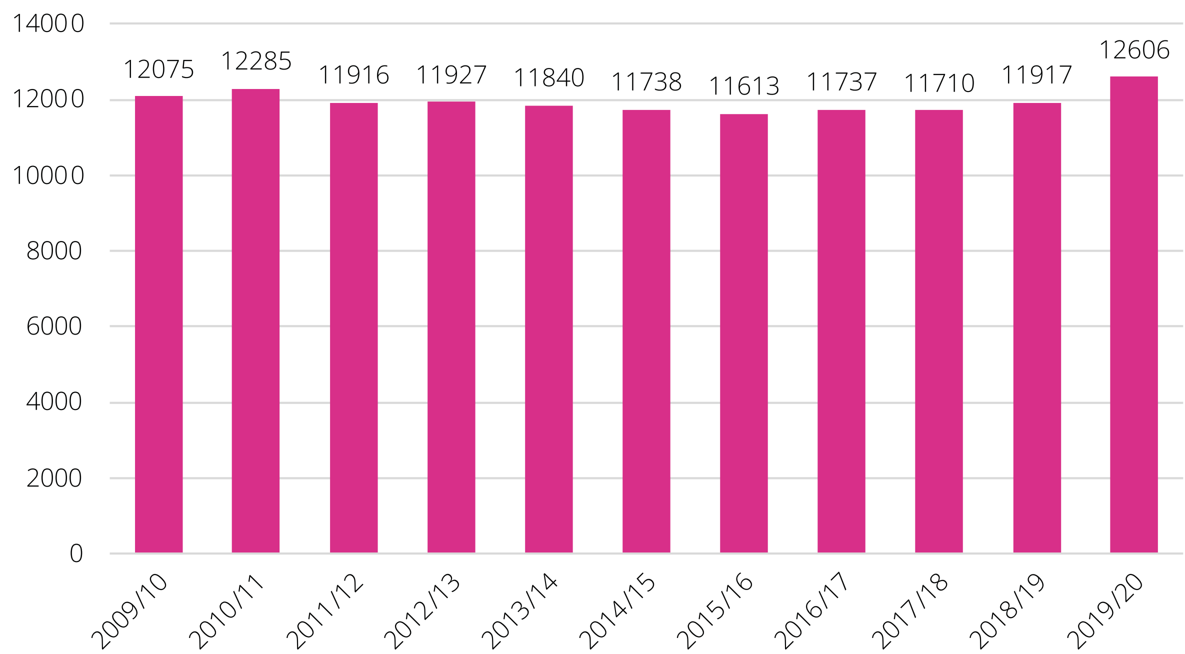
The only path to sustainable public finances is for immediate and unnecessary obstacles to be removed and a realistic programme of investment

Section 1

The story thus far

It is not possible to divorce the current state of Northern Ireland's public finances from the UK budgetary environment that has preceded it. The fiscal policy adopted by the UK government since in 2010 has dramatically altered the shape of public spending in Northern Ireland and across the UK.

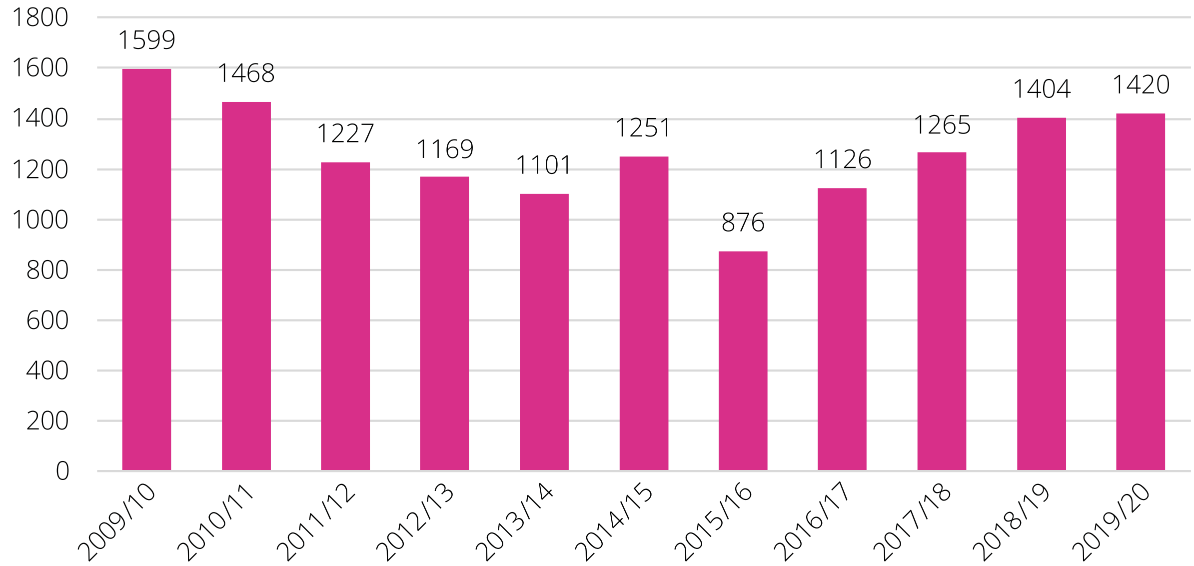
Chart 1. Real Resource Spending in Northern Ireland 2009/10-2019/20



On the eve of the covid-19 pandemic, day to day public spending in Northern Ireland was only 4% higher than it had been 10 years previously in 2009/10. For every year up until 2019/20, spending had been below the 2009/10 level. Given the growth in population and the demographic change within the population itself, this represents an extremely constrained public expenditure profile.

The picture becomes even more stark when we look at capital expenditure. Investment spending fell in real terms every year between 2009/10 and 2015/16, with the exception of 2014/15. In those first 6 years, capital expenditure in Northern Ireland fell by almost half. All these years of lost capital expenditure put enormous strain on day-to-day expenditure, further compounding the constraints already there.

Chart 2. Real Capital Spending in Northern Ireland 2009/10-2019/20



While day to day expenditure did eventually return to its 2010 level, this alone does not eradicate the effect of a decade of real terms cuts. Each year of diminished resources damages the provision of services and the capability of the public sector. This cannot simply be restored with a one-year increase.

This is even more important for capital expenditure where every year, key investment is delayed or not delivered at all. The lack of investment compounds over these years and results in capacity constraints which further hamper the ability of the public sector to deliver services.

The current predicament

This brings us to the most recent experience of a public sector financial crisis. The background to the 2023-24 Northern Ireland budget was a significant overspend in 2022/23. This overspend arose because some government departments, chiefly Health and Education, spent beyond their allocated spending totals outlined in the draft 2022/23 budget produced by the then Northern Ireland Executive.

Following the collapse of the Executive, the Secretary of State for Northern Ireland decided that this overspend would be deducted from Northern Ireland's public spending over the following 2 years (2023/24 & 2024/25). This decision was framed as a correctional measure to curb the excesses of the outgoing Executive. It is worth putting this assertion in context.

The Northern Ireland Fiscal Council stated in their report on public finances in March 2023[1] that the vast majority of the overspend was made up of 'pay awards, energy prices and other inflationary pressures'. Inescapable pressures rather than new funding commitments were to blame for the excess of spend. Without a functioning Executive, departments also missed out on in year monitoring rounds which allow spending to be reallocated between departments to allow more efficient spending. Monitoring rounds help to identify underspends

1 https://www.nifiscalcouncil.org/publications/nios-2022-23-budget-northern-ireland-assessment

and overspends early on and allow for real-time reallocation. Without a functioning Executive, this mechanism was unavailable. Furthermore, the Fiscal Council point out that Northern Ireland departments received a proportionately smaller increase in their spending allocation than their equivalent departments in Great Britain. This is a function of the Barnett Formula for public spending which will be discussed further in Section 3.

In this sense, Northern Ireland departments were set up to fail. They faced massive increases in prices, much smaller increases in resources and also lacked a functioning Executive to monitor in-year spending. The idea that Northern Ireland needs to be punished for any of these circumstances is as erroneous as it is insulting.

...Northern Ireland departments were set up to fail.

Section 2

A solution from within?

Announcing the Northern Ireland Budget for 2023/24 the Secretary of State for Northern Ireland made clear that he believes that the solution to the current crisis in the public finances lies within Northern Ireland. He contends that revenue generated in Northern Ireland is below that generated in other regions of the UK and that closing this gap will solve Northern Ireland's predicament.

To officiate this the Secretary of State has taken on more powers to request advice and information on options for raising more public revenue or otherwise improving the sustainability of Northern Ireland's public finances[2].

The risk with this step is that it is premised on the erroneous belief that the sustainability of Northern Ireland's public finances is a result of the gap in revenue raised in Northern Ireland compared to the rest of the UK, and as such can be fixed by closing this gap.

On the differences in revenue raising across the UK, there has been very little discussion about the revenue raising capability or capacity in each part of the UK, and its relationship with the health of the local economy.

The revenue-raising capability or capacity refers to the ability of each region or nation within the UK to generate income through various taxation measures levied on economic activities. This capability is closely linked to the health and overall performance of the local economy.

As part of the advice and information sought by the Secretary of State there has been particular interest in exploring so called 'super parity measures' where Northern Ireland spends more per capita on certain areas of public Expenditure compared to the rest of the UK. These include water charges, prescription charges, tuition fees and the other areas in which Northern Ireland could raise additional revenue or reduce expenditure if policies matched other parts of the UK.

It must be said that whilst it is the case that the NI Executive has made policy decisions to forego certain streams of revenue or rather spend differently compared to other parts of the UK, it is important to not overstate the impact of these policy divergences.

The Independent Fiscal Commission estimated that the range of policy divergences where the NI Executive charges its citizens and businesses less or provides more support than in other parts of the UK cost Northern Ireland around £600 to £700 million in 2020/21, or some 4% of the Northern Ireland Budget[3]. It must be emphasised however that these amount to the estimated costs based on 2020-21 allocations and range across numerous areas of policy divergence.

2 Northern Ireland Office (2023) Secretary of State writes to NI Civil Service on sustainable public finances, 14 June 2023. Available online at: https://www.gov.uk/government/news/secretary-of-state-writes-to-ni-civil-service-on-sustainable-public-finances

3 As per the Independent Fiscal Commission report measures provided by Departments which implied a cost of less than £1m are not included.

When calculating the 'cost' of super parity measures, it is important to recognise that the amount estimated as foregone or spent does not necessarily equate to the amount that could be raised or saved. This would ultimately depend on the final spending mechanism or charging model that would be applied in any of these areas.

These areas of super-parity are often presented as though Northern Ireland citizens and businesses receive superior or advantageous treatment. It is important to emphasise however that whilst this might be true for a specific item, Northern Ireland does not receive additional monies to fund these. They are funded from within our existing funding allocation.

Beyond this there are also some examples of 'sub-parity' issues where Northern Ireland policies are less generous than other parts of the UK. Two such examples are childcare support and, arguably to a lesser degree, apprenticeships. The NI Executive does receive a Barnett consequential as a result of UK government spending on childcare provision and apprenticeships in England, but these monies are not currently being used to provide parity on these areas of policy.

England offers 30 hours per week of free childcare, for 38 weeks of the year to all 3- and 4-year-olds to all eligible working parents' children[4]. By September 2025 provision will be extended and will cover all children above the age of 9 months. The same provision is not available in Northern Ireland despite costs being estimated as the second highest amongst 24 European countries reviewed in 2019.

The apprenticeship levy operates on a UK-wide basis; however, although Northern Ireland businesses pay the same levy, they are unable to access apprentices through government vouchers in the same way.

Super parity measures are not an example of wasteful government spending, they represent a conscious policy decision of an elected government. For example, the decision not to implement water charges on Northern Ireland's citizens is a policy choice, and supported on the basis that water charges are a form of regressive taxation and in nearly all cases, a trojan horse for privatisation[5].

Moving away from issues of super-parity, devolution of further revenue raising powers have been suggested as another route to help get Northern Ireland's public finances onto a more sustainable path.

the decision not to implement water charges on Northern Ireland's citizens is a policy choice, and supported on the basis that water charges are a form of regressive taxation and in nearly all cases, a trojan horse for privatisation

4 HM Government (2023) How many hours of childcare can you get for your children? Available online at: https://www.childcarechoices.gov.uk/upcoming-changes-to-childcare-support/

5 See NIC ICTU policy https://www.ictuni.org/publications/ictu-nic-biennial-conference-report-2012

For the Northern Ireland Executive to embark on the devolution of further revenue raising powers for the purpose of trying to meet any shortfall in public expenditure or for the purpose of funding areas of policy divergence is not without its risks.

In simple terms the argument in favour of revenue devolution is that by allowing a region to generate its own revenue we can reduce reliance on central government funding (in Northern Ireland's case, the Block Grant). However, for any new devolved tax to meet the shortfall of public expenditure it would be necessary for the amount raised via any devolved taxation to be greater than the amount foregone from the Block grant as a result of the devolution. This is not by any means a definitive outcome.

To achieve this there would need to be faster growth in Northern Ireland's tax base (and hence its tax revenues) relative to what is forgone via the block grant adjustment.

Progressing towards further devolution of revenue raising powers in efforts to improve public finances in NI or to increase the sustainability of Northern Ireland's public finances comes with considerable risks. It risks further weakening of Northern Ireland's public finance position and further increasing regional inequality. This was a point made by the Northern Ireland Independent Fiscal Commission in its report looking at the devolution of further revenue raising powers.

It is rarely acknowledged that Northern Ireland's current financial position is a function of its place in the UK's transfer union and the powers which have been devolved to it. It also risks ignoring the tax capacity of Northern Ireland.

The Independent Fiscal Commission[6] recommended that if the NI Executive were to have the capacity to raise serious amounts of revenue, or effect significant redistribution through the tax system, then income tax would be the most appropriate major tax to utilise to do so. The Independent Fiscal Commission also cautioned of the risks involved in doing so. If taxes are devolved to the NI Executive then the NI Executive's budget will, in part, be determined by how much revenue those taxes raise in Northern Ireland. That could well lead to a more volatile budget. It could lead to the budget rising or falling, relative to what it might have been in the absence of further devolution. Given the significant gap in performance between Northern Ireland's economy and that of the UK as a whole, these risks should be given careful consideration.

Furthermore, it does not follow that the further devolution of fiscal powers will automatically right any of the weaknesses in the NI economy. Devolution can assist with economic development, but the fundamental importance of the economic, social and institutional geography of the place has to be of paramount importance. Devolution of any tax will not act as a panacea to the economy. In this sense, it is important not to be taken in by the simplistic view that merely devolving greater fiscal powers will bring greater economic growth. Such 'silver bullet' thinking is misguided.

Priority must be given to achieving sustainable economic growth as the key mechanism. This is the only way to put Northern Ireland's public finances on a more sustainable footing.

6 Independent Fiscal Commission (2022) Chapter 5: How fiscal devolution might be implemented for our prioritised taxes? In More Fiscal Devolution for Northern Ireland? Available online at: https://www.fiscalcommissionni.org/files/fiscalcommissionni/documents/2022-05/web-version-final-report-may-2022-accessible.pdf

Section 3

A Realistic Plan

The solution to the current crisis in Northern Ireland's public finances can be divided into the short term and the longer term. In the short term, there must be an accommodation that allows for realistic spending allocations to Northern Ireland government departments. In the longer term, there must be a more substantial debate about public sector reform that acknowledges the investment and spending that will be required to affect real change.

Drop the debt

In the short term, the artificial crisis that has been created by attaching an ersatz public debt to the Northern Ireland Executive must be removed. As outlined in section 1, this debt was incurred through inescapable spending pressures and not through wilful policy commitments. The idea that enforcing this debt will be a learning exercise for governance in Northern Ireland is not grounded in reality.

Removing the debt will allow Northern Ireland government departments to ease pay and other cost pressures within the public sector through Barnett consequentials that they receive for similar deals made in Great Britain.

Dropping the debt will allow the space for Northern Ireland's public sector to deliver services and avoids a needless burst of austerity which will disproportionately impact the most vulnerable in society.

The costs and limits of Reform

Public sector reform has been an almost ever-present feature of debates about public finances in Northern Ireland. All too often, reform has been spoken of as though it is a magic key which will unlock our fiscal problems. For too long it has been assumed or claimed that it is possible to undertake a programme of public sector reforms that will release abundant resources from within the public sector and will be costless to implement. Both of these assumptions are not only unhelpful but are simply incorrect and need to be vigorously challenged.

We are clear that any public sector reform must be about positive changes that support and improve public services for those who use these services and those who provide them. Reform, by its nature, is difficult to achieve in any system, but it doesn't help that in the past 'reform' has been used as a cover to disguise cuts in services. *We will always oppose cuts in the provision of public services.*

We also need to be honest about the limits of reform. Firstly, reforms that can deliver significant resource saving require investment. In order to save money, it is necessary to spend it first. Given the constraints that many public services are under at present, as a result of planned government policy, it has simply not been possible to isolate the funding required to implement any serious programme of reform. Secondly, while there are a number of areas where investment in public services could enable greater delivery within existing resources, these developments are not static. Public services will need to grow and adapt to meet the challenges of tomorrow and so must the resources we provide to them.

Health spending has been an area where reform has been long discussed. While Health expenditure has increased substantially in Northern Ireland, this is not a Northern Ireland phenomena – the spend on health has also increased substantially in most other Western European countries, mainly due to unavoidable cost pressures. For Northern Ireland, these increases in health expenditure would be welcome if they led to a greater provision of services or an enhancement of existing services, but they do not, nor were they designed to do so . We are running to stand still or in some cases, falling back.

We are running to stand still or in some cases, falling back. A recent report from the Nuffield Foundation[7] commissioned by the Northern Ireland Fiscal Council outlined that there are many areas where health spending in Northern Ireland is unavoidably higher than the rest of the UK due both to the absence of economies of scale and demographic factors, including health inequalities, which cannot be ameliorated. Such differences exist across public services and are the one of the main reasons that overall public expenditure per head needs to be higher in Northern Ireland than the rest of the UK. However, the report also highlighted that there are areas where differences in expenditure cannot be explained by geographical or demographic factors.

The structural deficiencies in the Northern Ireland Health Service have been the subject of a number of independent and expert reports. These reports all highlight the fact that without necessary investment, the NHS will require greater and greater amounts of funding in order to provide the same level of services. Given the profile of public expenditure over the last number of years, this has placed our NHS in an impossible position - we need to make the reforms in order to get a handle on spending, but we can't make the reforms because all our funding is going into maintaining the existing system.

This was highlighted in the NI Executive's 2016 'Delivering Together' plan on Health Service reform. It noted that a period of 'double running' would be necessary to fulfil the reform plan. That is the only way any meaningful reform can be delivered.

7 https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NIFC%20Sustainability%20report%202022%20special%20focus%20-%20Health%20-%20web%20version%20with%20correction%2020.10.22.pdf

A Transformation Fund

If we are serious about putting Northern Ireland's public finances on a sounder footing, then there needs to be a realistic assessment of what can be achieved through public sector reform and a credible way of bringing such reforms about.

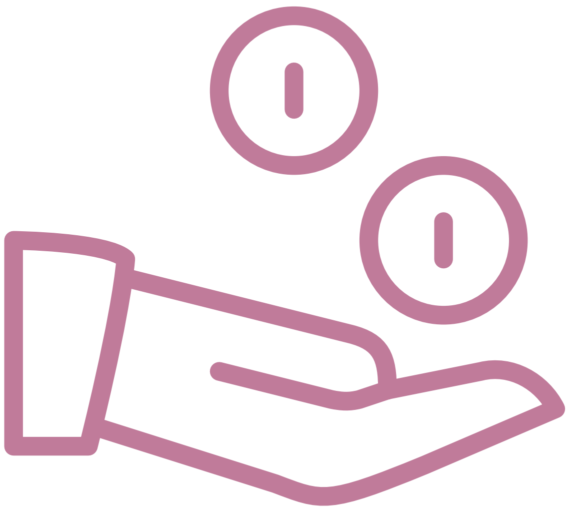
The UK government has been at pains to point out that it will not improve Northern Ireland's current financial settlement whilst at the same time it wishes to see significant reform undertaken. As we have shown, these assertions are mutually incompatible.

There is however a framework that would allow the UK government to maintain its position with regard to Northern Ireland's financial settlement but allow reform to take place. A transformation fund could be made available to the Executive in order to undertake pre-approved investments in the public sector in order to bring about reforms. Such a fund would stand apart from the Block grant and other funding streams but could be accessed by departments submitting bids for specific reform projects.

In 2015, the Kings Fund proposed a Transformation Fund for the NHS in England to achieve many of the same reforms that have been proposed for Northern Ireland. A separate Transformation Fund would allow Treasury to be assured such funds were not being used merely to prop up existing services while also providing a route out of the current path of public expenditure for the Northern Ireland Executive.

While such measures would not alleviate the current financial strain that public services are currently experiencing, it would allow reform to take place without tightening those constraints further. Moreover, the Transformation Fund would avoid making the same mistakes of previous deals where funding for long term problems was granted on a short-term basis.

There is however a framework that would allow the UK government to maintain its position with regard to Northern Ireland's financial settlement but allow reform to take place.



No More quick fixes

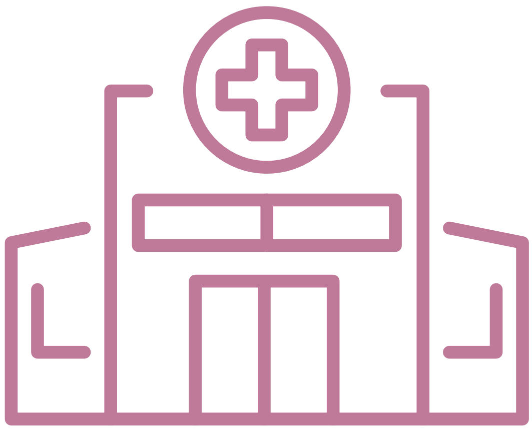
In the past negotiations on resurrecting devolved government have concentrated on securing short term windfalls with an excessive focus on the total amount of funds secured. These negotiations have rarely examined the longer term needs of Northern Ireland. The idea of a Transformation Fund offers an opportunity to secure the funding necessary for reforms rather than seeking to secure a specific amount of money. It would focus on achieving and outcome rather than being excessively focused on inputs.

The most recent resurrection of devolved government in Northern Ireland is instructive in this case. In January 2020, the political parties and the British and Irish Governments agreed the New Decade, New Approach (NDNA) framework which included a financial package. The package was initially billed at £2bn, but on closer inspection, the amount of new money was considerably less. For example, a large component of this funding was accounted for by hypothetical future Barnett consequentials. However, the real insight to be gained from that experience is not what the total amount of money eventually was, it was the way in which the money was given that is of greatest interest.

One element of funding illustrates this point very well. The NDNA agreement contained a £200m package to manage pay pressures in the public services. This was against the backdrop of a strike by NHS workers that winter. The problem was that healthcare workers pay and the pay for other public sector worker is a recurring expenditure, whereas the NDNA financial package was a once off. The NDNA money provided a way out of the short-term pressure, but merely pushed the problem further down the road.

These short-term deals have not worked in the past and they will not work now. Northern Ireland needs stability in its public finances, and this requires a more thought through and credible plan for its future.

> The NDNA agreement contained a £200m package to manage pay pressures in the public services. This was against the backdrop of a strike by healthcare workers that winter.



Section 4

A Fairer Settlement for the Future

Budgetary outcomes are a residual of broader departmental allocations within the rest of the UK government. It is correct that the UK government has, on occasion, made supplementary budget provisions for Northern Ireland. However, in almost all cases these allocations were short term and even more short-lived. They were tied either to intergovernmental agreements or latterly to political agreements between parties.

Spending decisions in Northern Ireland are in large part determined by the total resources available to the state. That decision is taken in Westminster and there is no structured dialogue between the UK government and Northern Ireland administration.

A very large proportion of spending within the Departmental Expenditure Limit (DEL) that the Treasury sets for NI Departments is financed from the Block Grant paid by the UK Government. This comprises a core element based on historical spending and adjusted at each fiscal event to reflect changes in UK Government spending according to the Barnett formula.

The Barnett formula is a funding mechanism used in the UK to determine the allocation of public spending to Scotland, Wales, and Northern Ireland based on changes in comparable public spending in England. When there are changes in public spending in England, such as an increase or decrease in a specific area like health or education, the Barnett formula calculates a proportional adjustment to the block grant for each devolved administration. The adjustment is made by applying a formula that takes into account the population size of each devolved region.

Beyond the Block Grant, the Executive raises additional finance from the Regional Rates and capital borrowing under the Reinvestment and Reform Initiative (RRI), both of which are separately identified in the Executive's Budget. Departments also raise money from fees and charges and some residual EU funding (even after Brexit).

One important thing to note is that while the Barnett formula has been considered a robust mechanism for public expenditure allocation for many decades, it was intended for temporary use. It largely replaced the need for direct negotiation about public expenditure allocation between UK Treasury Ministers, Secretaries of States and Ministers of devolved administrations, which were very time consuming.

The Barnett formula was originally introduced in 1978 and has survived despite criticisms and calls for reform. Critics argue that the formula does not accurately reflect the varying needs and circumstances of the different regions, leading to imbalances in resource allocation.

The Barnett formula ensures that when the UK Government increases (or cuts) funding for public services delivered by Whitehall departments in England, it also increases (or cuts) the funding it gives Devolved Administrations that deliver those services in their own region by broadly the same amount in pounds per person. This ensures that if the UK Government uses UK-wide tax revenues to finance spending only in one part of the country, other regions do not lose out.

In recent times, the shortcomings of the Barnett formula have come to the fore, and it is becoming increasingly apparent that it not fit for purpose. In particular, the implications of what has become known as the 'Barnett squeeze' cannot be ignored.

This has been an issue discussed in many previous documents concerned with public finances, but most recently has been raised by the Fiscal Council as an issue which is affecting the provision and delivery of public services in Northern Ireland.

The Barnett squeeze is the term used to describe the fact that when the Barnett formula was first introduced, public spending per head was much higher in NI, Scotland and Wales than in England. However, according to the Fiscal Council, as increases (or cuts) in funding for public services delivered via the Barnett formula are in absolute terms (pounds per person) rather than relative terms (percentage), Northern Ireland will eventually lose out. Increasing funding per head for the Devolved Administrations in line with increases in equivalent UK Government spending in England in cash (rather than percentage) terms results in smaller percentage increases in the Devolved Administrations than in England. It means that percentage premium in spending per head over England is reduced.

The impact of the Barnett squeeze is such that Fiscal Council projections suggest that the NI Block Grant premium will fall below a 20 per cent premium by 2030-31 and to 6 per cent by 2071-72 if no further action is taken.

As outlined by the Fiscal Council the implications of the Barnett squeeze are particularly stark when it comes to the payment of public sector pay deals. The Fiscal Council states[8]

'The formula causes particular challenges when the UK Government increases spending to finance pay awards....imagine that pay initially accounts for half of public spending in both England and NI and that the UK Government has increased spending by £10 per head in order to finance a 20 per cent pay award for public sector workers in England (lifting the pay-bill from £50 to £60 per head). The consequent £10 increase in the Block Grant is insufficient to finance the same 20 per cent pay award in NI (which would increase the pay-bill there from £100 to £120 and therefore cost £20). The Executive would have to choose whether to match the pay award in England, in which case it will need to cut other spending or raise more revenue, or increase pay in NI by proportionately less.'

The implications of this extend beyond pay, and as the Fiscal Council point out make the management of public finances particularly difficult during periods of high inflation, such as the current economic environment. They explain:

'A similar issue arises at times of relatively high inflation, as is currently the case. NI Departments presumably face roughly the same rates of increase in their non-pay costs as their Whitehall counterparts. But if the UK Government provides departments delivering public services in England with a budget increase sufficient to cover an x per cent increase in those costs, the Barnett consequentials will not

8 https://committees.parliament.uk/writtenevidence/120884/html/

cover the equivalent percentage increase in costs in NI, leaving a funding gap.'

Going forward, repeated and continued application of the Barnett formula would be expected to extend and intensify the Barnett squeeze, and as such the provision and delivery of public services in Northern Ireland. Even in periods of fair winds, the nature of the Barnett squeeze means that the managing public finances in a sustainable way would become increasingly difficult over time.

Others, including the Holtham Commission in Scotland[9], called for a reassessment of the Barnett formula and advocated for a needs-based assessment. The reasonings and rationale of which are supported here.

A needs-based approach to public finances refers to the principle of allocating government resources based on the specific needs of different regions within the UK. This approach seeks to satisfy the principle of parity by recognising that different areas or population segments may require varying levels of support and investment to address their unique challenges and promote equitable outcomes.

Introducing a needs-based system or a system of fiscal equalisation to replace the Barnett formula would ensure that spending power for public services actually is equalised on a per capita basis among the regions.

A needs-based system seeks to acknowledge that not all regions have the same capacities and not all regions have the same cost base.

If one wishes to apply the parity principle to the NI's Block Grant funding in a rigorous way, it is necessary to estimate the relative need for public spending in NI compared to England to assess whether the available funding is sufficient to deliver the same standard of public services, all other things being equal.

However, a needs-based approach to public expenditure is only one part of a proper system of fiscal equalisation. The OECD define fiscal equalisation as 'a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost. Its principal objective is to allow sub-central governments to provide their citizens with similar sets of public services at a similar tax burden.'[10]

This was something that was similarly recognised by the Holtham Commission which argued that "the needs-based funding regime for the devolved administrations should assess variations in the ability of each nation to raise its own resources in a consistent way". The Holtham Commission suggested that the ability of the Devolved Administrations to raise resources (i.e. taxable capacity) should be estimated based on relative property prices, which could be incorporated into a needs formula.

9 Holtham, G., Ashworth, J., Blackaby, D., Breen, R., & Forster, J. (2010) *Fairness and Accountability: A New Funding Settlement for Wales*. Independent Commission on Funding and Finance for Wales. Available online at: http://www.fundingandfinance.co.uk/wp-content/uploads/2010/11/holtham_report_final1.pdf

10 OECD (2014) *Fiscal Equalization: Challenges in the Design of Intergovernmental Transfers.* Available online at: https://www.oecd.org/tax/federalism/fiscal-equalisation-challenges-in-the-design-of-intergovernmental-transfers.pdf

A broader Change

While there is an opportunity to put Northern Ireland's public finances on a more stable path by removing short term constraints and providing the means to enact reforms over the medium term, it would be foolish to think that these measures would ensure an adequate future for public services. For this, the change must be at national level.

In 2020 ICTU released the 'No Going Back' document in response to the turbulence brought about by the Covid-19 pandemic. The document sets out our vision for a secure and sustainable future for all. It further outlines the changes that we must make in our economy and the investments that must be made in our public services and the broader welfare state. Crucially it describes how our tax system will need to change to meet this challenge.

The United Kingdom is considered[11] a low tax economy compared with our European peers. Revenue as a percentage of GDP was 34% in the UK in 2021 far behind the average of other North European economies which was 42.7% for the same year. Even when measured on a per population basis, the UK collected €15,966 per head compared with an average of €18,636 in other peer economies.

The ICTU '*No Going Back*' report highlighted the fact that in the UK, one of the largest gaps in tax was in social insurance contributions, and in particular those levied on employers. This gap remains significant and it is estimated that if employer social insurance contributions were to rise to meet the average of our European peers it would raise an addition £90bn in the UK. For Northern Ireland, this would result in an extra £2.6bn in revenue generated.

Bridging the gap in taxation between the UK and European peers represents the only realistic plan for well-funded and sustainable public finances and therefore public services.

11 https://www.ictu.ie/publications/no-going-back

STRONGER TOGETHER

CONGRESS

Irish Congress of Trade Unions
Northern Ireland Committee

Northern Ireland Committee
Irish Congress of Trade Unions
45-47 Donegall Street
Belfast BT1 2FN, Northern Ireland

Tel: 028 9024 7940
Email: info@ictuni.net

Web: www.ictuni.org