PIVOTĀL

# Consultation on financial context for revenue raising

# Response from Pivotal

## Background

Pivotal is the independent public policy think tank for Northern Ireland. Pivotal aims to help improve public policy in Northern Ireland, through promoting a greater use of evidence in decision-making and by involving a wider range of people in talking about policy issues. Pivotal is independent of political parties and political ideologies, and operates outside of government. We aim to promote and enable discussion about policy issues in Northern Ireland that is evidence-based, inclusive and accessible.

Pivotal offers this short response to the Department of Finance's consultation on the financial context for revenue raising. Our response focusses on the principles behind revenue raising rather than commenting much on individual measures.

## Public finance options

In broad terms there are five options for addressing shortfalls in Northern Ireland's public finances:

1. Achieve cost savings through short-term efficiencies or longer term reforms in public services
2. Reduce or stop some spending
3. Seek additional funding from the UK Government
4. Find other sources of funding for public services (e.g. private sector or international)
5. Raise more revenue locally through taxes or charges

In Pivotal's view there is a need for a fuller consideration of increased revenue raising in Northern Ireland (option 5 above). There has been a tendency amongst NI's politicians to close down such discussion in the past, usually in favour of seeking additional funding from the UK Government to address public finance shortfalls. In our view a well-informed public conversation about the options for increased local revenue raising is overdue.

## Ability to contribute to revenue raising

Pivotal would emphasise the importance of taking into account the impact of additional revenue raising measures on lower income and more vulnerable households. Many people in Northern Ireland are already struggling with the costs of day-to-day life. We do not think that it would be appropriate to put additional financial burdens on those least able to pay, and that the largest contributions should come from those with more disposable income. We therefore caution against revenue raising measures that are universal in nature and/or which would disproportionately affect more vulnerable households. We acknowledge that this will reduce the amount of extra funding generated through new revenue raising.

Pivotal does however think that middle and higher income households in Northern Ireland might be able to contribute more to revenue raising, noting that locally raised taxes here are much lower per households than those paid in England, Scotland and Wales (see below). We would support revenue raising that is progressive in nature, i.e. those on higher incomes pay proportionately more.

## Connecting increased revenue raising to improvements to public services

We would like to see a broader conversation in Northern Ireland about how increased revenue raising could be part of efforts to improve public services here. There is rarely any discussion about the potential funding for public services that is foregone by choosing not to pursue further revenue raising. Additional revenue could be used to increase or enhance much-needed services that are valued by the public.

However, to be acceptable to the public, any new revenue raising would need to be accompanied by efforts to bring about tangible improvements to the services delivered. The current budgetary and service delivery challenges in health, education, infrastructure, policing, childcare and other areas mean services are falling far short of what people expect. It is unlikely that there would be public support for increased revenue raising without significant improvements in the services people are able to access.

## Domestic and non-domestic rates

Most of the revenue raised by the Northern Ireland Executive comes via the regional rates on domestic and non-domestic properties. In the past the Executive has focussed on keeping the regional rate low in order to minimise the costs for households and businesses. For example, the Executive only made very small increases in the domestic regional rate between 2007 and 2017, although the non-domestic regional rate increased more sharply. The Secretary of State also chose to apply an uplift to the regional rate that was below the rate of inflation in the Budget he set in 2023-24, despite the financial challenges faced by Departments, which in effect reduced the level of resources available for public services in real terms.

Pivotal's view is that it is unrealistic for the Executive to keep the regional rate low, when there is such pressure on the public finances and the continued expectation of high levels of spending on public services. Consideration should be given to using the domestic rates system in particular to generate increased revenue to fund essential services, but doing so in a way that protects lower income households.

In principle, we would be supportive of the proposed removal of the cap on domestic rates, on the basis that owners of the highest value properties are likely to be able to afford to make a greater contribution to public revenues. While this would not generate a large amount of revenue, it would emphasise the importance of taxation that is related to ability to pay. It would be important to make the point that the regional rate is not a hypothecated payment for particular services (which the owners of high value properties do not necessarily draw on heavily), but a contribution to general taxation.

## Water charges

Northern Ireland households do not pay for water in the same way as households in the rest of the UK. The Fiscal Commission estimated that the Executive foregoes a potential £345 million of income each year by not having water charges. Water charges have been considered at various times in the past, but there is always been political opposition to their introduction. The comparison in the table below of charges faced by households across the UK would question whether this is justified (see Fiscal Commission final report).

**Comparison of household charges across the UK (rates/council tax & water/sewage)**

| | Average Bill (Council tax or rates) | Water and sewage | Total household bill |
|---|---|---|---|
| **Northern Ireland** | £1,036 | £0 | £1,036 |
| **England** | £1,428 | £408 | £1,836 |
| **Wales** | £1,544 | £408 | £1,952 |
| **Scotland** | £1,198 | £383 | £1,581 |

*Source: Department of Finance – Land and Property Services (LPS), Presentation to Fiscal Commission – May 2021*

It is often argued that water is paid for through the rates in NI. This however does not appear to be correct given that households here pay much less through rates than those in GB do through Council Tax alone.

NI Water says it is facing a 5 year funding shortfall of £2 billion, and that restricted water and wastewater capacity are acting as a brake on the development of housing and business premises in some areas. Our view is that introducing water charges, with appropriate reductions for those who are less able to pay, could raise extra revenue that would helpfully contribute to overdue improvements to water infrastructure.

## University tuition fees

Pivotal would welcome a broad review of higher education (HE) funding in Northern Ireland, to include considering the appropriate level of tuition fees. In our earlier report Retaining and regaining talent in Northern Ireland we noted that the 'Big Conversation' consultation in 2015 concluded that significant changes were needed to address deficits in HE funding, some of which are related to the decision not to raise tuition fees in Northern Ireland in line with elsewhere in the UK. Moreover, the differential between tuition fees in NI and elsewhere in the UK creates a financial penalty for those NI-based students who are forced to leave because they are not able to get a place at a NI university. The 'Big Conversation' consultation noted that the current model of HE funding was unsustainable and suggested various models to increase public or private investment (including higher tuition fees). However, there are no published outcomes from this consultation and no steps appear to have been taken in response.

Pivotal's earlier research into why so many young people leave Northern Ireland for study or work highlighted the impact of the MaSN cap in limiting the number of local students who are able to study in NI. There appears to be little strategy behind this cap on student numbers, beyond being an expenditure control mechanism. Meanwhile, Northern Ireland continues to lose thousands of talented young people each year, around two-thirds of whom do not return after graduation. Any review of HE funding (including tuition fees) in NI must also consider whether this cap remains appropriate given Northern Ireland's current and future skills needs.

**Ann Watt**
**Director, Pivotal**
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