E1

Neil Gibson
Permanent Secretary
Department of Finance
Clare House
303 Airport Road
Belfast
BT3 9ED

the voice of local government

17th January 2024

Dear Neil

**Financial Context for Revenue Raising Consultations**

Thank you for providing some overarching context for the suite of active and forthcoming revenue raising consultations issued at the behest of the Secretary of State for Northern Ireland, about which NILGA has grave concerns. The information you provided, including the presentation and discussion at Stormont Pavilion on 9th November was extremely helpful to our members and council finance officers.

Firstly, NILGA is of the view that that these issues should be dealt with by incoming NI Executive Ministers. These are devolved matters requiring local decisions. Our members have serious concerns regarding the potential undermining of local democratic decision-making that these consultations foreshadow.

There is little to no information on how the revenue raising consultations will interrelate, or what their potential cumulative impact might be. The wider cumulative context, could include a proposed 15% hike in the regional rate, and we are unsure at present if that figure will include water charges. We also note that the ongoing discussions regarding a 'fiscal floor' include consideration of taxable capacity, which is also likely to impinge on local government.

NILGA is of the view that these revenue raising consultations are poorly timed in the context of the wider cost of living crisis, with the potential to cause great financial difficulty for people and businesses across Northern Ireland, should the proposals for revenue raising be brought to bear. We believe strongly that while modernisation is undoubtedly necessary, and we would assure government that councils are committed to working towards transformation and improvement of public services, this is the wrong time - in the current economic context - to be introducing these changes, particularly given the limited revenue that would be raised, even if all proposals were implemented.

Although the need for more resources is clearly identified, an appropriate evidence base and case for change does not appear to have been developed for the emerging specific proposals, and there is scant information on how the proposals impact on the economy as an ecosystem. There is insufficient information to form a sound opinion on the proposals, and no future plan or strategy evident.

Some of the proposals have the potential to benefit councils but could disrupt current systems e.g. the distribution of rates income. There is not enough information to enable us to have a full picture of the economic impact of these proposals, in what is a largely SME-based economy.

Government must keep in mind that the revenue raising proposals could impact each council differently in terms of income and what each council is trying to achieve locally, and given the high potential for cumulative or interactive impacts of the various proposals, NILGA believes that it would be inadvisable to 'cherry pick' individual revenue-raising policies in the absence of a wider review**.** We look forward to a successful outcome from the ongoing political discussions in relation to setting a fiscal floor, which we believe will set Northern Ireland on a much more sustainable, appropriately funded pathway.

**'Fiscal Floor' Discussions**

NILGA would like to highlight that in the Fiscal Council technical report there was reference to the impact on domestic rates in their information on the 127% fiscal floor figures (which included taxable capacity), indicating that around £22m may be available to local government in the event that this option was chosen and taxable capacity was included in the calculations. NILGA is keen to ensure that early discussions with local government take place in the event that the 'taxable capacity option' is chosen, to discuss how this possible revenue stream to councils might be applied.

NILGA notes that the UK government is responsible for the sustainability of UK public finances, to which NI and devolved government contributes its part.

We are of the view that the biggest threat to the sustainability of the Executive's finances in terms of its ability to deliver services comparable to those in the rest of the UK is the 'Barnett Squeeze' but we believe that perhaps too much credence is currently being given to the idea that NI's public finance issues can be fixed by further devolution of tax raising powers, revenue raising for 'super-parity' and/or a move to a needs-based system based on replication of the Welsh model.

NILGA is of the view that Northern Ireland *should* move to a needs-based system but that it is necessary to better explore what 'relative need' means in the Northern Ireland context.

It is also clear that there is much to be learned from the Welsh experience, in particular:

- NI should build in regular review to ensure that 'need' continues to be met over time. Failure to do this is considered to be a major flaw in the Welsh system.
- The Welsh have never received 115% nor are they likely to for many years to come – instead there is a 'transitional arrangement' in place without a definite end.
- Wales is yet to diverge from England in terms of income tax and is still tied to England in terms of block grant allocation. Council tax has instead increased, which is a less progressive lever of raising revenues than income tax.
- The biggest demonstrable impact in the Welsh system has been a continuing uplift in council taxes. This may mirror the proposed 15% regional rate uplift in Northern Ireland but more information will be needed for a valid assessment. Welsh council funding is on an unsustainable path, with the funding gap growing each year (even after inflation and pay pressures diminish).
- 124% for Northern Ireland isn't enough. We need at least 127% to bring us back to 2015 levels.
- Wales has effectively had to put an 'emergency budget' in place this year to counter the impact of inflation

It is clear that the Welsh model, while an improvement on the prior system, is not a panacea and should not be regarded as such.

**NILGA Response to Consultation Question 4: *"Are there public services that could be delivered by others (e.g. local government, voluntary & community sector or private sector) or are there are other areas in which greater collaboration could deliver better outcomes?"***

Although not ruling out the potential for local government to deliver new services, such as through transfer of function, NILGA is keen to emphasise that councils require both the legal vires to deliver, and the provision of corresponding and negotiated ongoing funding.

As a priority, NILGA is keen to see government put in place a legislated 'New Burdens' mechanism in Northern Ireland, to ensure appropriate funding for councils is transferred with any future transfer of function.

Councils **will not** take on a new function (including 'by stealth') without transfer of agreed levels of accompanying funding, thus negating the potential for cost savings. It is therefore difficult to see how a transfer of delivery would provide a saving for government.

Our experience as a sector is that grant funding can be removed arbitrarily (e.g. animal welfare and good relations funding), so grants, while welcome, are neither a satisfactory nor sustainable arrangement.

A more sustainable system including all costs, would need to be found – to include e.g. maintenance budgets. The experience of transfer of off-street car parking at the time of local government reform was not a particularly positive one in this regard.

Councils are actively involved in working collaboratively with each other, with NDPBs and with government departments to deliver shared outcomes e.g. through community planning, but would observe that there are distinct barriers in terms of sharing/pooling budgets, and movement of money between councils and departments (e.g. to give effect locally using developer contributions). More effective legislation and policy would be helpful to drive change, and to give effect to our shared commitment to improving the efficiency of public services.

**Local Government Finance**

NILGA is keenly aware of the frequently expressed (government) view that in Northern Ireland, councils can raise their own revenue via rates. We would emphasise at this juncture that a transfer of function in the current circumstances would force councils to raise the district rate, which a) could be construed as double taxation, with a lack of transparency about how the regional rate is spent and b) is a less progressive tax when compared with e.g. a locally applied income tax.

It is imperative that councils have certainty in what is currently a very volatile 'macro' economic environment. NILGA highlights the cumulative impact of recent pay agreements and recent cuts including substantial cuts to the rates support grant and complete withdrawal of good relations and animal welfare funding (which came mid-year unexpectedly with council finance officers unable to prepare for this change). To balance out finances for coming years, councils need to be sure of their income within a timeline conducive to informing their rate setting process, since district rates provide 80% of council income.

Local government is keen to see a fundamental strategic review of the rates support grant to ensure the purpose and need for this support is fully understood across government. It is likely that revisiting first principles would be helpful in ensuring this critical enhancement of council finances is modernised appropriately and rendered sustainable.

We would also take this opportunity to highlight the alarm expressed by our members and senior council officers regarding the proposed 15% increase to the regional rate and its potential local impact, which we firmly believe would hamper councils in setting a reasonable district rate.

Any change of the magnitude of 15% would require a substantial lead-in period, within a timeframe cognisant of the legal timeline and framework for district rates setting. It is noted that if councils reduce their rate correspondingly to minimise the impact on ratepayers, they would effectively be subsidising the regional rate.

There is already a great deal of uncertainty for councils in trying to establish what their district rate should be, and the variation between councils in the relationship between the regional and district rate is highlighted.

The situation is very difficult for councils who are being asked to make decisions in the absence of a more complete financial picture, with no clarity at present, including on how these proposals are going to impact on ratepayers. There is insufficient information at present about where this is going to land, and consequently NILGA is unable to give a view on the overall impact.

We note that further more detailed consultation will be undertaken on key issues. NILGA will participate in more detail when appropriate but at this point in time we would again thank you for the information you have been able to give and we look forward to a time when we can have a more fruitful, pragmatic, evidenced-based discussion on modernisation of the Northern Ireland fiscal system.

Yours sincerely,

**Cllr Matt Garrett**
**President (SF)**

**Cllr Alison Bennington**
**Vice-President (DUP)**

**Cllr Billy Webb**
**Vice-President (All)**

**Ald Hazel Legge**
**Vice-President (UUP)**

**Cllr Brian Tierney**
**Vice-President (SDLP)**

**Northern Ireland Local Government Association**
Bradford Court, Upper Galwally, Castlereagh, BT8 6RB
Tel: 028 9079 8972 email: office@nilga.org web: www.nilga.org twitter: @NI_LGA