

John

ALLIANCE PARTY OF NORTHERN IRELAND

TO: ECONOMIC POLICY GROUP

FROM: DAVID FORD - GENERAL SECRETARY

RE: ECONOMY PAPER FOR INTER-PARTY CONFERENCE

DATE: 10 APRIL 1991

There will be a meeting of the Economic Policy Group on THURSDAY 18 APRIL 1991 in HEADQUARTERS at 7.30 PM.

The enclosed document is to be read thoroughly and any comments/proposals should be sent, on paper, to Mervyn Jones at Headquarters.

## FINANCIAL PROPOSALS

The financial arrangements for any new structure of Government within Northern Ireland will be of crucial importance if such a structure is to operate effectively.

It is the Alliance Party's view that, while the overall taxation regime would still come under the control of Westminster, a devolved administration in Northern Ireland should have certain defined legal rights to raise revenue, and also considerable flexibility to decide how the resources available should be distributed.

## RAISING OF INCOME

The raising of income would still fall largely under the control of the sovereign Parliament at Westminster. The general framework of taxation, such as rates of Income Tax, Corporation Tax, VAT etc would be levied on the same basis as for the rest of the United Kingdom. Within this general framework, however, there should be scope for a devolved administration to introduce certain variations such as tax holidays and export rebates in particular circumstances, which would have the effect of reducing the amount of money raised by taxation within Northern Ireland.

The setting up of a devolved administration would have a radical effect on the present system of raising money by a combination of local and regional rates. The Alliance Party has, for a considerable time, been in favour of a major review of the rating system and the setting up of a devolved administration would reinforce our views on this subject.

The regional rate is effectively a levy by which the people of Northern Ireland provide to the central exchequer a contribution towards services provided by Government which were previously the responsibility of Local Government. These services are liable to be the services devolved to a local administration, and we see the continuation of a regional rate, which takes no account of ability to pay, to which there is no obvious accountability and to which there is no obvious relationship between the rate charged and the services received, as an inappropriate way of funding this service.

Although the district rate is more directly related to the services provided by Local Government, we feel that it too has its disadvantages, and we feel that a more equitable and cost effective way of raising the equivalent amount would be the introduction of a system of Local Income Tax, with any resulting shortfall being allocated from Grant in aid.

The introduction of a system of Local Income Tax would mean that the targetted income was contributed by people in proportion to their ability to pay, as opposed to the current system of rates, and was levied as an addition to each persons income tax bill, which cuts down considerably the cost of collection, and reduces the problems of non-payment.

If it was not thought that such a radical step could be introduced in one step, it would be possible to introduce Local Income Tax (at a correspondingly lower rate) instead of the regional rate, and to continue to charge ratepayers with the local rate. If any portion of the rating system was to be maintained, however, we feel that it would be necessary to introduce a regular revaluation of property, to attempt to keep rateable values in line with reality.

We believe that, as with a devolved administration, local councils have the right to assess priorities and level of services, and so the amount required for a district rate would vary from area to area. In a system of Local Income Tax, these variations would be catered for by rebates or additional charges.

It would be appropriate at this stage to mention that the Alliance Party would be completely opposed to the introduction into Northern Ireland of the Community Charge, which we feel as an unjust and inequitable system of raising funds.

The Alliance Party believes in the maximum information in relation to taxation being made available to the public. This would entail informing the public of the relevant amount of funding available to Northern Ireland arising from general taxation, local taxation or rates, and grant - in aid or block grant from the UK Government.

People should pay tax according to their means, and the income raised should be spent according to the needs of the people. The need to bridge the gap in a UK context between means and need in this Northern Ireland results in the existence of a Block Grant for Northern Ireland from the UK Government. This grant is effectively a topping up of receipts from general UK taxation, and we feel that it is important, particularly in the Northern Ireland context that the relationship between receipt and expenditure should be seen.

The Alliance Party believes that, in the long term, it would be the job of the Chief Executive of a devolved administration, in conjunction with his Financial Department, to negotiate with the Treasury for the necessary funds for Northern Ireland. During the setting-up and establishment of such an administration, however, we could feel that the role of the Secretary of State in arguing Northern Ireland's case in Cabinet and with the Treasury would be vital, and the Secretary of State would have to be fully involved in all financial discussions and share with the Chief Executive the job of negotiating Northern Ireland's case.

#### ALLOCATION OF EXPENDITURE

As we have already stated, the Alliance Party believes that the raising of taxation should be based on the ability to pay, and the allocation of expenditure should be based on the needs of the people.

As Northern Ireland has been, and is liable to continue for the foreseeable future to be, a disadvantaged region within the United Kingdom and indeed within the EC, it is our view that the needs of the people of Northern Ireland will continue to be in excess of their ability to finance the necessary expenditure to meet those needs.

We consider it vital that central government continues to provide Grant-in-aid to enable Northern Ireland's share of UK Public Expenditure to be maintained at the 4% level which applied in previous years. Indeed we would argue that if a determined effort is to be made to tackle the disadvantages applying to Northern Ireland, or even to prevent these disadvantages from widening in a post 1992 situation, that a significant increase in Northern Ireland's share of overall Public Expenditure would be necessary.

Once the total amount of funding available for expenditure is agreed, however, we feel that it would be important for a devolved administration within Northern Ireland to have a considerable degree of flexibility as to how that funding would be allocated.

While pressing the case for flexibility in areas of expenditure, however, we feel that there are certain areas where parity with the rest of the United Kingdom needs to be assured. Social Security benefits are currently the largest single item of Northern Ireland public expenditure, accounting for approximately 30% of total expenditure (£1,751 million out of £5,968 million for 1990/91), and any dropping of parity with the rest of the UK would have devastating effects on the wellbeing of the people of Northern Ireland. Some flexibility should be allowed to amend some of the more contentious aspects of Social Security benefits, such as a reform of the Social Fund, but the safety net of parity on an individual basis with the rest of the UK should be maintained.

With this exception, however, the Alliance Party believes that a devolved administration should have a considerable level of freedom in the allocation of the block grant. If an effective devolved administration is to exist within Northern Ireland, then such an administration should have the right to allocate funds for expenditure in an unfettered a fashion as possible.

Another area of vital significance to a devolved administration would be its relationship with the European Community. We would argue strongly for the setting up of a Northern Ireland office in Brussels, providing direct access from Belfast to Brussels. Such access will become increasingly important, especially as the disadvantages and dangers of regions such as Northern Ireland on the periphery of Europe increase with the setting up of the single internal market by the end of 1992. Such an office should be directly involved in the pressing for and negotiating of Regional Funds for Northern Ireland, and should also be of assistance in ensuring the additionality of such funds. Other areas of EC funding, such as the cross-border initiative schemes could be processed by such an office.

We would feel that a devolved administration would need to develop a general economic strategy for Northern Ireland. The IDB and LEDU would come under the control of such an administration and the flexibility to tailor financial packages to meet specific needs would be necessary. Such a strategy would include plans for dealing with unemployment blackspots within Northern Ireland, the development of long-established industries such as agriculture and textiles, and the securing and encouraging of modern high-tech industries.

The Alliance Party is concerned about the uncertainty caused by some of the Government's privatisation proposals in Northern Ireland, and the effect that this can have on the general economy, and would call on the Government to shelve privatisation proposals for the likes of NIE in the run up to the setting up of a devolved administration.