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# **THE BARNETT FORMULA**

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## KEY ISSUES

- The Barnett formula has been in use for allocating budgets for public spending for three decades. There is nowhere else in the world that uses a similar system. There is a growing momentum for it to be changed.
- There are essentially three arguments for change:
  1. spending per head across the UK should be the same. Currently it is not; public spending per head is higher in the devolved administrations.
  2. spending per head should be adjusted to reflect the relative needs of the populations – not just of the devolved administrations but also of the English regions. The Barnett formula does not have any needs-assessed element.
  3. spending per head should reflect the tax base that pays for the public spending. Currently it does not: the devolved administrations are effectively subsidized by English taxpayers.
- All of these arguments are underpinned by the basic assertion that the current levels of public spending across the UK are unfair.
- There are also some more theoretical and socio-political arguments against the current mechanism:
  1. the funding of the devolved administrations does not currently provide them with full autonomy. Although they have near-total discretion on how to spend the allocated budget, they do not have much influence over the **overall size** of that budget.
  2. there is little accountability in the devolved administrations for the relationship between taxation and spending. The devolved administrations may spend their allocated budgets as they see fit. But they do not have to justify the overall level of the spending to their electorate, nor take (potentially unpopular) decisions to raise taxations in order to increase spending.
  3. the current system may act as a disincentive to the devolved administrations increasing economic performance. The benefits of higher output (i.e. higher tax receipts) are collected by HM Treasury.
  4. there is scope for the transparency of the Barnett mechanism to be clouded through unilateral decisions to bypass the formula and uncertainty over elements of the calculations by HM Treasury.
- There are a number of arguments for retaining the Barnett formula. Broadly speaking, these are:
  1. it is simple, transparent and objective.

2. it removes the need for complex negotiations at each budget round. It is therefore considered relatively efficient.
  3. replacing the formula would be technically difficult and politically contentious.
- The third of these arguments is negatively derived but it does seem to have carried considerable weight.
  - Options for alternative systems fall into three broad categories:
    1. a needs-based system of calculation that still relies on some kind of formula and block-based allocations.
    2. full fiscal autonomy so the devolved administrations control the taxation that funds their spending in an accountable manner.
    3. a hybrid model that combines the devolution of some revenue-raising powers coupled with some kind of needs-assessed top-up grant from the UK Government.
  - A House of Lords Select Committee has been charged with examining the effectiveness of the calculation mechanism and considering alternatives. Its terms of reference, however, seem to restrict the Select Committee to considering the first of the options for replacement set out above. It has not been given the scope to consider the devolution of revenue-raising powers or wider issues relating to the devolution settlement.
  - The Commission on Scottish Devolution has also considered the issue of the Barnett formula. Additionally, the National Assembly for Wales has established an Independent Commission for Funding and Finance for Wales. Both are currently in the process of receiving evidence.

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## 1. INTRODUCTION

The Barnett formula has been used for apportioning changes to public expenditure to the devolved administrations since 1979-80. It was originally intended to be a short-term mechanism but remains in operation three decades on.

The Barnett formula is unique internationally: there are no other countries that operate a similar mechanism for funding devolved bodies.<sup>1</sup>

There have been numerous calls for the Barnett formula to be scrapped over many years. Aside from updates to the population proportions used in the calculations (now updated on a yearly basis) it has not fundamentally changed. Lord Barnett himself has recently argued that “what has become known as the Barnett formula has to go”.<sup>2</sup> Essentially it is considered to be unfair on English taxpayers to subsidize public spending in the devolved administrations.

As can be seen in Table 1 below, public spending per head in Northern Ireland (and also in Scotland and Wales) is higher than the UK average. This includes *all* public spending which can be identified as benefiting a particular country or region and so includes substantial areas of spending outside the Barnett formula. Public spending per head also varies considerably between English regions, but the Barnett formula plays no part in allocating public spending between those regions.<sup>3</sup>

**Table 1: Total identifiable expenditure on services by country and region per head 2002-03 to 2007-08**<sup>4</sup>

	accruals, £ per head						Index (UK identifiable expenditure = 100)					
	National Statistics						National Statistics					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	outturn	outturn	outturn	outturn	outturn	plans	outturn	outturn	outturn	outturn	outturn	plans
North East	6,316	6,875	7,258	7,754	7,892	8,505	110	110	110	111	108	109
North West	6,068	6,556	6,989	7,380	7,756	8,247	106	105	106	105	106	106
Yorkshire and Humberside	5,660	6,108	6,524	6,899	7,111	7,590	99	98	98	98	97	97
East Midlands	5,076	5,495	5,910	6,212	6,468	6,936	89	88	89	89	89	89
West Midlands	5,424	5,883	6,356	6,752	7,090	7,555	95	95	96	96	97	97
Eastern	4,778	5,221	5,569	5,885	6,177	6,555	83	84	84	84	85	84
London	6,569	7,341	7,744	8,265	8,550	9,099	115	118	117	118	117	117
South East	4,831	5,244	5,692	5,921	6,165	6,512	84	84	86	84	84	84
South West	5,101	5,606	6,003	6,277	6,513	6,962	89	90	91	90	89	89
England	5,522	6,026	6,442	6,802	7,076	7,535	96	97	97	97	97	97
Scotland	6,696	7,213	7,458	8,077	8,544	9,179	117	116	113	115	117	118
Wales	6,515	6,945	7,315	7,796	8,172	8,577	114	112	110	111	112	110
Northern Ireland	7,437	7,868	8,294	8,672	8,990	9,789	130	126	125	124	123	126
<b>UK identifiable expenditure</b>	<b>5,726</b>	<b>6,225</b>	<b>6,624</b>	<b>7,012</b>	<b>7,308</b>	<b>7,790</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

It should be noted that in his submission to the Barnett Formula Select Committee, the Head of the Northern Ireland Civil Service (attached as Appendix C) noted that “drawing conclusions from this table on whether a region is over or under-provided for in terms of

<sup>1</sup> The Independent Expert Group (2008) evidence to the Commission on Scottish Devolution page 50 <http://www.commissiononscottishdevolution.org.uk/papers.php>

<sup>2</sup> The Times Online 11 Jan 2009 <http://www.timesonline.co.uk/tol/news/uk/scotland/article5489186.ece>

<sup>3</sup> House of Commons Library Research paper 07/91 (2007) <http://www.parliament.uk/commons/lib/research/rp2007/rp07-091.pdf>

<sup>4</sup> HM Treasury ‘Public Expenditure Statistical Analyses 2008 (page 127) [http://www.hm-treasury.gov.uk/d/pesa0809\\_complete.pdf](http://www.hm-treasury.gov.uk/d/pesa0809_complete.pdf)

public expenditure allocations is very risky and potentially misleading”.<sup>5</sup> This is because the Public Expenditure Statistical Analyses data does not reflect variations in regional needs (such as demographic profiles, mortality, economic structure and peripherality).

The following section of this paper sets out in broad terms how the formula works. A more detailed explanation of the Barnett formula, however, was provided in Assembly Research Paper 12/01. As the formula has not changed since then, this is attached as Appendix A.

The remainder of this paper concerns coverage, studies and evidence that have been published in the last few years in order to provide an update to that paper.

## 2.1 HOW THE BARNETT FORMULA WORKS

The Barnett formula is non-statutory. It is an accepted agreement between the devolved administrations and HM Treasury and is set out in the ‘Statement of Funding Policy’.<sup>6</sup> How the formula works in broad terms is described below and a worked example is attached as Appendix B.

The formula determines **changes** to the assigned budgets of the devolved administrations. It does not change the inherited levels of spending for each administration. The formula concerns the public expenditure that is set over three-year periods: the Departmental Expenditure Levels (DEL). DEL includes those items that are within the assigned budget of the UK Government – i.e. most programme spending (for example health, education, and housing).

The formula is based upon relative population proportions and not upon assessment of need. Population proportions are based upon mid-year estimates by the Office of National Statistics and notified to the devolved administrations by HM Treasury.

There is also a ‘comparability percentage’ applied. This, in essence, is the extent to which the relevant UK departmental programme (i.e. the programme that is receiving an increased or decreased level of funding) is comparable with the services delivered by each devolved administration. So changes to Ministry of Defence DEL, for example, do not result in an increase to the devolved administrations’ assigned budgets because they do not deliver defence functions. But an increase in the assigned budget for an environmental protection-related function would result in an increase because these functions are transferred and comparable.

Net change to the spending allocations for each devolved administrations is calculated as follows:

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<sup>5</sup> Copy of HOCS written evidence to Barnett Formula Select Committee supplied to Committee for Finance and Personnel page 2

<sup>6</sup> HM Treasury (2007) [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

Change to the UK Government department's programme	X	Comparability percentage	X	Appropriate population proportion
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The calculation is performed for *each* UK departmental programme in DEL and then added together to give the aggregate net change for the assigned budget for each devolved administration. This is effectively then passed as a lump sum for the devolved administrations to allocate according to their own spending priorities.

It has been argued that the “logical conclusion of such a system is that relative public spending per head will converge on the English spending level”.<sup>8</sup> This is sometimes referred to as ‘the Barnett Squeeze’. This is because the incremental spending change per head is the same and the effect of different per head starting levels in each of the devolved administrations will be eroded over time.

It has been further argued that Barnett convergence or squeeze “hastens during periods when public expenditure is growing above long term trend rates”<sup>9</sup> and it is therefore not surprising to see what appears to be a squeeze effect in the PESA table (see page 4 above) as over the last decade public spending grew on average by 7.6%.

## 2.2 SPECIAL ARRANGEMENTS FOR NORTHERN IRELAND

A special arrangement applies to Northern Ireland, whereby changes to Northern Ireland’s budget are abated (i.e. reduced) by 2.5%. This is because under section 99 of the Value Added Tax Act, the NI Executive doesn’t require provision to meet VAT expenditure (which UK Departments do) since any VAT paid is refunded by HM Revenue and Customs.<sup>10</sup>

Also, provision for law, order and protective services and the Northern Ireland Courts Service is *not* included in the public expenditure budget for the Executive. Instead, these elements are negotiated separately by HM Treasury, the Secretary of State for Northern Ireland and the Lord Chancellor. Once these areas of responsibility are transferred to the Executive, the associated budget will also transfer.<sup>11</sup>

<sup>7</sup> [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

<sup>8</sup> Centre of Public Policy for Regions (2005) ‘The Barnett Allocation mechanism: formula plus Influence’ page 5 [http://www.cppr.ac.uk/media/media\\_4293\\_en.pdf](http://www.cppr.ac.uk/media/media_4293_en.pdf)

<sup>9</sup> Copy of HOCS written evidence to Barnett Formula Select Committee supplied to Committee for Finance and Personnel page 2

<sup>10</sup> HM Treasury ‘A Statement of Funding Policy’ (2007) paragraph 4.15 [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

<sup>11</sup> HM Treasury ‘A Statement of Funding Policy’ (2007) paragraph 15.1 [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

Finally, the UK Government can adjust the Northern Ireland Budget to take account of revenue receipts from taxes and fines and charges which are equivalent to taxes that flow into the NI Consolidated Fund. This doesn't apply to either the Regional Rate or local authority fines and charges.<sup>12</sup>

### 3.1 THE BARNETT FORMULA SELECT COMMITTEE

In December 2008, the House of Lords Barnett formula Select Committee was appointed to:

1. examine the purpose, methodology and application of the Barnett formula as a means of determining funding for the devolved administrations of the UK;
2. assess the effectiveness of the calculation mechanism to meet its purpose; and
3. consider alternative mechanisms.

Its orders of reference, however, are ***specifically intended to exclude*** consideration of:

1. the overall system of funding the devolved administrations-in particular the question of whether greater tax-raising powers should be accorded to the devolved administrations,
2. other political aspects of the devolution settlements, and
3. the distribution of funds within the different regions of the United Kingdom.<sup>13</sup>

It is currently in the process of receiving evidence. It called for evidence in relation to the following questions:

1. Are the present disparities in public expenditure per head of population between the countries of the UK a consequence of the formula? To what extent are those disparities related to need?
2. What effect does the Barnett formula have in terms of equity and fairness across the UK as a whole?
3. Has convergence of levels of public spending in Scotland, Wales and Northern Ireland based on the English level of spending happened, and if not why?
4. Are sufficient data available to enable a clear understanding of how public spending is distributed across the UK?
5. What additional data would be necessary to undertake a new needs assessment, or otherwise to reform the formula? Who should carry out this the collection and publication of such data?
6. How effective, appropriate and fair are the processes and criteria by which HM Treasury determines matters relating to the Barnett formula?
7. Should the Barnett formula be (a) retained in its current form, (b) amended or (c) replaced entirely?

The deadline for submission of written evidence was 2 March 2009.

Lord Richard, Chairman of the Committee, has said:

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<sup>12</sup> HM Treasury 'A Statement of Funding Policy' (2007) paragraph 15.2 [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

<sup>13</sup> [http://www.parliament.uk/parliamentary\\_committees/hlbarnettformula.cfm](http://www.parliament.uk/parliamentary_committees/hlbarnettformula.cfm)

*The Barnett formula has become increasingly controversial as a method of allocating funds to the UK's regions since the devolution settlement of 1999. It is time for a thorough exploration of the workings of the formula so we can have a better idea of whether it is still a suitable way for distributing public money. We will be looking in detail at many aspects of the formula from its impact on equity and fairness across the UK, to the management of the formula by the Treasury<sup>14</sup>*

### **3.2 THE COMMISSION ON SCOTTISH DEVOLUTION**

The Commission on Scottish Devolution, which is chaired by Lord Calman, was established in March 2008 to:

*To review the provisions of the Scotland Act 1998 in the light of experience and to recommend any changes to the present constitutional arrangements that would enable the Scottish Parliament to serve the people of Scotland better, improve the financial accountability of the Scottish Parliament, and continue to secure the position of Scotland within the United Kingdom.<sup>15</sup>*

The UK Government has indicated that it supports the work of the Commission. It is considering wider constitutional issues than simply reform of the Barnett formula but in its first report has commented:

*In the Commission's view, this present system [of budgetary allocations] undoubtedly got the Scottish Parliament off to a good start. Its stability and predictability mean that have been no wild fluctuations in financial provision. Additionally, the first ten years of devolution have been a time of substantially growing budgets, and (perhaps in consequence) little conflict between the Scottish Parliament and the UK Parliament about total spending levels. At the same time, the near-total spending discretion allowed to the [Scottish] Parliament has enabled the new institution to develop its own policy and spending priorities without constraint from the UK Government or Parliament. However, although the formula is simple, it has not avoided all political concern about its application, for example in relation to Olympics spending or new spending on prisons in England. The content of the Statement of Funding Policy, and how it is applied, are matters for the UK Government, and there is no independent oversight of these decisions.<sup>16</sup>*

There is implied criticism in the concluding sentence that is picked up below in the next section in relation to bypassing the Barnett formula.

### **3.3 THE INDEPENDENT COMMISSION FOR FUNDING AND FINANCE FOR WALES**

The National Assembly for Wales has also established a commission, which is currently in the process of receiving evidence. It will:

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<sup>14</sup> Select committee call for evidence:

[http://www.parliament.uk/parliamentary\\_committees/lords\\_press\\_notices/pn030209bf.cfm](http://www.parliament.uk/parliamentary_committees/lords_press_notices/pn030209bf.cfm)

<sup>15</sup> <http://www.commissiononscottishdevolution.org.uk/about>

<sup>16</sup> The Commission on Scottish Devolution 1st Report (2nd Dec 2008 Vol 1)

<http://www.commissiononscottishdevolution.org.uk/papers.php> page 59

- look at the pros and cons of the present formula-based approach to the distribution of public expenditure resources to the Welsh Assembly Government; and
- identify possible alternative funding mechanisms including the scope for the Welsh Assembly Government to have tax varying powers as well as greater powers to borrow.<sup>17</sup>

#### **4.1 ARGUMENTS FOR REFORMING OR REPLACING THE BARNETT FORMULA**

Irrespective of whether particular administrations or regions are doing well or badly out of the Barnett formula – and there doesn't seem to be total consensus on who the winners and losers really are – it can be argued that in terms of financing the devolved administrations do lack a degree of autonomy and accountability. Total assigned budgets are inherited and the Barnett formula determines changes around the margins. The devolved administrations' lack of fiscal independence (i.e. the power to raise or lower taxes among other things) means that they do not control revenue-raising measures.<sup>18</sup>

If the Northern Ireland Executive wished to increase spending on a different timeframe from the UK Government, for example, the only means to achieve additional budget is through the regional rate. Therefore the link between political accountability for taxation and spending is weakened.

The link between revenue and economic performance is also missing and it has been argued that the incentives for devolved administrations to develop growth is disconnected because the reward of growth (i.e. higher tax revenue) goes to HM Treasury.<sup>19</sup>

It has been highlighted by the Economic Research Institute for Northern Ireland in its submission to the Barnett Formula Select Committee (attached as Appendix D) that if the UK Government makes a general cut to the budgets of UK departments it can feed those cuts through the Barnett formula.<sup>20</sup> This would result in reductions to the devolved administrations' allocated budgets. It would then be for those administrations to decide how to manage the reductions. This would be a relatively transparent method of reducing spending.

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<http://wales.gov.uk/icffw/home/about/faq/?jsessionid=l6dcJD0dJT9plQ22tyXWhCIWhQCF9XQw92Kcs7PdLTIDpTHJl1j1!1614610361?lang=en>

<sup>18</sup> The Independent Expert Group (2008) evidence to the Commission on Scottish Devolution page 50  
<http://www.commissiononscottishdevolution.org.uk/papers.php>

<sup>19</sup> The Independent Expert Group (2008) evidence to the Commission on Scottish Devolution page 50  
<http://www.commissiononscottishdevolution.org.uk/papers.php>

<sup>20</sup> ERINI 'The Barnett formula Theory and Practice' (2009) – submission to the Barnett Formula Select Committee page 5 (unpublished)

Alternatively, in the context of a general cut, the UK Government is entitled to impose adjustments to the budgets of the devolved administrations without applying the Barnett formula at all.<sup>21</sup> Under this rule it would be possible to apply across-the-board cuts to baselines including those in the devolved administrations. In theory it could then put any allocations given back to UK departments as a means of redistributing spending through the Barnett formula. Because the latter are based on population proportions that are lower than the baseline proportions this is an indirect way of cutting devolved budgets within the rules.<sup>22</sup> This is clearly less transparent.

Also on the issue of transparency, it has been argued that - while the mechanics of the Barnett Formula are explained in a very transparent manner - there is confusion in understanding how HM Treasury determines the exact level of comparability: "there remains a concern that some of the comparability percentages are arbitrarily set".<sup>23</sup>

There's a further argument that the Barnett formula doesn't in fact govern the assigned budgets of the devolved administrations in any case. The formula can be - and is - bypassed. Indeed it has been argued that 'formula bypass' is a regular element of decision-making.<sup>24</sup> It can happen when specific initiatives, interdepartmental transfers, exceptional costs or spending with different objectives from DEL allocations occur. HM Treasury may simply declare that such items are not to be included in the Barnett calculations.

A recent example that has caused some controversy was the decision by HM Treasury that the 2012 London Olympics is of benefit to the UK as a whole, and therefore not subject to Barnett. (The same argument was applied to the Channel Tunnel.) The process by which this kind of classification is made is unclear, and is not underpinned by published criteria.<sup>25</sup> It can lead to tensions: are there not, for example, regeneration elements of the Olympic spending that should have allocations calculated through the Barnett formula? It has been claimed that this decision has 'cost' Wales, for example, £437m.<sup>26</sup>

In his evidence to the Barnett Formula Select Committee, the Head of the Northern Ireland Civil Service has referred this issues of bypass. He argues that

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<sup>21</sup> HM Treasury 'A Statement of Funding Policy' (2007) paragraph 3.2 [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

<sup>22</sup> ERINI 'The Barnett formula Theory and Practice' (2009) – submission to the Barnett Formula Select Committee page 5 (unpublished)

<sup>23</sup> Copy of HOCS written evidence to Barnett Formula Select Committee supplied to Committee for Finance and Personnel page 2

<sup>24</sup> Midwinter, A (2006) 'The Barnett formula and its critics revisited: evidence from the post-devolution period' *Scottish Affairs* no 55 page 73

<sup>25</sup> Institute for Public Policy Research (2008) 'Fair shares? Barnett and the politics of public expenditure' page 12

<sup>26</sup> John Osmond (2008) 'Last among unequals' *Public Finance Magazine* 21 November 2008

perhaps there should be some formal appeal mechanism or other means of resolving disputes.<sup>27</sup>

It should be noted that not all bypasses of the Barnett Formula are necessarily disadvantageous to Northern Ireland. Significant resources were received, for example, through EU Structural Funds and the PEACE programmes.<sup>28</sup>

Finally it has been pointed out that consideration of the Barnett formula should recognise that the assigned budget figures only concern inputs. However, more attention should also be paid to outputs.<sup>29</sup> In other words, consideration needs to be given not only to how much is spent but also the effectiveness of that spending.

## 4.2 ARGUMENTS FOR RETAINING THE BARNETT FORMULA

The UK Government's position was given by the Secretary to the Treasury, Angela Eagle, in a Westminster Hall debate in 2007:

*The longevity of the Barnett formula is a tribute to its effectiveness in determining the allocation of funding expenditure in Scotland, Wales and Northern Ireland and it continues to have some substantial advantages [...] the Barnett formula has produced distributions of public funds over the period since it was introduced that have been perceived as generally fair and broadly acceptable [...] it has provided a transparent, endurable and fairly simple rule for reaching spending settlements without direct negotiation.*<sup>30</sup>

While there has been quite a lot of attention in academic circles and in the press to the arguments for reforming the Barnett formula, there has been relatively little published on the arguments for keeping it.

A number of commentators have echoed one advantage identified by the UK Government: the Barnett formula removes the need for detailed negotiations between the devolved administrations and HM Treasury on the intricate details of budgets in Spending Reviews. In its evidence to the Barnett formula Select Committee, the Economic Research Institute of Northern Ireland labelled this "a very big plus".<sup>31</sup>

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<sup>27</sup> Copy of HOCS written evidence to Barnett Formula Select Committee supplied to Committee for Finance and Personnel page 4

<sup>28</sup> Copy of HOCS written evidence to Barnett Formula Select Committee supplied to Committee for Finance and Personnel page 2

<sup>29</sup> Mark Durkan Westminster Hall debate 21 November 2007 161WH

<sup>30</sup> Westminster Hall debate 21 November 2007 column 166-7WH

<sup>31</sup> ERINI 'The Barnett formula Theory and Practice' (2009) – submission to the Barnett Formula Select Committee page 6 (unpublished)

There may well be valid theoretical objections to the Barnett formula presented by economists. Even so, it has been argued that “from a budgetary perspective, the block and formula approach is clearly defensible as a simple and objective way of allocating resources, which broadly reflects the higher expenditure needs” of the devolved administrations.<sup>32</sup> The question of objectivity is discussed further in section 5.1 below in relation to needs assessment.

It has been argued that much of the argument for reform has been overly theoretical, rather than being based upon demonstrable evidence that the Barnett formula is having the effect that it’s claimed to have had – i.e. causing convergence in per head spending. For example, criticisms that there is – or could be – a ‘Barnett squeeze’ over time may not be proven.<sup>33</sup> Usually, the concept of a ‘squeeze’ refers to a reduction. However, because the Barnett formula concerns only *changes* in expenditure rather than to baselines, even if it did occur the result would not be a reduction – it would be lower relative growth. This is potentially a very important distinction.

## 5.1 OPTIONS FOR REPLACEMENT

Broadly, there appear to be three main options for replacing the Barnett formula:<sup>34</sup>

### A) A needs-based system of allocation

This option would probably provide a block grant to the devolved administrations but based on an assessment of need. It has been argued that this would deliver an improved level of equity and – if not overly complex – would increase fairness. It would not, however, enhance accountability because the devolved administrations would still not be responsible for raising revenue.

### B) Full fiscal autonomy

This option would mean devolution of revenue raising to the devolved administrations; fiscal autonomy would link public spending with the responsibility for taxation and the devolved administrations would be less dependent on the block grant from the UK government. But unevenness in tax capacity across the UK means not all areas would be able to provide equivalent public services.

### C) hybrid model

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<sup>32</sup> Midwinter, A (2006) ‘The Barnett formula and its critics revisited: evidence from the post-devolution period’ *Scottish Affairs* no 55 page 83

<sup>33</sup> Midwinter, A (2006) ‘The Barnett formula and its critics revisited: evidence from the post-devolution period’ *Scottish Affairs* no 55 page 66

<sup>34</sup> Institute for Public Policy Research (2008) ‘Fair shares? Barnett and the politics of public expenditure’ pages 6- 7

This option would devolve some revenue-raising powers to the devolved administrations with a form of top-up block grant based upon needs assessment to increase equity. This might result in a more clearly defined relationship between need and spending. Because devolution in the UK is asymmetrical (i.e. none of the devolved administrations has exactly the same powers and responsibilities) there might be a need for a staggered timetable for reform. This might allow the Northern Ireland Assembly time to 'bed down' and for full primary legislative powers to be devolved to the National Assembly for Wales.

It is important to note that of these three possible alternatives only option A is available to the Barnett formula Select Committee to consider given that its terms of reference exclude the devolution of tax-raising powers.

## 5.2 REPLACING THE BARNETT FORMULA: NEEDS ASSESSMENT

A lot of the commentary on the Barnett formula refers to needs assessment. This section considers some of the issues that arise.

Many commentators on the Barnett formula - whether for or against reform – appear to agree on at least one thing: coming up with a replacement will be very difficult.

There is general consensus that, whatever its pros and cons, the Barnett formula does not reflect the varying needs of the devolved administrations in comparison with England. Further, one of the main criticisms is that it does not reflect **at all** the different levels of need in the English regions; potentially the needs of the North East of England, or of Merseyside are equally as great as those of Northern Ireland or Scotland if not greater.

In a paper published in 2003 assessing the options for funding the Assembly Professor David Heald of the Centre for Regional Public Finance at the University of Aberdeen argued that a needs-assessment exercise would be highly complex and very resource intensive. He cautioned that no-one should underestimate the technical difficulties or the political sensitivity that would be attached to the task. At the same time, he argued it is inevitable that some form of needs assessment will have to occur.<sup>35</sup>

Needs assessment can be "fraught with difficulty"<sup>36</sup> because of problems with matching expenditure data and identifying relevant factors. It had been argued that they work better in some areas (such as education or health where services are clearly linked to population) but are much less so in areas like economic programmes.

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<sup>35</sup> Heald, D published by the Northern Ireland Economic Council (2003) 'Funding the Northern Ireland Assembly: assessing the options' page 88

<sup>36</sup> ERINI 'The Barnett formula Theory and Practice' (2009) – submission to the Barnett Formula Select Committee page 5 (unpublished)

Further, it has been argued that needs-based allocations may not be the most appropriate or effective solution:

*In the area of local authority grant funding such formulae are themselves hotly disputed. They may employ complex statistical analyses, but what counts as “need” is ultimately subjective. And an aura of objectivity imparted by reams of statistics is not just illusory, it can be downright misleading: as taxpayers discovered long ago, one spending bureaucrat’s “need” is often little more than a means of grabbing a bigger slice of the public pie.<sup>37</sup>*

The Department of Finance and Personnel did embark upon a needs-assessment exercise in 2001 following a decision by the Executive. A considerable amount of work was put into this exercise but it was abandoned unpublished following the return of Direct Rule. There has speculation that this was entirely for political reasons.<sup>38</sup>

The Barnett formula Select Committee has requested information from the Northern Ireland administration on any assessment of needs that has been undertaken. A number of documents were sent<sup>39</sup>, but they are not out-and-out needs assessments. More, they are evaluations of policy effectiveness which contain elements of needs assessment in order to establish if particular policy interventions have been effective.

Such evaluations can be informative of relative needs where a level of comparative analysis is undertaken. But a full needs assessment to inform the distribution of assigned budgets would need to be conducted within an agreed framework that is comparable across administrations.

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<sup>37</sup> The Taxpayer’s Alliance (2008) ‘Unequal shares: the definitive guide to the Barnett formula’ page 17

<sup>38</sup> Source: personal communication

<sup>39</sup> The following reports were sent to the Barnett formula Select Committee:

[http://www.dhsspsni.gov.uk/he-executive\\_summary.pdf](http://www.dhsspsni.gov.uk/he-executive_summary.pdf)

[http://www.dhsspsni.gov.uk/he-cover\\_summary\\_index.pdf](http://www.dhsspsni.gov.uk/he-cover_summary_index.pdf)

[http://www.dhsspsni.gov.uk/show\\_publications?txtid=13457](http://www.dhsspsni.gov.uk/show_publications?txtid=13457)

<http://www.delni.gov.uk/vocational-training-effectiveness>

<http://www.detini.gov.uk/cgi-bin/downutildoc?id=1000>

[http://www.dsdni.gov.uk/review\\_of\\_effectiveness\\_of\\_the\\_ni\\_housing\\_programme\\_final\\_report.doc](http://www.dsdni.gov.uk/review_of_effectiveness_of_the_ni_housing_programme_final_report.doc)

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