

APPENDIX A – HM TREASURY FUNDING PRINCIPLES

This appendix includes an excerpt from HM Majesty's March 1999 Funding Statement:¹²⁶

SECTION 2. KEY PRINCIPLES OF ALLOCATING PUBLIC EXPENDITURE WITHIN THE UNITED KINGDOM

2.1 The United Kingdom Government will apply certain principles in allocating public expenditure between the countries of the United Kingdom. These are based upon the Statement of Principles to govern changes to the devolved administrations' budgets set out in the Chief Secretary's reply to a Parliamentary Question answered on 9 December 1997 (Official Report, WA Col 510 to 513). This is reproduced at Annex A to this Statement. Although not referring directly to Northern Ireland (as the answer was made prior to the Belfast Agreement of 10 April 1998), the principles apply equally to Northern Ireland.

2.2 The principles are that:

i. all United Kingdom tax revenues and analogous receipts are passed to the United Kingdom Consolidated Fund. Decisions about the allocation of United Kingdom public expenditure rest with the United Kingdom Government. This does not apply to the Scottish Variable Rate of Income Tax or local taxes which are matters for the relevant devolved administrations;

ii. changes in the budgetary provision of the devolved administrations funded by United Kingdom tax revenues (excluding the Scottish Variable Rate of Income Tax) or by borrowing will generally be linked to changes in planned spending on comparable public services by departments of United Kingdom Government;

iii. this linkage will generally be achieved by means of the population-based Barnett Formula. This largely removes the need to negotiate directly the allocation between Treasury Ministers, Secretaries of States and Ministers of the devolved administrations;

iv. the allocation of public expenditure between the services under the control of the devolved administrations will be for the devolved administrations to determine;

v. the devolved administrations will be fully accountable for the proper control and management of their public expenditure allocation and for securing economy, efficiency and value for money through scrutiny by the relevant Parliament or Assemblies and the detailed accountability and audit procedures listed in the Devolution Acts;

vi. the devolved administrations will meet all the operational and capital costs associated with devolution from within their allocated budgets;

vii. if levels of self-financed expenditure generated by a devolved administration grow significantly more rapidly than comparable expenditure in England over a period and in such a way as to threaten targets set for public expenditure as part of the management of the United Kingdom

¹²⁶ HM Treasury. 31 March 1999, pp. 4-5.

economy, it will be open to the United Kingdom Government to take the excess into account in considering the level of grant to the devolved administrations. This principle will not apply to the Scottish Variable Rate of Income Tax;

viii. where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the United Kingdom Government or, alternatively, decisions of United Kingdom departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost;

ix. the United Kingdom Government continues to reserve the right to make across-the-board adjustments to the budgets for the devolved administrations in cases of a uniform general adjustment to public expenditure programmes of departments of the United Kingdom Government;

x. consistent with the arrangements for departments of the United Kingdom Government, the devolved administrations will normally be expected to accommodate additional pressures on their budgets. Unforeseen pressures should be catered for by offsetting savings and re-allocating priorities; and

xi. responsibility for contributions to and distribution of receipts from the European Commission rests solely with the United Kingdom Government.

APPENDIX B - COMPARABILITY FACTOR IN THE BARNETT FORMULA

This appendix relies on HM Treasury's statement in March 1999 to explain the "comparability factor" in the Barnett Formula.

It states as follows:¹²⁷

Comparability is the extent to which services delivered by departments of the United Kingdom Government correspond to services within the budgets of the devolved administrations. For each United Kingdom departmental programme, defined by Departmental Expenditure Limits (DEL), a comparability percentage is calculated by examining the component (sub-programme) within that programme. Each sub-programme is weighted by its spending in the base year (the year immediately preceding the first year covered by a spending review) to give an overall level comparability.

HM Treasury explains that expenditure on services in England, England and Wales or Great Britain - as appropriate - normally is considered comparable, unless one of the following apply:¹²⁸

- (i) other arrangements are in place to determine each devolved administration's share of a budget. In such cases, the sub-programme in question corresponds to a function falling outside the devolved administration's assigned budget;
- (ii) expenditure is incurred on behalf of the UK as a whole or of GB or of England and Wales as a whole at programme or sub-programme level; or
- (iii) a small number of exceptional sub-programmes that are regarded as unique at a UK level, e.g. the Channel Tunnel Rail Link.

There may be a corresponding effect on comparabilities where changes in classification, transfer or machinery of government occur in departments of the United Kingdom Government that have the effect of either transferring provision from one departmental programme to another or changing the structure of a departmental programme. In such situations, HM Treasury advises that existing plans are not to be revisited and changes are to be reflected in the next spending review. Moreover, the Secretaries of State and devolved administrations are to be consulted about such changes before they are applied.¹²⁹

¹²⁷ Ibid, p.7, para 3.12. Annex C in the March 1999 Statement lists the comparable sub-programmes used for the 1998 Comprehensive Spending Review (adjusted in the case of Northern Ireland to reflect the fact that the Northern Ireland Office law and order functions will not be devolved).

¹²⁸ Ibid, pp. 7-8, para 3.13.

¹²⁹ Ibid, p. 8, para 3.14. HM Treasury states that in such situations it will consult in a timely fashion with each Secretary of State and devolved administration to allow comments and discussion prior to a spending review on the comparability percentages to be used in that review. Specifically, HM Treasury will advise which DELs contain comparable spending for the purpose of applying the Formula, the comparability percentage of each sub-programme and its spending in the base year (the year immediately preceding the first year covered by a spending review). The availability of comparability percentages, population proportions and changes in UK departmental programmes will mean that the devolved administrations will be able to verify that the Barnett Formula methodology and arithmetic has been applied correctly. In case of any disagreement, the resolution procedures described in Section 11 below will apply. The levels at which the changes to UK departments' programmes are calculated for application of the Barnett

A final point concerns Northern Ireland only, i.e. value added tax (VAT) abatement. HM Treasury further explains that “the changes to the Northern Ireland budget determined through the Barnett Formula are abated to reflect the fact that under Section 49 of the *Value Added Tax Act 1983*”.¹³⁰ Hence, Northern Ireland departments do not require provision to meet VAT expenditure since any VAT paid by Northern Ireland departments is refunded by HM Customs and Excise. This is unlike departments in the rest of the UK.¹³¹

Formula will be reviewed by the Treasury and the devolved administrations alongside possible changes from the introduction of Resource Accounting and Budgeting. Ibid, p. 8, para 3.15.

¹³⁰ Ibid, p. 8, para 3.16. Barnett Formula changes for Northern Ireland currently are abated by 7 per cent. Id.

¹³¹ Id.

APPENDIX C - POPULATION PROPORTIONS IN THE BARNETT FORMULA

This appendix relies on HM Treasury's statement in March 1999 to explain the population proportions in the Barnett Formula.

The population proportions used in the Barnett Formula reflect the latest available mid-year estimates published by the Office of National Statistics.¹³² Allocations that already have been set, e.g. those over a spending review period, will not be adjusted to reflect subsequent population estimate changes. The latest population proportions available are."¹³³

ONS mid-year population estimates (per cent)	1996	1999
Scotland's population as a proportion of the population of England:	10.45	10.34
Scotland's population as a proportion of the population of England and Wales:	9.86	9.77
Wales' population as a proportion of the population of England:	5.95	5.93
Northern Ireland's population as a proportion of the population of Great Britain (as used in 1998 CSR):	2.91	2.93
Northern Ireland's population as a proportion of the population of England:	3.39	3.41
Northern Ireland's population as a proportion of the population of England and Wales:	3.20	3.22

HM Treasury's statement in March 1999 explained the population proportions as follows:¹³⁴

The population proportions used in the Formula reflect the coverage of the UK departmental programme to which they are applied. In the vast majority of cases, the United Kingdom population is applied. However, where the UK departmental programme covers England and Wales, such as the Home Office and legal departments, then the proportion of the population of England and Wales is applied. Finally in the case of Northern Ireland the Intervention Board for Agricultural Produce, social security administration, Chancellor's departments and Cabinet Office programmes are operated at a Great Britain level and thus this population proportion is applied.

HM Treasury's statement further explains that prior to and during the 1998 Comprehensive Spending Review, Northern Ireland's population as a proportion of Great Britain's population had been applied to the planned spending changes of each departmental programme, including the allocations for Scotland and Wales. The rationale for applying a proportion of Great Britain's population, in contrast to Scotland and Wales where an England population was applied, was that UK Government departments previously had greater Great Britain-wide responsibilities that more directly matched those functions and services carried out by the Northern Ireland departments. However, the Scottish and Welsh Offices have been steadily taking responsibility in

¹³² HM Treasury notifies the devolved administrations of the population proportions that will be applied in advance. Id.

¹³³ HM Treasury. *Spending Review 2000: New Public Spending Plans 2001-2004: Prudent for a Purpose: Building Opportunity and Security for All*. (Cm 4807). July 2000, p. 8. See <http://www.hm-treasury.gov.uk/pub/html/docs/swni.html> .

¹³⁴ HM Treasury. 31 March 1999, p. 7, para 3.9.

recent years for more policy areas that, hitherto, had been the responsibility of UK Government departments, culminating with further policy responsibility after devolution.¹³⁵

HM Treasury's statement asserts that this means very few Great Britain-wide programmes remain, so there is much less of a rationale for the difference in treatment to remain. Thus, it explains that the population share applied in the Barnett Formula for Northern Ireland for the next spending review and for future 'in-year' changes will be determined by the geographical coverage of the UK department to which it is applied, and will exclude changes to Scottish and Welsh devolved administrations. Whereas Northern Ireland's population as a proportion of England's population will be applied for the Formula, unless the programme in question generally has a wider coverage than England only, where using England and Wales' or Great Britain's population is appropriate. HM Treasury maintains that this will ensure Northern Ireland's receipt of its public expenditure funding on the same basis as Scotland and Wales. It further argues that this change should have little practical effect on provision for Northern Ireland and, based on the 1998 Comprehensive Spending Review outcome, Northern Ireland will be no worse off as a result.¹³⁶

¹³⁵ Ibid, p. 7, para 3.10.

¹³⁶ Ibid, p. 7, para 3.11.

APPENDIX D - PUBLIC EXPENDITURE STATISTICAL ANALYSES

This appendix includes an excerpt from HM Majesty's March 1999 Funding Statement:¹³⁷

8. ANALYSIS OF PUBLIC EXPENDITURE BY COUNTRY AND REGION

INTRODUCTION

8.1 *This section presents analyses of public expenditure outturn by country and region. For these purposes expenditure is allocated to a specific country or region to reflect the relative benefits incurred by the respective populations.*

8.2 *It is important to recognise the limitations of this approach. In addition to practical difficulties that limit the extent of disaggregation possible, there are also significant definitional problems associated with allocating expenditure to particular areas on the basis of "who benefits". For example, hospitals and health facilities are not used solely by the residents of the region in which the facility is located and roads serve the needs of more than the geographical area through which they pass. Definitional and border problems become increasingly significant the smaller the geographical unit considered.*

PUBLIC EXPENDITURE BY COUNTRY

8.3 *Public expenditure is planned and controlled on a departmental basis, except where devolved responsibility lies with the Scottish Parliament and the Welsh Assembly. This means that in several areas expenditure is planned on a national basis rather than by country. For example, the Department of Social Security is responsible for the operation of the social security benefit system throughout Great Britain. In order to provide more information on the geographic division of expenditure than is available from departmental spending data, an annual exercise is carried out to collect data on expenditure by country, covering outturn years only. In this exercise departments are asked to allocate, where possible, expenditure to England, Scotland, Wales or Northern Ireland. The figures therefore include a wider coverage of expenditure than that for which the Secretaries of State for Scotland, Wales and Northern Ireland are directly responsible.*

8.4 *As in previous years the analysis focuses on Total Managed Expenditure (TME) on services (under the cash budgeting regime). TME on services is divided into identifiable and non-identifiable expenditure. Identifiable expenditure is that which can be recognized as having been incurred on behalf of a particular population. Non-identifiable expenditure is that which is deemed to be incurred on behalf of the United Kingdom as a whole, (e.g. defence expenditure and overseas aid). Wherever possible, expenditure that is in theory identifiable has been allocated by some means or other. Where precise accounting information on identifiable expenditure is not available, allocation is based on other available indicators; for example, allocation of administration costs in the same proportions as the corresponding programme expenditure.*

8.5 *The data presented in this section was collected in the autumn of 2000 and is therefore not entirely consistent with other figures in this publication and individual departmental reports. It does, however, provide an indication of the*

¹³⁷ Public Expenditure Statistical Analyses 2001-02. April 2001, Section 8.

distribution by country of expenditure on each main function. Table 8.1 summarises total managed expenditure for the years 1995-96 to 1999-00. Fuller details of each of the five years covered in the 2000 analysis are given in Tables 8.2 to 8.6. Table 8.7 gives a further breakdown of 1999-00 identifiable expenditure and also shows the non-identifiable elements by function.

8.6 Table 8.8 provides a breakdown by programme of the non-identified expenditure that has not been allocated to a specific country.

Table 8.1 Identifiable total managed expenditure by country 1995-96 to 1999-2000

	cash, £ million				
	1995-96	1996-97	1997-98	1998-99	1999-2000
England	189,320	193,454	196,380	202,188	213,116
Scotland	24,224	24,524	25,109	25,817	26,981
Wales	13,334	13,612	13,818	14,324	14,838
Northern Ireland	8,692	9,107	9,281	9,640	10,047
Total identifiable expenditure	235,570	240,696	244,588	251,968	264,982
Non-identifiable expenditure	36,551	35,481	34,532	38,908	37,907
Total expenditure on services	272,121	276,177	279,120	290,875	302,889

	£ per head				
England	3,871	3,941	3,985	4,085	4,283
Scotland	4,716	4,782	4,902	5,042	5,271
Wales	4,572	4,660	4,721	4,883	5,052
Northern Ireland	5,252	5,456	5,524	5,723	5,939
Total identifiable expenditure	4,019	4,093	4,145	4,254	4,453
Non-identifiable expenditure	624	603	585	657	637
Total expenditure services	4,643	4,696	4,730	4,911	5,090

(1) Figures contained in tables in this chapter will differ from those presented in other chapters in this publication and individual department reports due to timing differences in the collection of the data.

TABLE 8.2A IDENTIFIABLE TOTAL MANAGED EXPENDITURE, 1995-96

	cash, £ million					As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	28,314	4,075	1,799	1,377	35,565	80	11	5	4
Health & Personal Social Services	41,093	5,535	2,780	1,586	50,994	81	11	5	3
Roads & Transport	9,430	1,232	646	207	11,514	82	11	6	2
Housing	3,620	587	397	257	4,861	74	12	8	5

Northern Ireland Assembly, Research and Library Service

Other Environmental Services	6,411	1,068	761	251	8,491	76	13	9	3
Law, Order and Protective Services	12,766	1,293	649	1,038	15,747	81	8	4	7
Trade, Industry, Energy & Employment	5,061	797	425	490	6,772	75	12	6	7
Agriculture, Fisheries, Food & Forestry	2,840	669	310	349	4,168	68	16	7	8
Culture, Media and Sport	2,797	304	252	44	3,397	82	9	7	1
Social Security	75,357	8,447	5,232	2,961	91,996	82	9	6	3
Miscellaneous Expenditure ⁽¹⁾	1,631	217	85	132	2,065	79	11	4	6
Total	189,320	24,224	13,334	8,692	235,570	80	10	6	4

TABLE 8.2B IDENTIFIABLE TOTAL MANAGED EXPENDITURE, PER HEAD, 1995-96

	£ per head					Index (United Kingdom identifiable expenditure = 100) ⁽²⁾			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	579	793	617	832	607	95	131	102	137
Health & Personal Social Services	840	1,078	953	958	870	97	124	110	110
Roads & Transport	193	240	221	125	196	98	122	113	64
Housing	74	114	136	155	83	89	138	164	187
Other Environmental Services	131	208	261	152	145	90	144	180	105
Law, Order and Protective Services	261	252	223	627	269	97	94	83	234
Trade, Industry, Energy & Employment	103	155	146	296	116	90	134	126	256
Agriculture, Fisheries, Food & Forestry	58	130	106	211	71	82	183	150	296
Culture, Media and Sport	57	59	86	27	58	99	102	149	46
Social Security	1,541	1,645	1,794	1,789	1,570	98	105	114	114
Miscellaneous Expenditure ⁽¹⁾	33	42	29	80	35				
Total	3,871	4,716	4,572	5,252	4,019	96	117	114	131

(1) Expenditure includes the costs of the central administration of the offices of the Secretaries of State of the territorial departments.

(2) An index of miscellaneous expenditure is not included since the administration costs of departments other than the Scottish Office, Welsh Office and the Northern Ireland departments are not separated from the functional expenditure. Such an index would therefore have little meaning.

TABLE 8.2A IDENTIFIABLE TOTAL MANAGED EXPENDITURE, 1995-96

	cash, £ million					As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	28,314	4,075	1,799	1,377	35,565	80	11	5	4
Health & Personal Social Services	41,093	5,535	2,780	1,586	50,994	81	11	5	3
Roads & Transport	9,430	1,232	646	207	11,514	82	11	6	2
Housing	3,620	587	397	257	4,861	74	12	8	5
Other Environmental Services	6,411	1,068	761	251	8,491	76	13	9	3
Law, Order and Protective Services	12,766	1,293	649	1,038	15,747	81	8	4	7
Trade, Industry, Energy & Employment	5,061	797	425	490	6,772	75	12	6	7
Agriculture, Fisheries, Food & Forestry	2,840	669	310	349	4,168	68	16	7	8
Culture, Media and Sport	2,797	304	252	44	3,397	82	9	7	1
Social Security	75,357	8,447	5,232	2,961	91,996	82	9	6	3
Miscellaneous Expenditure ⁽¹⁾	1,631	217	85	132	2,065	79	11	4	6
Total	189,320	24,224	13,334	8,692	235,570	80	10	6	4

TABLE 8.2B IDENTIFIABLE TOTAL MANAGED EXPENDITURE, PER HEAD, 1995-96

	£ per head					Index (United Kingdom identifiable expenditure = 100) ⁽²⁾			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	579	793	617	832	607	95	131	102	137
Health & Personal Social Services	840	1,078	953	958	870	97	124	110	110
Roads & Transport	193	240	221	125	196	98	122	113	64
Housing	74	114	136	155	83	89	138	164	187
Other Environmental Services	131	208	261	152	145	90	144	180	105
Law, Order and Protective Services	261	252	223	627	269	97	94	83	234
Trade, Industry, Energy & Employment	103	155	146	296	116	90	134	126	256
Agriculture, Fisheries, Food & Forestry	58	130	106	211	71	82	183	150	296
Culture, Media and Sport	57	59	86	27	58	99	102	149	46

Northern Ireland Assembly, Research and Library Service

Social Security	1,541	1,645	1,794	1,789	1,570	98	105	114	114
Miscellaneous Expenditure ⁽¹⁾	33	42	29	80	35				
Total	3,871	4,716	4,572	5,252	4,019	96	117	114	131

- (1) Expenditure includes the costs of the central administration of the offices of the Secretaries of State of the territorial departments.
- (2) An index of miscellaneous expenditure is not included since the administration costs of departments other than the Scottish Office, Welsh Office and the Northern Ireland departments are not separated from the functional expenditure. Such an index would therefore have little meaning.

TABLE 8.4A IDENTIFIABLE TOTAL MANAGED EXPENDITURE, 1997-98

	cash, £ million					As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	29,721	4,099	1,884	1,462	37,166	80	11	5	4
Health & Personal Social Services	44,894	5,825	3,077	1,761	55,557	81	10	6	3
Roads & Transport	7,579	1,004	456	201	9,240	82	11	5	2
Housing	2,731	460	297	258	3,746	73	12	8	7
Other Environmental Services	6,518	960	696	234	8,408	78	11	8	3
Law, Order and Protective Services	13,608	1,420	774	1,069	16,872	81	8	5	6
Trade, Industry, Energy & Employment	4,426	881	442	494	6,244	71	14	7	8
Agriculture, Fisheries, Food & Forestry	2,675	966	282	393	4,317	62	22	7	9
Culture, Media and Sport	3,435	356	313	63	4,167	82	9	8	2
Social Security	79,046	8,940	5,503	3,220	96,710	82	9	6	3
Miscellaneous Expenditure ⁽¹⁾	1,746	198	94	126	2,163	81	9	4	6
Total	196,380	25,109	13,818	9,281	244,588	80	10	6	4

TABLE 8.4B IDENTIFIABLE TOTAL MANAGED EXPENDITURE, PER HEAD, 1997-98

	£ per head					Index (United Kingdom identifiable expenditure = 100) ⁽²⁾			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	603	800	644	870	630	96	127	102	138
Health & Personal Social Services	911	1,137	1,051	1,048	941	97	121	112	111

Northern Ireland Assembly, Research and Library Service

Roads & Transport	154	196	156	120	157	98	125	100	76
Housing	55	90	101	154	63	87	141	160	242
Other Environmental Services	132	187	238	140	142	93	132	167	98
Law, Order and Protective Services	276	277	265	636	286	97	97	93	223
Trade, Industry, Energy & Employment	90	172	151	294	106	85	163	143	278
Agriculture, Fisheries, Food & Forestry	54	189	96	234	73	74	258	132	320
Culture, Media and Sport	70	69	107	38	71	99	98	151	53
Social Security	1,604	1,745	1,880	1,916	1,639	98	106	115	117
Miscellaneous Expenditure ⁽¹⁾	35	39	32	75	37				
TOTAL	3,985	4,902	4,721	5,524	4,145	96	118	114	133

(1) Expenditure includes the costs of the central administration of the offices of the Secretaries of State of the territorial departments.

(2) An index of miscellaneous expenditure is not included since the administration costs of departments other than the Scottish Office, Welsh Office and the Northern Ireland departments are not separated from the functional expenditure. Such an index would therefore have little meaning.

TABLE 8.5A IDENTIFIABLE TOTAL MANAGED EXPENDITURE, 1998-99

	cash, £ million					As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	31,115	4,203	1,935	1,509	38,762	80	11	5	4
Health & Personal Social Services	47,634	6,084	3,245	1,856	58,820	81	10	6	3
Roads & Transport	7,110	934	446	202	8,692	82	11	5	2
Housing	2,633	493	321	276	3,723	71	13	9	7
Other Environmental Services	6,427	989	694	240	8,351	77	12	8	3
Law, Order and Protective Services	14,032	1,431	810	1,074	17,348	81	8	5	6
Trade, Industry, Energy & Employment	4,543	855	469	505	6,371	71	13	7	8
Agriculture, Fisheries, Food & Forestry	2,805	1,046	343	417	4,611	61	23	7	9
Culture, Media and Sport	3,852	397	337	77	4,662	83	9	7	2
Social Security	80,071	9,172	5,612	3,346	98,201	82	9	6	3
Miscellaneous Expenditure ⁽¹⁾	1,965	212	113	138	2,428	81	9	5	6
Total	202,188	25,817	14,324	9,640	251,968	80	10	6	4

TABLE 8.5B IDENTIFIABLE TOTAL MANAGED EXPENDITURE, PER HEAD, 1998-99

	£ per head					Index (United Kingdom identifiable expenditure = 100) ⁽²⁾			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	629	821	660	896	654	96	125	101	137
Health & Personal Social Services	962	1,188	1,106	1,102	993	97	120	111	111
Roads & Transport	144	182	152	120	147	98	124	104	82
Housing	53	96	109	164	63	85	153	174	261
Other Environmental Services	130	193	236	143	141	92	137	168	101
Law, Order and Protective Services	284	280	276	638	293	97	95	94	218
Trade, Industry, Energy & Employment	92	167	160	300	108	85	155	149	279
Agriculture, Fisheries, Food & Forestry	57	204	117	248	78	73	262	150	318
Culture, Media and Sport	78	78	115	45	79	99	99	146	58
Social Security	1,618	1,791	1,913	1,986	1,658	98	108	115	120
Miscellaneous Expenditure ⁽¹⁾	40	41	39	82	41				
TOTAL	4,085	5,042	4,883	5,723	4,254	96	119	115	135

(1) Expenditure includes the costs of the central administration of the offices of the Secretaries of State of the territorial departments.

(2) An index of miscellaneous expenditure is not included since the administration costs of departments other than the Scottish Office, Welsh Office and the Northern Ireland departments are not separated from the functional expenditure. Such an index would therefore have little meaning.

TABLE 8.6A IDENTIFIABLE TOTAL MANAGED EXPENDITURE, 1999-2000

	cash, £ million					As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	32,766	4,417	2,004	1,583	40,770	80	11	5	4
Health & Personal Social Services	51,806	6,505	3,464	2,018	63,793	81	10	5	3
Roads & Transport	6,627	924	453	208	8,211	81	11	6	3
Housing	2,084	458	216	280	3,039	69	15	7	9
Other Environmental Services	6,646	962	710	258	8,576	77	11	8	3
Law, Order and Protective Services	15,195	1,545	887	1,097	18,724	81	8	5	6

Northern Ireland Assembly, Research and Library Service

Trade, Industry, Energy & Employment	5,115	874	381	495	6,866	74	13	6	7
Agriculture, Fisheries, Food & Forestry	2,730	1,023	341	359	4,452	61	23	8	8
Culture, Media and Sport	4,366	453	411	90	5,319	82	9	8	2
Social Security	83,691	9,547	5,825	3,500	102,562	82	9	6	3
Miscellaneous Expenditure ⁽¹⁾	2,090	273	146	159	2,668	78	10	5	6
Total	213,116	26,981	14,838	10,047	264,982	80	10	6	4

TABLE 8.6B IDENTIFIABLE TOTAL MANAGED EXPENDITURE, PER HEAD, 1999-2000

	£ per head					Index (United Kingdom identifiable expenditure = 100) ⁽²⁾			
	England	Scotland	Wales	N Ireland	United Kingdom	England	Scotland	Wales	N Ireland
Education	659	863	682	935	685	96	126	100	137
Health & Personal Social Services	1,041	1,271	1,180	1,193	1,072	97	119	110	111
Roads & Transport	133	180	154	123	138	97	131	112	89
Housing	42	90	74	166	51	82	175	144	325
Other Environmental Services	134	188	242	153	144	93	130	168	106
Law, Order and Protective Services	305	302	302	649	315	97	96	96	206
Trade, Industry, Energy & Employment	103	171	130	293	115	89	148	112	254
Agriculture, Fisheries, Food & Forestry	55	200	116	212	75	73	267	155	284
Culture, Media and Sport	88	88	140	53	89	98	99	157	59
Social Security	1,682	1,865	1,983	2,069	1,724	98	108	115	120
Miscellaneous Expenditure ⁽¹⁾	42	53	50	94	45				
TOTAL	4,283	5,271	5,052	5,939	4,453	96	118	113	133

(1) Expenditure includes the costs of the central administration of the offices of the Secretaries of State of the territorial departments.

(2) An index of miscellaneous expenditure is not included since the administration costs of departments other than the Scottish Office, Welsh Office and the Northern Ireland departments are not separated from the functional expenditure. Such an index would therefore have little meaning.

Table 8.7 Total managed expenditure⁽¹⁾: Total expenditure on services⁽²⁾ analysed by country

	Identifiable expenditure							
	England	Total	Scotland	Other	Total	Wales	Other	Total

	Scottish Executive ⁽³⁾				National Assembly for Wales ⁽⁴⁾			
Education	32,766	4,417	4,417		2,004	1,906	99	1,583
Health and personal social services	51,806	6,505	6,504		3,464	3,464		2,018
Roads and transport	6,627	924	704	220	453	350	103	208
Housing	2,084	458	458		216	216		280
Other environmental services	6,646	962	923	39	710	697	13	258
Law, order and protective services	15,195	1,545	1,449	96	887		887	1,097
Defence								
Overseas services								
Trade, industry, energy and employment	5,115	874	632	242	381	225	156	495
Agriculture, fisheries, food and forestry	2,730	1,023	874	150	341	269	71	359
Culture, Media and Sport	4,366	453	291	161	411	98	313	90
Social security	83,691	9,547		9,547	5,825		5,825	3,500
Miscellaneous expenditure ⁽⁷⁾	2,090	273	224	49	146	120	26	159
Total	213,116	26,981	16,477	10,504	14,838	7,346	7,492	10,047

(1) Figures contained in tables in this chapter will differ from those presented in other chapters in this publication and individual departmental reports.

(2) Excluding privatisation proceeds, general government debt interest and accounting adjustments which are not allocated to territories.

(3) Includes the Scotland Office.

(4) Includes the Wales Office.

(5) Responsibility for most expenditure in Northern Ireland lies with the Northern Ireland Office and Departments; this column includes certain expenditure on the NI Court Service, and smaller programmes.

(6) In 1999-00 around £30 million of non-identifiable expenditure was for the benefit of England and Wales, £1,058 million for GB, and the remainder for Northern Ireland.

(7) Included in the "Non-identifiable" cell are net payments to EC Institutions and expenditure associated with general maintenance of government buildings.

Table 8.8 Non-identifiable total managed expenditure by programme, 1999-2000

Programme	cash, £ million
Defence and overseas services	25,898
BSE-related expenditure	332
Science and technology	1,917
BNFL	455
British Coal Corporation	1
Net medical payments to European Economic Area Countries ⁽¹⁾	171
Records, registrations and surveys	40
War pensions and pensions paid to UK nationals abroad	738

Northern Ireland Assembly, Research and Library Service

Net payments to EC instructions	3,326
Cabinet Office	145
Parliament and associated expenditure	152
Office for National Statistics	101
Tax collection and funding for Bank of England	3,518
Civil Service superannuation	78
Security and intelligence services	761
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Smaller programmes	277
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Total	37,907
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(1) Mainly fees for the treatment of UK nationals abroad.

APPENDIX E - NEEDS ASSESSMENT - BACKGROUND INFORMATION

This appendix highlights key points about needs assessment. It specifically explains needs assessments in general terms. It then provides a brief synopsis of HM Treasury's last needs assessment study in the UK in 1979, highlighting its findings and its identified deficiencies. More generally, the appendix highlights identified problems with needs assessments. Finally, it concludes highlighting calls for a new official needs assessment and briefly outlining what the Northern Ireland Department of Finance and Personnel is doing in this respect.

What is needs assessment?

Needs assessments differ from the population-based Barnett Formula: such assessments take into account variations in the level of demand for public services in different locations and in the costs of providing these services.¹³⁸ The methodology used in needs assessments involves weighting the size of the population in each area using indicators of public services' demand and of public service provision costs.¹³⁹ An area therefore which is shown under a needs assessment to have particular social/health problems that dictate higher than average public service demand in the area, receive a larger share of the total resources allocated for such services; rather than what its population share appears to merit.¹⁴⁰

This methodology is used in countries such as Canada and Australia to allocate resources between sub-national governments.¹⁴¹ It also is used extensively in the UK, particularly in the schemes used to allocate funds to local authorities in England, Wales and Scotland.¹⁴²

HM Treasury, Needs Assessment Study

The last official published needs assessment in the UK was conducted in 1979.¹⁴³ HM Treasury co-ordinated an inter-departmental study using data from 1976-77, which highlighted six specific expenditure levels for those six areas devolved under the *Scotland Act 1978* and the *Wales Act 1978*.¹⁴⁴ Using a large range of "objective factors" including the age distribution of the population, road lengths, recorded crimes and numbers of sub-standard dwellings, HM Treasury estimated in the Report the cost of providing an equivalent level of public services in Scotland, Wales and Northern Ireland to that in England.

The Report's overall results were heavily qualified by considerations about the methodology. (See below.) Nonetheless they revealed that *per capita* spending in Scotland would need to be some 16 per cent higher than in England, spending in Wales 9 per cent higher and spending in Northern Ireland 31 per cent higher in order to

¹³⁸ Bell. January 2001, p. 11.

¹³⁹ Id.

¹⁴⁰ Id.

¹⁴¹ Id.

¹⁴² Id.

¹⁴³ HM Treasury. *Needs Assessment Study – Report*, 1979. Relying on the Select Treasury Committee's 1997-98 Report on the Barnett Formula, an official from the Northern Ireland Department of Finance and Personnel informed the author of this paper that there have been other unpublished needs assessments since then, employing the same methodology as the 1979 Report; but these assessments have not been published.

¹⁴⁴ Health and personal social services, education (excluding universities), housing, other environmental services, roads and transport (excluding railways) and law, order and protective services (excluding police). Id.

provide comparable service levels.¹⁴⁵ The actual *per capita* expenditure levels on these services in 1976-77 were; in Scotland some 22 per cent higher than England; in Wales around six per cent higher and in Northern Ireland some 35 per cent higher.¹⁴⁶

As mentioned above, the 1979 Report was fraught with problems, e.g. qualifying the financial impact of government policy or determining the weights to be attributed to the relative factors.¹⁴⁷ The Report itself concluded that:¹⁴⁸

In no service is it possible to express the main policies in terms of the achievement of closely defined standards. Nor can the assessment of relative expenditure needs be approached by making separate estimates of the amount that would have to be spent in each country to achieve specified standards

...the general picture is not one of services being run in accordance with precisely defined standards or quantified objectives, nor is the distribution of expenditure within each of the countries of the UK an event designed to secure an absolutely uniform level and quality of service in all areas. Policies are not expressed, and the administration of services is not managed in such a mechanically precise way. It was not therefore reasonable to attempt to construct a single coherent model of policies, standards and levels of service to which could be related all the objective information needed to determine relative expenditure in the four countries of the UK. Instead it was clearly necessary to continue to study on a much more pragmatic basis.

Identified deficiencies in HM Treasury's Report

It has been argued that the Report's outcomes reflect the inadequacy of the information and the reliance on judgemental weightings, with a methodology that was a long way from "providing an ideal or unquestionable means of expressing relative needs".¹⁴⁹ Moreover, the Report acknowledges that "factors affecting relative expenditure needs for different services are more complex than the proposed formulas suggest".¹⁵⁰

It has been further argued that the approach used in the 1979 Treasury Report, i.e. creating a weighted population index, is essentially a normative one, in which the main factor is population, to which weights are attached for various factors on a judgemental basis.¹⁵¹ This approach apparently confined itself to assessing the effects of objective factors outwith the direct control of spending authorities, but not the effect of differences in "policy and tradition".¹⁵²

Moreover, the 1979 Report made clear that:¹⁵³

[It's] results are by no means final. The departments who carried out the study agree that the methods of assessment are a long way from providing a wholly definitive means of expressing the relative expenditure needs of the

¹⁴⁵ Ibid, p. 6.

¹⁴⁶ Id.

¹⁴⁷ Midwinter. April-June 1999, p. 52.

¹⁴⁸ HM Treasury, 1979, p. 10.

¹⁴⁹ Midwinter. April-June 1999, p. 52, quoting HM Treasury. 1979, p. 29.

¹⁵⁰ Ibid, p. 52.

¹⁵¹ Id.

¹⁵² Id.

¹⁵³ HM Treasury. 1979, p. 1.

four countries. There is no right assessment either overall or a priori for the individual programmes for which the assessment is built up.

Identified problems with needs assessments

It has been argued that needs assessments are problematic in that even the best system that is based in statistical analysis inevitably will contain margins of error: and any imperfections in the methodology, models or data increases the margins of error.¹⁵⁴ Critics of needs assessments highlight that need cannot be clearly isolated from other factors, e.g. policy or efficiency and indicator weightings that may be distorted: hence, the need for interpretation and judgement in needs assessments allows politicians to re-allocate resources on seemingly technical grounds to meet political objectives.¹⁵⁵

The Audit Commission in Westminster observed in its Report in 1993 that:¹⁵⁶

Allocation, responsible for such a major distribution of money, would prove highly political. In the years since explicit needs assessments were first published, local authorities and their associates have made efforts to encourage the Government to change aspects of the spending assessments. In recent years, the politicisation of this process has intensified.

Calls for a new official needs assessments

In its 1997-98 Report on the Barnett Formula, the Select Treasury Committee in Westminster agreed with Treasury officials that: "...all governments would subscribe to the fact that spending should broadly reflect needs". Its report concluded:¹⁵⁷

The Committee was disappointed that no Government studies have been made in relation to appropriateness of the Barnett Formula and how it relates to needs. The Committee only took evidence relating to the Formula. We believe, however, that it is time to bring the needs assessment up to date; this would help to show whether the Barnett Formula remains the appropriate method of allocating annual expenditure increases (or savings) to the four nations of the Union. There may be good reasons why this Formula should continue to be used in the near future as it has for the last 20 years, but it is an argument that cannot finally be settled until it is clear that total expenditure, not just the increase, is still being allocated according to relative need. It is important there should be maximum possible agreement on this in all parts of the UK.

In calling for a new needs assessment study, the Select Treasury Committee was repeating demands made elsewhere in academic literature, in part to reduce the prospects of arbitrary and politically driven adjustments downwards.¹⁵⁸

The Northern Ireland Department of Finance and Personnel started to undertake work approximately three months ago to assess overall need in Northern Ireland: however, it has been noted that HM Treasury must collectively engage in such needs assessment

¹⁵⁴ Midwinter. April-June 1999, p. 53.

¹⁵⁵ Id.

¹⁵⁶ House of Commons Audit Commission, *Passing the Bucks*. 1993, p. xiii.

¹⁵⁷ HM Treasury. *Needs Assessment Study – Report*, 1979, para 12.

¹⁵⁸ For example, Heald. 1994.

work as limitations in accessible data prevent the Department from doing anything more than 'broad brush' work in this area.¹⁵⁹

At present, available sources of information indicate that HM Treasury does not appear to be engaged in needs assessment work.

¹⁵⁹ An official from the Northern Ireland Department of Finance and Personnel informed the author of this paper about such work.

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