



Research Paper 12/01

September 2001

A BACKGROUND PAPER ON THE BARNETT FORMULA

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This research paper provides background information that is essential to understanding the Barnett Formula and its implications throughout the United Kingdom, particularly in Northern Ireland.

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SUMMARY OF KEY POINTS

- This research paper was prepared for the Committee of Finance and Personnel (the Committee) to provide background information on the Barnett Formula.
- The “Barnett Formula” is a non-statutory mechanism used by central government in the United Kingdom (UK) to apportion public expenditure changes to Northern Ireland, Scotland and Wales: it is based on population, not need.¹ Thus the Formula determines the change to the inherited level of spending for each devolved administration, namely the Northern Ireland Assembly, the Scottish Parliament and the National Assembly of Wales.²
- Three pieces of basic information appear essential to understanding the Formula and its implications. First, the Formula concerns the public expenditure category of devolved administrations’ total budgets that is set over three year periods, namely Departmental Expenditure Levels (DEL); specifically those items in DEL that are within the assigned budget of the UK central government, i.e. most programme spending, (e.g. health, education, housing).
- Second, the Formula has been considered a robust mechanism for public expenditure allocation for 20 years, despite its apparent intended temporary use. It largely replaced the need for direct negotiation about public expenditure allocation between UK Treasury Ministers, Secretaries of States and Ministers of devolved administrations, which were very time consuming.³ But the Formula’s long history appears to have been far from straightforward.
- Third, three factors are used to determine the net change under the Formula to the spending allocations for each devolved administration. These factors include the following:⁴

Change to the department of the UK Government’s Programme	X	Comparability percentage	X	Appropriate population proportion
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- There are various implications of the Barnett Formula. Amongst the practical implications relating to Northern Ireland, England, Wales and Scotland include are, e.g., insufficiency and incomparability of relevant financial documentation, higher spending per head in devolved administrations, and the “Barnett Squeeze”. (Section 2.1 of Part 2 of this paper explains these and other practical implications.) On balance, it appears that both positive and

¹ The Formula is commonly referred to by its inventor, namely Lord Joel Barnett, formerly Chief Secretary to the Treasury.

² HM Treasury. *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*. (A Statement of Funding Policy). 31 March 1999, p. 6. See <http://www.hm-treasury.gov.uk/pub/html/docs/swni.html>.

³ See the evidence of Her Majesty’s Treasury in House of Commons Select Treasury Committee. 22 December 1997, p. 12.

⁴ Ibid, p. 6, para 3.5.

negative effects arise from these practical implications for Northern Ireland, Scotland and Wales, as well as for England.

- The Barnett Formula has a number of identified advantages and disadvantages. Amongst such advantages are, e.g.: (i) higher spending per head for Northern Ireland, Scotland and Wales; (ii) devolved administrations' discretion to allocate; and (iii) the Formula's objectivity.
- Whereas amongst such disadvantages are, e.g.: (i) population-, not needs-based Formula; (ii) potential erosion of the protection that the Formula was intended to afford to inherited expenditure; and (iii) lack of openness and transparency in the application of the Formula.
- There appears to be growing consensus for a review of Barnett's use in the UK. It seems two clear positions have emerged, i.e. (i) replace Barnett and (ii) retain it. This paper highlights that a replacement of the Formula with a needs assessment-based mechanism may be fraught with difficulties, particularly in light of past discussions about developing such a mechanism.
- Governmental positions throughout the UK concerning Barnett's use highlight both potential support and lack of support to reform the Formula. (These positions are outlined in Section 3.2 of Part 3 of this paper.)
- It remains uncertain as to what Westminster's intentions are for the future use of Barnett in the UK; although the Government announced that the Formula would remain in place until at least 2004.
- Given the apparent complexity of the Barnett Formula, the Committee may find it appropriate to seek specialised assistance from both inside and outside the Department of Finance and Personnel to fully formulate its views in this area. Such specialised assistance could authoritatively expand on the points raised in this paper.

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INTRODUCTION

The “Barnett Formula” is a non-statutory mechanism used by central government in the United Kingdom (UK) to apportion public expenditure changes to Northern Ireland, Scotland and Wales: it is based on population, not on need.⁵ Thus the Formula determines change to the inherited level of spending for each devolved administration.⁶ It does not determine the expenditure totals for the devolved administrations - namely the Northern Ireland Assembly, the Scottish Parliament and the National Assembly of Wales.

This paper is prepared for the Committee of Finance and Personnel (the Committee) to provide background information that is essential to understanding the Barnett Formula and its implications. The paper largely draws on secondary sources of information, and should be viewed only as a useful starting point to assist the Committee in developing its understanding of the Formula. In using this briefing, the Committee may find it appropriate to seek specialised assistance from sources both outside and inside the Department of Finance and Personnel to fully formulate its views in this area. Such assistance could authoritatively expand on the points raised throughout the paper.

Part 1 outlines basic information about the Formula and its implications. It includes three sections. Section 1.1 contextualises the Formula. It sets out in basic terms (i) what Departmental Expenditure Limits (DEL) are; and, (ii) how DEL relate to the Barnett Formula. Section 1.2 proceeds with a history of the Formula, in particular an outline of (i) its original formulation, (ii) the reasons for its introduction, (iii) what it replaced and (iv) alterations to it since its introduction. Section 1.3 proceeds with an explanation of the theory currently underpinning the Formula, accompanied by an illustration of how it presently works in practice.

Part 2 includes two sections that analyse various implications of the Barnett Formula. Section 2.1 specifically outlines practical implications of the Formula in relation to Northern Ireland, England, Wales and Scotland. Section 2.2 discusses identified advantages and disadvantages of the Formula.

Part 3 provides background information that is relevant to any discussion on the future use of the Barnett Formula in the United Kingdom. It includes two sections. Section 3.1 examines the issue of potential review of the Formula, highlighting calls for its replacement as well as its retention. Section 3.2 outlines current positions on the Formula in each devolved administration in the UK and the UK’s central government (Westminster), highlighting both potential support and lack of support to reform the Formula, if Northern Ireland actually sought such reform.

Finally, Part 4 concludes drawing on main points from each section, outlining key findings about the Barnett Formula and its implications.

⁵ The Formula is commonly referred to by its inventor, namely Lord Joel Barnett, formerly Chief Secretary to HM Treasury.

⁶ HM Treasury. *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*. (A Statement of Funding Policy). 31 March 1999, p. 6. See <http://www.hm-treasury.gov.uk/pub/html/docs/swni.html> .

PART 1:

SECTION 1.1 - THE DEPARTMENTAL EXPENDITURE LIMITS (DEL)

Prior to a discussion on the Barnett Formula, it first is necessary to highlight the context in which the Barnett Formula is used, i.e. public spending, and more specifically the Departmental Expenditure Limits (DEL). This section sets out in basic terms – (i) what DEL are and (ii) how DEL relate to the Barnett Formula.

WHAT ARE DEL?

Responsibility for public expenditure allocation across the UK currently belongs to central government, specifically Her Majesty's Treasury (HM Treasury).⁷ The total budgets of devolved administrations have two public expenditure categories, (i) Departmental Expenditure Limits (DEL) set over three years and (ii) Annually Managed Expenditure⁸ (AME) set annually, e.g. social security benefits.⁹ This sub-section concentrates on DEL given it's relevancy to the Barnett Formula.

DEL are public expenditure levels that are fixed for three years ahead and include most programme spending.¹⁰ DEL are composed of those items within the *assigned* budget of UK central government, (e.g. health, education, housing), and those within its *non-assigned* budget, (e.g. Housing Loan Charges, European Union Peace and Reconciliation Programme, EU funded gas and electricity inter-connector, Hill Livestock Compensatory Allowances, Welfare to Work).

Most expenditure within DEL concern assigned budget items that are undifferentiated because, as mentioned earlier, devolved administrations have full discretion over their spending priorities. Whereas the remainder of DEL spending are devoted to non-assigned budget items that are ring-fenced for specific spending priorities.¹¹

⁷ This means that the public expenditure budgets of devolved administrations are determined within central government's framework of UK public expenditure control. Although it should be noted that once central government determines devolved administrations' public expenditure budgets, devolved administrations have freedom to make their own spending decisions within the overall budget totals on their devolved programmes. Ibid, p. 2.

⁸ AME covers items whose provision is reviewed and set for the coming year annually in March and certain self-financed expenditure. AME expenditure cannot be recycled from one AME programme to another or recycled to increase the DEL. Within AME expenditure is classified between "Main Departmental Programmes in AME" and "other AME spending". Main Departmental programme spending covers policy-specific, ring-fenced items where provision is included within the Vote from the United Kingdom Parliament. The AME element of the budget is reviewed annually, and forecast twice a year for the three years ahead. Thus the AME element of the budget can move up or down and, hence, the total budget itself may move up or down in line with AME. "Other AME" spending includes locally financed expenditure, including expenditure financed by the Scottish Variable Rate of Income Tax; these are not ring-fenced and may be allocated as the devolved administrations consider appropriate. Id.

⁹ Ibid, p. 3, para 1.6.

¹⁰ Id. This has been in operation since 1998. DEL will be reviewed only if inflation varies substantially from forecast made at the time of a spending review (plus or minus 1.5 per cent from the cumulative projections for inflation for years two and three of a spending review period).

Id.

¹¹ Id.

HOW DO DEL RELATE TO THE BARNETT FORMULA?

UK central government applies certain principles in the allocation of public expenditure throughout the UK.¹² (See Appendix A for an outline of these principles.)

Amongst these principles is the use of the population-based Barnett Formula. Central government uses the Formula when reviewing its spending plans: the Formula determines changes in the spending allocations to the devolved administrations' DEL, specifically their DEL assigned budget items, by applying the Formula to changes in planned spending on comparable services in departments of central government.¹³

IT MUST BE NOTED THAT ASSIGNED BUDGET ITEMS OF DEL ARE SOMETIMES COMMONLY REFERRED TO AS "BLOCK" MONEY. HOWEVER, IT ALSO MUST BE NOTED THAT THE TERM "BLOCK" IS SOMETIMES USED TO DESCRIBE THE TOTAL AMOUNT OF DEL AND AME EXPENDITURE. THIS RESULTS IN SERIOUS CONFUSION. IT THEREFORE MUST BE NOTED THAT ANY REFERENCES IN THIS PAPER TO THE TERM "BLOCK" CONCERNS ONLY EXPENDITURE THAT IS DETERMINED BY THE OPERATION OF THE BARNETT FORMULA, I.E. "ASSIGNED BUDGET ITEMS OF DEL".

Hence, the Barnett Formula arises in the context of central government reviewing its spending plans and making changes in the spending allocations to the devolved administrations' assigned budget items of DEL.

SECTION 1.2 - HISTORY OF THE BARNETT FORMULA

The Barnett Formula first was introduced for Scottish public spending in the fiscal year 1979-80 (in the context of preparations for devolution in Scotland that subsequently did not occur). Its application to Northern Ireland and Wales followed two years later.

WHAT IS THE BARNETT FORMULA?

The ratio originally used in the Formula was 10:5:85. The Formula's inventor Lord Barnett explains the ratio as follows:¹⁴

...Scotland, 10 per cent, Wales, 5 per cent, and England, 85 per cent. Thus, if Government decided to increase expenditure in England by £85 million, Scotland would gain £10 million and Wales £5 million. The Formula clearly precludes Treasury attacks on the specific levels of public expenditure in Scotland and Wales, therefore, and protects their relative advantage...

The Northern Ireland dimension of the Formula, essentially the "son-of-Barnett", allocated Northern Ireland an extra £2.75 when expenditure in Great Britain on services equivalent to those in Northern Ireland increased by £100.¹⁵

(For a detailed discussion of the Formula's current theoretical basis and practical application, refer to Section 1.3 of this paper. The present section concentrates on the Formula's history since its introduction.)

¹² Ibid, pp. 4-5.

¹³ Ibid, p. 5, para 3.1.

¹⁴ Lord Barnett. "The Barnett Formula: How a temporary expedient became permanent". *New Economy*. IPPR. June 2000, pp. 69-71, 69.

¹⁵ Heald, David. 1994. p. 148.

The Formula is not prescribed by statute; rather it is a policy. It is described as an example of:¹⁶

...a non-statutory policy rule based on mutual understanding between parties within the policy network, the implementation of which is subject to both sides observing the “behavioural rules of the game”.

The Formula is basically a means to share out changes in public expenditure plans between countries in the UK, using population as the basis. It therefore determines change to the inherited level of spending for each devolved administration, i.e. it's departmental baselines. It does not determine the overall budget levels of devolved administrations.

It does not apply to the following:¹⁷

- certain programmes within DEL;
- all AME items; and
- other expenditure outside DEL.

Hence, Barnett figures* for 1998-99 to 2001-02 are as follows:¹⁸

	1998-98	1999-2000	2000-01	2001-02
Scotland	£ 13.1 bn	£13.8 bn	£14.5 bn	£15.1 bn
Wales	£ 6.7 bn	£ 7.0 bn	£ 7.4 bn	£ 7.8 bn
Northern Ireland	£ 5.7 bn	£ 5.9 bn	£ 6.2 bn	£ 6.3 bn

[*Note that the above-stated figures include the total amount of DEL, so they include a small proportion of monies that are not determined by Barnett, and instead are centrally negotiated. However, the figures are used to highlight the amounts determined by Barnett.]

Once Barnett monies are allocated, each devolved administration has discretion to allocate them as it thinks fit in relation to local needs and priorities. However, the actual

¹⁶ Twigger, Robert. “The Barnett Formula”. House of Commons Library – Economic Policy and Statistics Section. Research Paper 98/8. 12 January 1998, p. 15, referring to Thain, C. and M. Wright. *The Treasury and Whitehall: The Planning and Control of Public Expenditure*. Clarendon Press. London: 1995, see chapter 14. Note that HM Treasury accepted that description as “broadly right”. House of Commons Select Treasury Committee. *The Barnett Formula*. (Second Report - 22 December 1997). Session 1997-98, p.1.

¹⁷ HM Treasury. 31 March 1999, p. 8, para 4.1.

¹⁸ Day, Karen. 8-14 October 1999, p. 24.

scope of this discretion has been noted to be limited because in practice most public spending is incremental and must take account of other factors, e.g. pay settlements.¹⁹

UNDERLYING REASONS OF THE FORMULA

Underlying reasons for establishing the Formula have been explained as follows:²⁰

It was set up for a variety of reasons. ... the need to recognise that the spending levels between the various parts of the UK-population sparsity in Scotland, transport needs, needs because of relative ill health, rural needs for education and so on and industrial needs....

The Formula's inventor, Lord Joel Barnett, further explains that:²¹

Fundamentally, it was decided on a population basis. I would not, however, have been able to obtain Cabinet agreement without first satisfying English departmental cabinet ministers that there were reasonable grounds for allocation of a greater level of public expenditure to Scotland and Wales than population figures alone justified. In substance, it was the different levels of income per head in England, Scotland and Wales that convinced ministers. ...After persuading Cabinet to agree a total level of public expenditure for Great Britain, and within that to agree the Barnett Formula, I then had the very tough job of persuading departmental ministers to accept the amounts I had allocated to them. One of the major arguments I used in difficult, bi-lateral discussions was that I could not let them have any more money, Cabinet having agreed the total and approved the distributive Formula.

The Barnett Formula therefore largely replaced the need for direct negotiation about public expenditure allocation between UK Treasury Ministers, Secretaries of States and Ministers of devolved administrations, which were very time consuming.²²

However, it does not appear that the Formula was intended to be a permanent replacement. Apparently the Formula was intended only as a temporary measure.²³ In this regard, Lord Barnett maintains that:²⁴

The Formula was intended to be approximately population-based and was intended as a stop-gap until a needs-based system came into operation. In fact, no such change to take account of needs has been made.

SINCE BARNETT'S INTRODUCTION

Since its introduction over 20 years ago, the Formula has been in continuous use in public expenditure surveys with only minor alterations made to it. Such changes

¹⁹"The Barnett Formula". The Scottish Parliament – The Information Centre. RN 00/31. 4 May 2000, p. 4.

²⁰ See the evidence of Lord Barnett in House of Commons Select Treasury Committee. *The Barnett Formula*. (Second Report - 22 December 1997). Session 1997-98.

²¹ Lord Barnett. June 2000, p. 70.

²² See the evidence of Her Majesty's Treasury in House of Commons Select Treasury Committee. 22 December 1997, p. 12.

²³ Twigger, Robert. "The Barnett Formula". House of Commons Library – Economic Policy and Statistics Section. Research Paper 98/8. 12 January 1998, p. 7, relying on House of Commons Select Treasury Committee. 22 December 1997.

²⁴ Lord Barnett. June 2000, p. 70.

included the re-calibration of the Formula in 1992 when population ratios underpinning it were updated, resulting in Scotland receiving a greater proportion than Northern Ireland and Wales.²⁵

Moreover, in 1998 central government committed itself to revising the population ratio annually. It indicated in the White Paper on Scotland's Parliament that:²⁶

... that the Formula would be updated regularly, to reflect the actual population ratio. In response to pressure from English MPs, Alistair Darling, Chief Secretary to the Treasury at the time, gave a commitment that it would be revised annually.

Since the Formula's introduction, however, it appears that it has been by-passed in significant ways, particularly in the 1980s, so that incremental expenditure has not always been allocated in accordance with the Formula.²⁷ Identified examples of "formula by-pass" include the following:²⁸

- additional expenditure allocations which arise during the financial year, (for example, the National Health Service pay awards), are fixed on the basis of costed amounts, and not on the basis of the Barnett Formula;
- certain expenditure functions within the Scottish, Welsh and Northern Ireland blocks may have no English counterparts, thus necessitating some other basis for determining expenditure increases; and,
- certain expenditure changes, perhaps initiated for macro-economic reflation or deflation, are allocated on bases other than those of the Barnett Formula

It further should be noted that on at least one occasion since the Formula was introduced, HM Treasury implemented an 'across-the-board' percentage reduction in departmental baselines before applying the Formula.²⁹ This enabled ministers to state that the Formula was implemented, but consequently eroded the protection afforded by the Formula to inherited expenditure.³⁰

Other factors that seem significant in the history of the Barnett Formula are disconnected changes in the public expenditure planning system: these include the

²⁵ For Scotland, instead 11.76 per cent of changes in equivalent English expenditure, the block received an increment of 10.66 per cent, which is equivalent to 10.59 per cent. For Wales, the new figure was 6.02 per cent, revised from 5.88 per cent. For Northern Ireland, the new figure was 2.87 per cent. Heald, David. "Territorial Public Expenditure in the United Kingdom". *Public Administration*. Summer 1994, pp. 147-175, p. 148.

²⁶ Lord Barnett. June 2000, p. 69.

²⁷ Heald, David. "Fiscal Opportunities". *Hard Choices – Policy autonomy and priority-setting in public expenditure*. Democratic Dialogue. Belfast: Autumn 2000, p. 4. See <http://cain.ulst.ac.uk/dd/report10d.htm>.

²⁸ Heald, David. Summer 1994, p. 169. Notwithstanding, it is difficult to know the quantitative importance of such by-passes in the absence of detailed information about them. *Ibid*, p. 170. However, it appears that most identified cases seem to have benefited, rather disadvantaged, Scotland, Wales and Northern Ireland. Heald, David. Autumn 2000, p.4.

²⁹ *Ibid*, p.5.

³⁰ *Id.* Heald explains that "[m]oney 'saved' by applying a constant percentage cut to the territorial blocks and to comparable expenditure can be then passed through the Barnett Formula, generating formula consequences' supplementary to those generated year-on-year increases in comparable expenditure. Naturally, the arithmetical effect is disadvantageous to the territories because the constant percentage cut generates more savings' from their blocks than they subsequently receive back in these artificial' formula consequences".

introduction of cash planning in 1982 and the new planning total in 1990, both of which affected the operation of the Formula.³¹ It has been argued that a substantial part of the complexity of the effects of the Barnett Formula stems from the switch since 1982-83 onwards from public expenditure planning in volume terms to cash planning.³² This switch apparently caused a great acceleration in the predicted erosion of the initial expenditure advantage under the Formula for Scotland, Wales and England.³³

Another development that impacted Barnett was the creation of the devolved governments in 1998 - namely the Scottish Parliament, the National Assembly of Wales and the Northern Ireland Assembly, and the devolution of power. The Barnett Formula subsequently became a mechanism to allocate money between the levels of government, and not within a government.³⁴ Devolved administrations may place increasing demands on central government for detailed information about the Formula's application, arguably forcing central government to be more transparent and accountable.³⁵

A final factor that appears significant in the history of the Barnett Formula is the recent fundamental change in the way the UK government, (central and devolved), accounts for and controls public expenditure arises from Resource Accounting and Budgeting (RAB). Resource accounts replaced Appropriation Accounts with effect from the financial year 2001-02, moving accounting to an accruals basis.³⁶

Although it should be noted that RAB does not change the principles applied in the allocation of public expenditure (as set out by HM Treasury's Funding Statement in March 1999). This means that the Barnett Formula continues to apply. But HM Treasury states that resource accounting inevitably will require changes in the application of the Barnett Formula.³⁷ In March 1999, HM Treasury stated that it would consult the devolved administrations about these changes. It is unclear whether such consultation took place.

In sum, this section highlights that while the Barnett Formula is considered a robust mechanism for public expenditure allocation, its long history appears to have been far from straightforward.

SECTION 1.3 - BARNETT'S CURRENT THEORETICAL AND PRACTICAL APPLICATION

Section 1.3 provides a synopsis of HM Treasury's explanation of Barnett's current theoretical basis as well as an illustration of the Formula's practical application.³⁸

THEORETICAL BASIS OF BARNETT

At the outset, it is worth repeating that the Barnett Formula does not determine the total allocation for each devolved administration. Rather, it determines changes to the

³¹ Id.

³² Id.

³³ Id.

³⁴ Id.

³⁵ Id.

³⁶ The aim of this change is to focus more on resources consumed rather than cash spent; to treat capital and current expenditure in a way that distinguishes their economic significance and to focus on achievement of outputs, aims and objectives. HM Treasury. 31 March 1999, pp. 4-5, paras 1.7 –1.8.

³⁷ Id.

³⁸ Ibid, pp. 6-8, paras 3.3-3.16.

spending allocations within the assigned budgets of the devolved administrations, effectively sharing out changes in public spending. Under the Formula, Northern Ireland, Scotland and Wales receive a population-based proportion of changes in planned spending on comparable UK central government services in England, England and Wales or Great Britain as appropriate.³⁹

The Formula

During the course of a public expenditure round, DELs for Scotland, Wales and Northern Ireland are largely determined by the Barnett Formula. The Formula is based on three factors:⁴⁰

1. the *quantity of the change* in planned spending in departments of the United Kingdom Government;
2. the extent to which the relevant United Kingdom department programme is *comparable* with the services carried out by each devolved administration; (see Appendix B for a detailed explanation of the Comparability Factor in the Barnett Formula); and
3. each country's *population* as a proportion of England, England and Wales or Great Britain as appropriate; (see Appendix C for a detailed explanation of the Population Proportion in the Barnett Formula).

These three factors combine to determine the net change to the spending allocations for each devolved administration in the following manner:⁴¹

Change to the department of the UK Government's Programme	X	Comparability percentage	X	Appropriate population proportion
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Using the various components of the Barnett Formula as outlined above, a calculation is made for each UK departmental programme in DEL. The results of each calculation consequently form the aggregate net change to the assigned budget element of DEL for each devolved administrations. It then is for each devolved administration to allocate spending within their assigned budgets according to their own priorities.⁴²

PRACTICAL EXAMPLE OF BARNETT

This sub-section outlines the illustration provided in HM Treasury's statement in March 1999 to highlight the practical application of the Barnett Formula.⁴³

If for example:

- (i) the Government decides to increase or decrease the DEL of a UK department's DEL by £100; and

³⁹ Ibid, p. 6, para 3.3.

⁴⁰ Ibid, p. 6, para 3.4.

⁴¹ Ibid, p. 6, para 3.5.

⁴² Ibid, p. 6, para 3.6.

⁴³ Ibid, Annex B.

- (ii) the comparability for each devolved administration is 75 per cent for the programme (perhaps because the department in question already carries out some expenditure at an all UK level; and
- (iii) the population proportions are 10.34 per cent for Scotland, 5.93 per cent for Wales and 3.41 per cent for Northern Ireland of England's population or 2.93 per cent of Great Britain's population for Northern Ireland;

then the following changes are then added to or subtracted from each countries' overall baseline:

Scotland - $100 \times 0.75 \times 0.1034 = \text{£ } 7.76 \text{ million}$

Wales - $100 \times 0.75 \times 0.0593 = \text{£ } 4.45 \text{ million}$

Northern Ireland -

Pre-1999 method :

English change :

$100 \times 0.75 \times 0.0292 = \text{£ } 2.19 \text{ million}$

Aggregate* Scotland and Wales change:

$(7.84 + 4.46) \times 0.0292 = \text{£ } 0.36 \text{ million}$

Northern Ireland Total*:

$\text{£ } 2.55 \text{ million}$

7 % VAT abatement*

$\text{£ } 2.37 \text{ million}$

Post-1998 method :

English Change:

$100 \times 0.75 \times 0.0341 = \text{£ } 2.55 \text{ million}$

7 % VAT abatement (which is 2.5 %)* :

$\text{£ } 2.37 \text{ million}$

HM Treasury explains that two methods are shown above to calculate Northern Ireland's provision under the Barnett Formula: the first uses the share of Great Britain's population for England, Scotland and Wales changes – this was applied up to and including the 1998 Comprehensive Spending Review; and the second uses the share of England's population, consistent with the method for Scotland and Wales, and this will be applied in future reviews.⁴⁴

HM Treasury further explains that the devolved administrations do not have to adjust their programme spending in line with the UK departments, they are free to adjust spending on any of their functions: (the same calculations will be carried out for all comparable UK spending), and the sum of these changes will give the overall change in each devolved administration's baseline.⁴⁵

⁴⁴ Ibid, p. 8.

⁴⁵ Id.

PART 2:

SECTION 2.1 - PRACTICAL IMPACT OF BARNETT THROUGHOUT THE UK

Practical implications of the Barnett Formula include the following:

- **Control of public expenditure changes** - The Barnett Formula aims to control, not public spending *per se*, but changes in public spending in the UK.⁴⁶
- **No on-going negotiations needed** – There has been no need for Northern Ireland, Scotland and England to engage in on-going lengthy negotiations about equal treatment on each occasion that a relevant programme in England/GB receives increased funding. Pre-Barnett, such negotiation was a very time consuming process.
- **Discretion to allocate** - The devolved administrations, (previously the Secretaries of State), have retained the freedom to allocate the monies received under Barnett as they think fit given local needs and priorities. However, it has been noted that the actual scope of this discretion is limited because in practice most public spending is incremental and must take account of other factors, e.g. pay settlements.⁴⁷ Moreover, devolved administrations can use this discretion to re-allocate Barnett monies.
- **Insufficiency and incomparability of documentation** – There apparently has been insufficient information in either the *Financial Statement and Budget Report*, (commonly referred to as the “Red Book”), or the Departmental Expenditure Reports to show how the Formula actually has operated,⁴⁸ making it difficult to make comparisons between the respective block expenditure in England, Northern Ireland, Scotland and Wales. Moreover, it has been pointed out that there has been serious terminological confusion, apparently what has been described in the published documentation as the “Northern Ireland block” is not comparable to the Scottish and Welsh blocks.⁴⁹
- **Lack of convergence** - As mentioned in the previous section, strict application of the Barnett Formula should in theory cause spending *per capita* between the different parts of the UK to converge over time.⁵⁰ However, research shows that convergence has not occurred in practice.⁵¹ It has been argued that this deviation between theory and practice arises from two factors: (i) the “constant ratio effect” and (ii) the “formula by-pass effect”.⁵²

The “constant ratio effect” is a concept that has been used to refer to the fact that there was only one revision in the population share proportions of the Formula during the first 20 years of its use. It has been pointed out that at the same time,

⁴⁶ McLean, Iain. “Getting and spending: Can (or should) the Barnett Formula survive?”. *New Economy*. IPPR. 2000. pp. 76-80, p. 77.

⁴⁷ “The Barnett Formula”. The Scottish Parliament – The Information Centre. RN 00/31. 4 May 2000, p. 4.

⁴⁸ Twigger, Robert. 12 January 1998, p. 10.

⁴⁹ Heald. Autumn 2000, p. 9.

⁵⁰ Heald. Summer 1994, p. 164.

⁵¹ Bell, David. “The Barnett Formula”. Department of Economics, University of Stirling. January 2001 and Heald, David. Summer 1994, p. 164.

⁵² Heald, David. Summer 1994, p. 172 and Heald, David. Autumn 2000.

the relative size of the population in Scotland actually fell when compared to England. It therefore has been argued that these factors collectively resulted in the ratio over-estimating the additional block money that should have gone to Scotland, which consequently has off-set the convergence effect to a certain extent.⁵³

The “formula by-pass effect” is a concept that has been used to refer to the fact that not all additions to block expenditure are allocated through Barnett. Apparently non-Barnett additions can occur when blocks are adjusted to reflect the transfer of responsibilities from Whitehall to the devolved administrations. Moreover, the UK Government apparently may decide to make uniform adjustments to the level of the block to pay for certain spending commitments.⁵⁴

- **Higher spending per head** - The actual operation of the Barnett Formula over the last 20 years appears to have protected, to a large extent, the situation where spending per head in Northern Ireland, Scotland and Wales is above the UK national average.⁵⁵ (See Appendix D for expenditure statistics, but note that there are difficulties in making comparisons between the expenditure levels as the statistics include both DEL and AME, making them broader than Barnett.) However, it has been argued that Barnett is not the cause of relatively high per capita spending levels in Northern Ireland, Scotland and Wales.⁵⁶ Rather, it seems that the “generosity” of the initial settlements made at the time of the Formula’s introduction are responsible.⁵⁷
- **Initial ratio favourable to Scotland** - It has been argued that the initial ratio under the Formula was favourable to Scotland, as the Scottish population share was rounded up from 9.57 to 10, and unfavourable to Wales, as the Welsh population share was rounded down from 5.12 to 5.⁵⁸ A separate point has been suggested in this regard in relation to the Northern Ireland formula proportion; that it was expressed to two decimal points in relation to it’s base of GB, resulting in an adverse rounding as the population percentage at mid-year 1976 was 2.79.⁵⁹
- **Differential expenditure** - Northern Ireland and Scotland may have fared better under Barnett due to expenditure relatives in Northern Ireland and Scotland having been kept at a higher level than their needs relatives: whereas Wales may have done less well comparatively.⁶⁰
- **Re-calibration** - It has been observed that the issue of relative population change under the Formula for Scotland and Northern Ireland is of particularly marked contrast. The population ratio of Scotland to England has changed from 11.24 per cent in 1976 to 10.45 per cent in 1996. In contrast, Northern Ireland’s population ratio to GB has risen from 2.79 to 2.91 per cent. Therefore, the convergence effect of application of the Barnett Formula on *per capita* expenditure relatives has been attenuated in Scotland, but accentuated in Northern Ireland.⁶¹ Moreover, the re-calibration resulted in population proportion changes whereby Wales received a

⁵³ National Assembly for Wales - Library. 13 January 2000, pp. 3-4.

⁵⁴ Ibid, p. 4.

⁵⁵ Bell, David. January 2001, p. 13.

⁵⁶ Id.

⁵⁷ Id.

⁵⁸ National Assembly for Wales - Library. 13 January 2000, pp. 1-2.

⁵⁹ Heald, David. Autumn 2000, p. 3.

⁶⁰ Ibid, p. 2.

⁶¹ Ibid, p. 4.

slightly higher share of the ratio, and Scotland received a substantially lower share. The new ratio being roughly 5.1:9:85.⁶²

- **“Barnett Squeeze”** – It appears that both the 1992 re-calibration which moved the GB component of the formula to two decimal places and the 1997 modification that was to ensure annual population updating, have eliminated rounding as an inhibitor of long-run convergence.⁶³ If the Barnett Formula is re-calibrated on such a basis, it has been argued that the percentage increases in comparable expenditure will be smaller. This has been labelled the “Barnett Squeeze”.⁶⁴ For example, it has been argued that Scottish public spending will increase more slowly in percentage terms relative to England and Wales over a period of time,⁶⁵ and that Northern Ireland will receive a smaller percentage share of overall UK public expenditure.⁶⁶
- **Post-devolution** – It has been noted that local authorities’ expenditure constitute a large claim on Scottish and Welsh blocks; whereas their limited role in Northern Ireland’s means that a much larger proportion of it’s block will be under the direct control of the Northern Ireland Assembly.⁶⁷ Moreover, there is no comparable under the Barnett Formula for water, sewerage, public transport, and some roads in Northern Ireland as they are outside the public expenditure regime since devolution: Barnett therefore must help to pay for them.
- **Unforeseen and disconnected government decisions** - The effect of particular territorial financial mechanisms crucially can depend upon seemingly unforeseen and disconnected government decisions, e.g. the impact of the switch to cash planning upon the operation of the Barnett Formula, as well as any future potential impact of RAB on it.⁶⁸

On balance, the practical implications of Barnett seem to include both positive and negative effects for Northern Ireland, Scotland and Wales, as well as for England.

SECTION 2.2 - IDENTIFIED ADVANTAGES AND DISADVANTAGES OF BARNETT

This section briefly outlines apparent advantages and disadvantages to the Barnett Formula for Northern Ireland, as well for England, Scotland and Wales.

ADVANTAGES

Identified advantages include the following:

- The operation of the Barnett Formula appears to have protected, to a large extent, the situation where spending per head was above the UK national average in Northern Ireland, Scotland and Wales – all of which have historically been areas of high need.⁶⁹

⁶² National Assembly for Wales - Library. 13 January 2000, pp. 1-2.

⁶³ Heald, David. Autumn 2000, p.4.

⁶⁴ Cuthbert. *The Implications of the Barnett Formula*. Scottish Nationalist Party. Edinburgh. 1998.

⁶⁵ The Scottish Parliament – The Information Centre. 4 May 2000, p. 5.

⁶⁶ Heald, David. Summer 1994.

⁶⁷ Heald, David. Autumn 2000, p. 2.

⁶⁸ Heald, David. Summer 1994, p. 171.

⁶⁹ Bell, David. January 2001, p. 13.

- The devolved administrations, (previously the Secretaries of State), have retained the freedom to allocate the monies received under Barnett as they think fit given local needs and priorities. (However, it has been noted that the actual scope of this discretion is limited because in practice most public spending is incremental.⁷⁰)
- The Barnett Formula arguably has played a part in minimising conflict between the devolved governments and the central government.⁷¹ It's continued use has eliminated the need for on-going lengthy negotiations about equal treatment on each occasion that a relevant programme in England/GB received increased funding. (Pre-Barnett, such negotiation was a very time consuming process.)
- The Barnett Formula provides a politically rational basis to allocate public expenditure.⁷² The Formula is objective.⁷³
- In the absence of precision in needs assessments, the Barnett Formula is the best available means for distributing public expenditure throughout the UK, particularly given the tightening up of its application since 1992 and the underlying assumption that Northern Ireland, Scotland and Wales have higher needs than the UK average. Moreover, there is no guarantee that the devolved governments would receive more money through any new needs assessment. Finally, it is questionable as to whether it is worth the bother of undoing Barnett, as the actual amount of money at issue is marginal.⁷⁴

DISADVANTAGES

Identified disadvantages include the following:

- The population-based Formula is too simplistic: it is not based on actual need of Northern Ireland, Scotland and Wales. It appears that this may become a problem, particularly when convergence in the level of *per capita* public expenditure occurs in the various parts of the United Kingdom. As convergence occurs, issues may arise about differential expenditure needs throughout the United Kingdom, e.g. the number of persons within an area that requires medical treatment, the number of children in school, the number of elderly people requiring care, the number of people living in rural areas, coupled with the differential costs of service provision in rural areas.⁷⁵ Such potential high public service demands could cause particular concern, especially if combined with low disposable incomes as is the case in the devolved countries, particularly in Northern Ireland, which is the lowest.⁷⁶ Per head disposable income levels across the UK for 1999 were: England £101.60; Wales £90.40; Scotland £ 94.80 and Northern Ireland £ 85.90.⁷⁷
- Post-devolution, the pre-existing financial arrangements for public expenditure were not changed; instead they were carried over, including the Barnett Formula. This means that the Barnett Formula, which originally was introduced to allocate funds

⁷⁰ The Scottish Parliament – The Information Centre. 4 May 2000, p. 4.

⁷¹ McConnell, Jack. "Funding devolution: Why Barnett remains better than the alternatives". *New Economy*. IPPR. 2000. pp. 65-68, p. 68.

⁷² Midwinter, Arthur. June 2000, p. 73.

⁷³ Midwinter, Arthur. April-June 1999, pp. 53-54.

⁷⁴ Midwinter, Arthur. June 2000, p. 74.

⁷⁵ Heald, David. Autumn 2000.

⁷⁶ Regional Household Sector Income and Consumption Expenditure. 26 July 2001. See

www.statistics.gov.uk .

⁷⁷ Id.

within government, now is being used to distribute funds between different levels of government, i.e. the central government and the devolved governments in Northern Ireland, Scotland and Wales.⁷⁸ Criticisms have been raised about this arrangement, specifically in relation to its suitability. Does it afford too little fiscal autonomy for the devolved governments, preventing them from having proper political accountability?⁷⁹ Indeed, one of the prime objectives of devolution is to enable regional preferences to be reflected in policy decisions. Hence, it has been suggested that devolved government may seek to blame central government when it fails to provide any services to the standard desired by its electorate. A devolved government's time therefore may be spent complaining about HM Treasury's parsimony. This especially may be the case in Northern Ireland where, as noted earlier, application of the Barnett Formula is anticipated to lead to a relatively smaller budget from which to fund public services.⁸⁰ It potentially raises issues about Northern Ireland's regional rates, e.g. they may need to be increased to clear current shortfalls.

- HM Treasury can implement across the board percentage reduction in departmental baselines before applying the Formula, which erodes the protection afforded by it to inherited expenditure, and consequently allows ministers to state that the Formula has been implemented. (It apparently once did.⁸¹)
- At present, the Formula is not prescribed by legislation. There consequently is no formal review procedure for the Formula or its operation; it therefore can be altered or possibly misapplied by HM Treasury, which apparently has full discretion to do so, (e.g. 1992 re-calibration, formula by-pass).
- The incomplete application of the Formula during the 1980s and 1990s are causing slower convergence. But now stricter application of Barnett should start moving towards equal *per capita* public spending throughout the UK. It is maintained that such an outcome would be clearly inequitable if one believes that public spending should reflect differences in relative need.⁸² Moreover, simulations have shown that over the next 12 years such transition may result in Scotland's relative advantage under Barnett disappearing, Wales also and Northern Ireland having the most rapid rate of convergence.⁸³
- It has been further argued that "...convergence to equal levels of *per capita* spending throughout the UK is not the result of a real decline in provision of public services in Scotland, Wales and Northern Ireland. Real expenditure is rising in all cases, but less rapidly in Scotland, Wales and Northern Ireland than in England."⁸⁴ It is suggested that this may create political difficulties for devolved governments as England may be perceived as delivering public services that are improving at a faster rate, (e.g. health).⁸⁵
- The Formula generally has not been used in an open and transparent manner, e.g. formula by-pass or insufficiency and incomparability of documentation.⁸⁶

⁷⁸ Id.

⁷⁹ Id.

⁸⁰ Bell, David. January 2001.

⁸¹ Heald, David. Autumn 2000, p. 5.

⁸² Bell, David. January 2001, p. 13.

⁸³ Ibid, p.9.

⁸⁴ Ibid, p. 10.

⁸⁵ Id.

⁸⁶ Heald, David. Summer 1994.

- Given that the devolved administrations have discretion to allocate the monies calculated under Barnett, they could re-allocate such monies in such a way that some Northern Ireland departments would get less and others get more than what originally was expected, given the comparability factor.
- Since devolution the link between the regional rate and water provision has been broken in Northern Ireland. Consequences flow from this in relation to Barnett as such monies will be used to pay for water and sewerage provision. This is compounded by the fact that the regional rate in Northern Ireland is considerably lower than the rest of the UK. Moreover, there are no water charges as there are in the rest of the UK. This means there are more demands on Barnett monies, at a time when the Formula is being strictly applied, and consequently moving towards convergence. Again, it potentially raises issues about the following: (i) the regional rates in Northern Ireland; and (ii) the inexistence of water charges in Northern Ireland.

A number of identified advantages and disadvantages of the Barnett Formula are outlined above. It may be appropriate for the Committee to seek specialised assistance from both outside and inside the Department of Finance and Personnel to authoritatively expand on the points raised throughout this section.

PART 3:

SECTION 3.1 – POTENTIAL REVIEW OF BARNETT AND PROPOSED ALTERNATIVES TO IT

The Barnett Formula appears to have raised a certain amount of controversy over recent years. There have been calls for the review and replacement of Barnett as well as calls for its retention.

REVIEW AND POTENTIAL REPLACEMENT OF BARNETT

Calls of a review and potential replacement of Barnett have included the following:

- The Formula's inventor, Lord Barnett, seeks the Formula's abolition.⁸⁷ He explains that the Formula was introduced only as a short-term measure in the late 1970's, but gives no consideration to needs or to where public resources should be allocated.⁸⁸ He states that figures comparing GDP per head and public expenditure across the regions are revealing in that within each area and region there are large differences: for example, under the Formula GDP per head was 13 per cent below Scotland in 1997, but government expenditure was not higher – it was 19 per cent lower.⁸⁹ Lord Barnett consequently argues that a new way should be found, one based on a more objective measure of relative need.⁹⁰ Thus he recommends major review of the Formula, arguing that without one, where and what action is needed will remain unknown.⁹¹

⁸⁷ "A Formula for Confusion". *The Herald*. 23 June 2000.

⁸⁸ Lord Barnett. June 2000, p. 71.

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

- In its 1997-98 report on the Formula, the House of Commons Select Treasury Committee called for the Formula's review, and argued that a new needs assessment study would help to show if Barnett remained the appropriate method.⁹²
- It has been argued that a review is potentially problematic given the lack of comparable data for devolved spending, as well as other differences in services.⁹³
- The Scottish National Party (SNP) advocated a system of fiscal separatism that will enable the Scottish Parliaments to have greater fiscal autonomy by raising most of its own spending through its own taxes. This proposed method of the redistribution of public funds is referred to as "the repatriation of capital".⁹⁴ Others argued that this will make regional governments accountable to their electorate.⁹⁵

RETENTION OF BARNETT

Calls for the retention of Barnett have included the following:

- Some argue that review is not necessary because the Barnett Formula is politically rational, asserting that it recognises the inherited costs from the UK Government by determining most of the block grant on the base budget. Moreover, the Formula allocates the increments simply by population, eliminating the need for detailed negotiations.⁹⁶
- Some state that the Formula recognises the realistic scope for changes at the margins and that the small sums that a needs assessment exercise might re-distribute would not be worth the political turmoil they would create.⁹⁷
- It has been argued that there is no agreed needs formula, and the statutory context of service delivery differs.⁹⁸
- It has been questioned as to whether anyone really knows exactly how a needs assessment should be conducted. The following questions arise:
 - (i) how would a needs assessment take account for regional variations in need or economic prosperity within the regions of the UK, variations that are every bit as dramatic as those found at the more macro level?
 - (ii) who would have the objective credibility to carry out such an assessment?
 - (iii) would there be political consensus for the assessment's findings?⁹⁹
- The Audit Committee in England has stated in its report in 1993 that needs assessment can never be 'perfect' or 'fair'.¹⁰⁰ Whilst others have argued that any needs assessment formula inevitably will be overtaken by the "primacy of politics".¹⁰¹

⁹² House of Commons Select Treasury Committee. 22 December 1997, p. 341.

⁹³ Midwinter, Arthur. 2000, p. 73.

⁹⁴ "Taxing Times". *The Guardian*. 9 June 1999.

⁹⁵ Bloomfield, K & Carter, C. "People and Government: Questions for Northern Ireland". as cited in "Hard Choices: Policy Autonomy and priority setting in public expenditure", pp. 52-53.

⁹⁶ Midwinter, Arthur. 2000, p.73

⁹⁷ *Ibid*, pp. 73-4.

⁹⁸ *Ibid*, p. 73.

⁹⁹ *Id*.

¹⁰⁰ The Scottish Parliament – The Information Centre. 4 May 2000, p. 8

¹⁰¹ Midwinter, Arthur. "The Politics of Needs Assessment: The Treasury Select Committee and the Barnett Formula". *Public Money and Management*. April-June 1999, pp. 51-54, p. 53.

In sum, it appears that there is growing consensus for a review of Barnett. Moreover, there seems to be two clear positions taken on Barnett and its future, i.e. (i) replace Barnett and (ii) retain it. It further appears that replacement of the Formula with a needs assessment-based mechanism may be fraught with difficulties, particularly in light of past discussions about developing such a mechanism. (See Appendix E for information concerning needs assessments generally and in the UK.)

SECTION 3.2 - CURRENT POSITIONS ON THE BARNETT FORMULA THROUGHOUT THE UK GOVERNMENTS – POTENTIAL BARNETT REFORM?

This section provides a brief outline of the current positions on the Barnett Formula in government in Northern Ireland, Wales, Scotland and England:

Northern Ireland

- No official position has been taken to date, but there appears for the last two years to be some support for the replacement of Barnett.¹⁰² The First Minister David Trimble stated in March 2001 that: “Our share of new resources has been calculated using the Barnett Formula based on population shares which is inadequate. We will continue to press the Chancellor to agree a new and fairer way of funding [Northern Ireland’s] actual needs”.¹⁰³
- Mark Durkan, the Minister for Finance and Personnel, stated in May 2001 that: There is increasing concern in Northern Ireland that Barnett is working unfairly... We clearly received the least favourable outcome from last year’s Spending Review, despite the very serious infrastructure deficit we face and the fact that demands on health are rising just as quickly here as elsewhere.” The Northern Ireland Executive believes the general standard of public services should be kept broadly in line throughout the UK. However, he believes Barnett does not give Northern Ireland the extra money it would need to match the public services that can be afforded in England. “We need a system that makes proper allowance for the needs of the regions.” He cites examples of Northern Ireland’s needs, including deficiencies in the basic infrastructure of roads, water and sewerage.¹⁰⁴
- Approximately three months ago, the Northern Ireland Department of Finance and Personnel started to undertake work to review Barnett and to assess overall need in Northern Ireland. This work is in its preliminary stages.¹⁰⁵

Wales

- The Welsh Executive does not appear to reject a review of Barnett out of hand. A spokesperson stated in May 2001: “Any review would have to take account the full needs of Wales”.¹⁰⁶ Perhaps the Welsh Executive is against a review that leads to less grant, but in favour of one that gives it more?
- There has been particular concern in Wales that the Barnett Formula will not reflect the special circumstances associated with the designation of West Wales and the

¹⁰² Gosling, Paul. “Nobody loves Barnett – except the Scots”. *Public Finance*. 18-24 May 2001, p. 23.

¹⁰³ OFMDFM News Release. 7 March 2001.

¹⁰⁴ Gosling, Paul. 18-24 May 2001, p. 23.

¹⁰⁵ An official from the Northern Ireland Department of Finance and Personnel informed the author of this paper about such work.

¹⁰⁶ Id.

Valleys as an Objective 1 area under the European Union's structural funds.¹⁰⁷ Structural Funds monies will be largely channelled through the National Assembly of Wales (NAW), and therefore will score against Wales' DEL.¹⁰⁸ In addition, the NAW or its grant-funded bodies will provide some of the 'matching' funds required for structural fund projects, i.e. the proportion of the project cost not met by the EU grant.¹⁰⁹ HM Treasury agreed to consider the implications of obtaining Objective 1 status as part of the 2000 Spending Review.¹¹⁰

- The Welsh Liberal Democrat spokesperson Peter Black stated in aid any review of the Formula could give Wales the opportunity to press for extra funding.¹¹¹
- In April 2001, the Welsh Conservatives stated that discarding the Barnett Formula would mean Wales would lose out.¹¹²

Scotland

- In approximately October 1999, the then First Minister Donald Dewar stated: "...[h]e fought the 'Yes' campaign for devolution on the basis of the [F]ormula and sees no reason to review it."¹¹³
- The Scottish Liberal Democratic Leader Jim Wallace defended Barnett in June 2000, but warned that the Scottish Parliament must be vigilant in watching it's operation.¹¹⁴
- The Scottish Nationalist Party claimed in May 2001 that the Formula is now gradually reducing Scotland's share of public spending relative to England. It cites the higher spending growth in percentage terms in England as a result of the 1998 Comprehensive Spending Review.¹¹⁵

England

- The Deputy Prime Minister John Prescott stated in April 2001 that there are no plans to change Barnett, which will be in place until at least 2004.¹¹⁶ But he noted that it was time to consider new financial structures.¹¹⁷
- In July 2001, the Chief Secretary to the Treasury, Andrew Smith, stated: "...the Government's spending plans have been set down for the years 2003-04 including ... the Barnett Formula..."¹¹⁸

¹⁰⁷ Twigger, Robert. "Background to the 2000 Spending Review". Research Paper 00/59. Economic Policy and Statistics Section – House of Commons Library. 8 June 2000, p. 21.

¹⁰⁸ Id.

¹⁰⁹ Id.

¹¹⁰ Id.

¹¹¹ BBC News. 24 April 2001.

¹¹² Id.

¹¹³ Day, Karen. "Barnett Formula – Squeeze falls on Barnett". *Public Finance*. 8-14 October 1999, p. 22.

¹¹⁴ BBC News. 16 April 1999.

¹¹⁵ *The Herald*. 19 June 2000.

¹¹⁶ Gosling, Paul. 18-24 May 2001, p. 23.

¹¹⁷ *The Guardian*. 24 April 2001 and *The Northern Echo*, 6 July 2001.

¹¹⁸ The House of Commons Debates, 19 July 2001. See <http://www.parliament.the-stationary-office.co.uk/pa/cm200102/cmhans.../10719-04.ht>.

- In 2001, there is mounting criticism from regional lobby groups, backbench Members of Parliament and senior English ministers that the Formula discriminates against the poorest parts of England, where unemployment is high and manufacturing is steadily declining.¹¹⁹
- Liberal Democrats for Newcastle Central want the Formula scrapped and replaced by a flexible new system based on regional need. Their spokesperson Stephen Psallides, stated in May 2001: "The Barnett Formula is quite clearly outdated, inflexible and unfair. Tony Blair is only saying it's fair because he is visiting Scotland, which gets far more money under the Formula than the North East [in England]".¹²⁰
- Many of the candidates in the 2000 London Mayor election stated that the Barnett Formula needed to be reviewed and amended as London pays out far more in taxes than it receives in spending, including the currently-elect Mayor Ken Livingstone. Moreover, Steve Norris, the Conservative candidate for Mayor, suggested that the Barnett Formula should be reviewed and that a new assessment of need be carried out to address the fiscal imbalance between London and the rest of the UK.¹²¹

In light of the above, it seems that there potentially is support in the other devolved governments if Northern Ireland sought to reform the Formula. However, it remains uncertain beyond at least 2004 as to what Westminster's intentions are for the future use of Barnett in the UK.

PART 4: CONCLUSION

This paper reveals the apparent complexity of the Barnett Formula. As mentioned in the introduction, the paper should be viewed only as a useful starting point in assisting the Committee to help develop its understanding of the Formula.

The main points of the paper are as follows:

- The Barnett Formula arises in the context of central government reviewing its spending plans and making changes in the spending allocations to the devolved administrations' DEL, specifically the assigned budget items of DEL.
- While the Barnett Formula is considered a robust mechanism for public expenditure allocation, its long history seems to have been far from straightforward. For example, the recent fundamental change in the way UK government, (central and devolved), accounts for and controls public expenditure, i.e. Resource Accounting and Budgeting (RAB).
- Currently applied, the Barnett Formula calculates each UK departmental programme in DEL. The results of each calculation consequently form the aggregate net change to the assigned budget element of DEL for each devolved administration. It then is for each devolved administration to allocate spending within their assigned budgets according to their own priorities.¹²²

¹¹⁹ *The Guardian*. 24 April 2001.

¹²⁰ Newcastle Liberal Democrats' Media Release. 15 May 2001.

¹²¹ "Norris Demands a Fair Deal for London". 16 March 2000.

¹²² *Ibid*, p. 6, para 3.6.

- Barnett figures* for 1998-99 to 2001-02 are as follows:¹²³

	1998-98	1999-2000	2000-01	2001-02
Scotland	£ 13.1 bn	£13.8 bn	£14.5 bn	£15.1 bn
Wales	£ 6.7 bn	£ 7.0 bn	£ 7.4 bn	£ 7.8 bn
Northern Ireland	£ 5.7 bn	£ 5.9 bn	£ 6.2 bn	£ 6.3 bn

*Note that the above-stated figures include the total amount of DEL, so they include a small proportion of monies that are not determined by Barnett, and instead are centrally negotiated. However, the figures are used to highlight the amounts determined by Barnett.

- On balance, the practical implications of Barnett seem to include both positive and negative effects for Northern Ireland, Scotland and Wales, as well as for England.
- A number of advantages and disadvantages have been identified about Barnett in relation to Northern Ireland, Scotland, Wales and England.
- There is growing consensus for a review of Barnett. Moreover, there seems to be two clear positions taken on Barnett and its future, i.e. (i) replace Barnett and (ii) retain it. It appears that if it was decided that it should be replaced with a needs assessment-based mechanism, developing one could be fraught with difficulties. Moreover, reform of Barnett could result in Northern Ireland receiving less public expenditure.
- It seems that there potentially is support within other devolved governments if Northern Ireland sought to reform the Formula. However, it remains uncertain as to what Westminster's intentions are, apart for the Government's announcement that Barnett would remain in place until at least 2004.

In using this paper, the Committee may find it appropriate at a later date to seek specialised assistance from sources both outside and inside the Department of Finance and Personnel to fully formulate its views in this area. Such assistance could authoritatively expand on the points raised throughout the paper, e.g. what changes will resource accounting inevitably require in the application of the Barnett Formula.¹²⁴

Moreover, the Committee may wish to seek such assistance to investigate whether there are any potential inter-relationships between the use of public private partnerships (PPPs) in Northern Ireland, Scotland and Wales to fund public service provision, and the continued use of the Barnett Formula, which merit further consideration by the Committee, particularly given its recent report on PPPs, e.g. PPPs cutting into Northern Ireland's assigned budget items in DEL.¹²⁵

¹²³ Day, Karen. 8-14 October 1999, p. 24.

¹²⁴ Id.

¹²⁵ Northern Ireland Assembly, Committee for Finance and Personnel. *Report on the Inquiry into the use of Public Private Partnerships*. Session 2000/2001. Seventh Report. The Stationary Office. Belfast: 26 June 2001.

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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