



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Review of the Operation of the Barnett  
Formula: Professor David Heald

11 February 2015

# NORTHERN IRELAND ASSEMBLY

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**Members present for all or part of the proceedings:**

Mr Daithí McKay (Chairperson)  
Mr Dominic Bradley (Deputy Chairperson)  
Ms Michaela Boyle  
Mrs Judith Cochrane  
Mr Paul Girvan  
Mr John McCallister  
Mr Ian McCrea  
Mr Adrian McQuillan  
Mr Máirtín Ó Muilleoir  
Mr Peter Weir

**Witnesses:**

Professor David Heald                      Expert Witness

**The Chairperson (Mr McKay):** Good morning, Professor. You are very welcome. I invite you to make some opening comments, and then we will move straight to questions and answers.

**Professor David Heald:** Good morning. Thank you very much, Chair and Committee. I very much welcome your inquiry, and I think that the timing is very good. My view is that the UK is in a constitutional mess. In many ways, the Scottish referendum settled very little. If anything, the political narrative in Scotland is that, although the yes side lost the vote, they won the argument and the narrative. It is not at all clear what the present position is. There is the commitment to maintain Barnett, but it is not at all clear what Barnett means to people: does it mean existing Scottish public expenditure and particular relatives or the mechanism of a block grant with adjustments?

The other issue, which I think is very important, is that there is widespread misunderstanding or misrepresentation of the question of the likely tax reforms in Scotland. The permanent secretary to the UK Treasury said that Scotland will become the third most fiscally powerful sub-central unit in the Organisation for Economic Co-operation and Development (OECD). You have to be very careful, because people tend to have a habit of saying that 40% of the Scottish Parliament's expenditure is notionally financed by revenues raised in Scotland, but the crucial point is that that figure is meaningless if you have no policy control over the taxes. One really important issue is that, if you have powers over taxes, you must be able to use them without penalty, and I have a very good example of the difficulties that we will face. The Scottish Parliament, with every Member voting in favour, replaced the rather ludicrous stamp duty land tax "slab" rate system with a graduated land and buildings transaction tax. Admirably, the Scottish Government did that on a revenue-neutral basis, and it was to come in on 1 April 2015. What did the UK Government do? In the autumn statement, they reformed stamp duty land tax on a non-revenue-neutral basis, costing the UK Exchequer £800

million, which it can get from other taxes. So they have completely sabotaged the attempt by the Scottish Government to have a revenue-neutral system. Moreover, the Scottish Parliament will have to pay the administrative costs of the Scottish income tax. So, you pay for the system even if it is, by political context, impossible to use. Therefore, one has to be very careful that, if you have tax powers, you can actually use them.

I argued to a Westminster Committee last year that the only way you can have a properly devolved fiscal system with extensive tax powers is if Westminster changes. It is ludicrous that the UK has its Budget in March for implementation in April. You need to bring the UK Budget back to about November to be able to have coordination.

I have been watching recordings of your proceedings. What the Committee has to think about is whether the problem with Barnett is that it gives you too much money, and, hence, you do not do the reforms that you might otherwise have done because there is too much money around, or whether you are worried about convergence, which, unquestionably, seems to be happening in Northern Ireland because the Barnett mechanism is putting pressure on Northern Ireland spending. The Committee has to think very clearly through what it regards the problem as being. I have only newspaper reports of your proceedings in the Chamber yesterday, but, if one starts to pay for welfare costs out of the existing block, that will intensify the pressure on education, health and other services.

**The Chairperson (Mr McKay):** Thank you, Professor. You mentioned that we are in the midst of great potential constitutional change. During the Scottish referendum campaign, an assurance was given that Barnett would continue. Is Barnett sustainable? With the Westminster elections coming up, a lot of people are saying that it looks like a possible Labour/SNP Administration. Is Barnett sustainable in its current form and in the longer term? Does the flux that you referred to in the potential transfer of fiscal powers, such as income tax and so on and so forth, make the Barnett formula unsustainable in its current form?

**Professor Heald:** I gave the Barnett formula its name in 1980, so I have been around the issue for a rather long time. Barnett is criticised on good grounds, but it is also much criticised on bad grounds. There are advantages of having a system like Barnett, and, of course, before Barnett there was the Goschen formula from the 1880s.

The UK is a rather strange creature, with 84% of the population living in England and 16% living in Scotland, Wales and Northern Ireland. That rules out conventional federalism as one knows it from countries such as the United States, Canada or Australia.

The reason why Barnett has survived, in my view, is that it gave advantages to both sides. It gave advantages originally to Secretaries of State and then to devolved Parliaments and Assemblies, because it allowed them to make local decisions on the mix of spending. The expenditure switching discretion that has been enjoyed in Scotland, Wales and Northern Ireland is immensely important and one of the great benefits. It keeps the Treasury off your patch — it cannot say that it likes some types of expenditure but not others. It is important from that point of view. It has also prevented specific Treasury raids on devolved Administrations because it does not like particular policies such as the free tuition fees or free personal care in Scotland. It also has a big advantage for the Treasury. From the outside, the Treasury can seem like an all-powerful organisation, but it is pretty lightly staffed. The Treasury has to worry only about what happens in England and knows that it has only to apply a multiplier to the cost of a policy change in England to work out pretty quickly what the effect will be on the UK as a whole.

The big problem is that things could have been done to ease the criticism of Barnett during the 2000s, when, basically, too much money came down the Barnett pipeline and ended up in end-year flexibility, some of which was eventually cancelled in 2010. That was because the Labour Government identified health and education in England as being seriously underfunded, and that produced formula consequences. The difficulty for Scotland was that, because of the lack of transparency about how Barnett operated, it was frightened that, if it used that advantageous position to push the tartan tax down, the Treasury would penalise it. The constraint against using the tartan tax when there was too much money around was the fear of retaliation — that the system was so secretive that there was no way, at the time, that it would be immediately obvious to the public or to parliamentarians what was going to happen.

You asked about Barnett in the future. Barnett started off as a pretty simple system, which, as the Committee knows, depends on changes in comparable English expenditure, but it became more complicated over time because it is very much embedded in UK public expenditure control. From

having a single block, one got the separation between resource departmental expenditure limit (DEL) and capital DEL, which became important in the 2000s because of the question of the deficit and debt limits. More recently, there has been the financial transactions capital DEL, the attraction of which is that, from the Treasury's point of view, it is outside public sector net investment and does not count towards public sector borrowing, so it is a classic arbitrage of the system.

One of the things that could have been done in the 2000s was a review of the Welsh position. Given that England constitutes 84% of the population, the only way that such a system will have any stability is if there is reasonable common interest between Scotland, Wales and Northern Ireland. The minute that you lose that common interest, everybody becomes more vulnerable. It is interesting how Wales has increasingly been in the position of criticising Scotland. In 2002, I made a proposal in an Institute for Public Policy Research book on how to put a floor under convergence. If you had a broad idea of what would be too much convergence, you could manipulate the formula quite simply and transparently and put a floor there. That would have eased a lot of Welsh concerns at the time, but it was never done.

You will be familiar with the other complication of Barnett that is coming, which is the block grant adjustments. You have had this in the context of possible corporation tax devolution; Scotland has had it in the context of the Calman income tax and the stamp duty land tax abolition. The question is this: how do you calculate the regional adjustment and revalue it in future years? You have to be careful because you could easily get a big transfer of risk to the devolved Administrations. The question of how much risk within a single state should transfer to the sub-national units is complicated, but there is a lot of hypocrisy about all this.

I live in a part of Scotland that is highly prosperous: the north-east. Aberdeenshire Council, my neighbouring council, has one of the fastest-growing populations in the United Kingdom. In the west of Scotland at Inverclyde, which mostly comprises Greenock and Port Glasgow, there is significant population loss. It is pretty preposterous to claim that Aberdeenshire is doing well solely because it is extremely competent and that it is nothing to do with North Sea oil and that Inverclyde is doing badly because of its incompetence, not because of a decline of industry in the west of Scotland. There is, therefore, an important question of how much policy risk is transferred.

It is reasonable to say that, at the level of a political unit of a nation state, you have to balance your budget and worry about your debt, but there are massive fiscal transfers within all countries. If you start saying that smaller and smaller geographical units have to balance their budgets, you will encounter really serious problems of equity and of intensifying local recessions when public spending cuts match the loss of tax revenues in small areas. The answer to your question is that Barnett has been remarkably sustained in the past, and one reason for that is that everybody might not like Barnett, but you then have to start thinking about what the alternative would be.

The standard alternative has been a needs assessment. I have published views that say that, in time, there would be a needs assessment. Paradoxically, that is probably becoming more difficult to do than people anticipated, because of what has been happening in English local government. Long-standing principles of equalisation in English local government have been abandoned in the last five years.

One argument has been that you could base a UK-wide needs assessment on the pillars used for the assessment of health needs and local government. The hits that the industrial areas and cities of England have taken are really quite remarkable. Within five years, a long-standing tradition that the funding available for local public services would not depend on local prosperity has been seriously eroded.

If the UK is to survive as a political unit, it needs some kind of territorial mechanism. The UK is, for a country of its size, extremely centralised. England is exceptionally centralised, so a significant problem is how to manage England. The fact that regional devolution in England is off the agenda for a generation or longer has implications.

I will sum up that argument by saying that I think that something like Barnett will survive. To do so, however, it must be much more transparent. I saw a reference in your papers to the lack of openness about fiscal data. I have always been impressed by the Department of Finance and Personnel (DFP), which does, I think, a very good job on behalf of Northern Ireland. I can see that when things were going well, there was an argument for letting DFP quietly negotiate with the Treasury. Now, one has to have far more in the public domain, in the form of a proper annual report on the position on Barnett, so that there is not any unseen Treasury discretion.

**The Chairperson (Mr McKay):** An issue of some concern and debate here is the financial data that the Assembly receives. Now, with the transfer of corporation tax, there is another argument: although we will get the benefits of a reduction in corporation tax, if that increases income tax revenues or reduces welfare payments, there is no assurance that the money will come through the system and back to the Department of Finance and Personnel in Belfast. How much more can be done to make the data for the fiscal flows between here and Westminster transparent?

**Professor Heald:** An awful lot could be done. The question is whether there is the political will to do it. My guess is that it depends on this Assembly and Committee and their counterparts in Scotland and Wales pressing for that. It will not come without pressure.

The system is remarkable in its lack of transparency, which is the reason why there is so much misunderstanding of how it works. I am astonished at the number of times I see the 1981 Barnett figures quoted — a split among Scotland, Wales, and England Barnett of 10:5:85 — even though they have been redundant for more than 20 years. In 2005, I published a paper in the journal 'Regional Studies', explaining how Barnett worked and showing, having made freedom of Information requests to Scotland, Wales and Northern Ireland, the numbers behind the formula. You can get an explanation of how the formula works, but there has been great reluctance to put the numbers into the public domain.

I do not know what the Committee gets. I have systematically obtained information from each of the devolved Administrations so that I can try to put together an update of my 2005 paper. So, the answer to your question is that you could do more. Information is power, and, in a fiscally centralised country, the Treasury does not want to relax that power. I urge the Assembly, the Executive and the Committee to be very cautious about corporation tax. I say that because, frankly, I think that the Assembly and Executive have been led up the garden path by the UK Government. When I produced a report in 2003, which was partially funded by DFP, on Northern Ireland funding for the Northern Ireland Economic Council, the devolution of corporation tax was one of the things that was running — it is a saga that keeps running. It is no accident that we have a draft Bill; there is a UK election in May. The other reason why it is running is that it destabilises Scotland. One of several potential difficulties with corporation tax devolution is European Commission state aid. Also, you can well imagine that, if Northern Ireland has devolved corporation tax, Scotland will want it as well. The danger for Northern Ireland is that you get an awful lot of brass plates. There is experience of the exploitation by companies of corporation tax. I was at a very vivid presentation about Dublin, which told how boards fly into Dublin with a couple of local directors so that companies can claim that board decisions are taken there. It would be a good industry for the manufacturers of brass plates. In addition, I suspect that there would be a lot of subsequent argument fronted by very expensive lawyers about whether one was breaking the rules.

Before I come to the specific point, the other change is to the corporation tax climate. Until the 2008 financial crisis, OECD Governments were pretty complacent about what was happening with corporation tax. Now, they are pretty frightened. Look at the work that Margaret Hodge and the Public Accounts Committee have done and the revelations, for example, about Luxembourg. You will know, too, about the double-Irish procedure, whereby it is not the lower rate of corporation tax that is paid; very, very little corporation tax is paid.

That is the general background. The other point is that it is a question of working out the loss of corporation tax revenue. You will take an upfront hit and then have to wait for higher corporation tax revenues. I am an accountant by profession and have found that where companies make profits is often a matter of sophistry. You can imagine that, with Northern Ireland being well integrated into the UK economy, it would be difficult to know what profits had been made in Northern Ireland. Having decided what the regional reduction is, how do you revalue that abatement through time? If you have one tax, the effect of a reduction in that tax, if you believe that there will be a big effect, will come through other taxes. That raises the point that you made. I do not see the Treasury allowing abatement, because it would get more income tax and VAT.

I understand the desire to grow the private sector in Northern Ireland, but one has to be very careful about the long-term legal disputes that might arise: how will the block grant be adjusted in future years, and what will the hit on that be? This is, I think, a matter that requires great caution. You need to make sure that Northern Ireland has sufficient resources to argue with the Treasury. If the system were more transparent, it would be much easier for me and other commentators on the matter to engage in disputes with the Treasury about how it works.

**Mr Ó Muilleoir:** Thank you, Professor Heald. You complimented the Department of Finance and Personnel. We think that that is because there is a great Chair of the Committee; others think that it is because there is a great Minister.

My colleagues will pick up on corporation tax, but you can be sure that we will approach it with great caution. We will look at it with "an abundance of caution", as the saying goes. We are interested in this only because we want to create more jobs. Your reference to brass plates applies really to Dublin's financial services centre, but you cannot argue with the fact that 10 of the 12 biggest pharma companies in the world are south of the border. We realise the pros and cons.

I want to ask you about a different issue. You mentioned common interest, and some of us feel that less than ever because of the drive against public services, so-called debt reduction, austerity and so on. Barnett is certainly coming under pressure. You said that we were over-funded by Barnett and went on to talk about convergence. You touched on a top-up mechanism. What could that look like in the time ahead? You also talked about an alternative to Barnett. What could that be?

**Professor Heald:** I am not sure what you mean by "top-up mechanism". If you mean funds as well as Barnett —

**Mr Ó Muilleoir:** You used the words "top-up mechanism". Funds as well as Barnett is exactly what we mean. You are saying that Barnett may no longer be fit for purpose. If it did not give us enough money to serve our needs, what could be our top-up mechanism?

**Professor Heald:** This goes back to the question that I raised earlier: the problem with Barnett is that it gives you too much money and not enough. Your view is that it does not give you enough money, but I suspect that that is not the Treasury view.

Barnett, at the margins, has always been flexible. You have the reinvestment and reform initiative, and various things have gone on as well as Barnett. Barnett gave a degree of protection, in that there were informal, non-constitutional/non-statutory rules about how it should run. On balance, I think that the Treasury has played it reasonably honestly. Not everybody agrees; but you can always point to the Olympics and the Carter review of prisons. Over the post-devolution period, I think that the Treasury has played it reasonably honestly. Barnett gives a structure. The point that I made was that Barnett is getting more complicated because it is embedded in UK public expenditure systems and so gets more interior divisions that impede local flexibility.

You have to be very careful about top-up mechanisms because, if you get corporation tax powers and want to use them, you will, in due course, have to convince the European Court of Justice that there is a proper hard budget constraint associated with it. I guessed that, whenever Tony Blair and Gordon Brown came to Belfast, some Barnett-plus thing was going to be done. The big issue in Northern Ireland is whether you are willing to use the revenue-raising powers that you have. One issue is that property taxation in Northern Ireland is lower than it is in Great Britain. I do not want to get into water charges — I know that they are extremely controversial here and south of the border — but that is another issue. It is a question of mobilising resources. The really depressing thing about the Scottish referendum campaign and the aftermath is hearing, "We want more powers. We have very little idea what we will use them for, except that we want to cut taxes and increase spending". It is the dissonance between the two positions that one must concentrate on seriously.

In answer to your question about whether Barnett is sustainable, my pre-referendum assumption was that, if the vote was no, the name "Barnett" would go, but something like Barnett, under a different name, would stay. The idea would be the same, and there would be an adjustment mechanism driven by what happened in the biggest country in the Union. Now, I think it more likely that the name will stay, but one will end up with something completely different that operates differently. This goes back to the opening comments of the Chair. The inquiry by the Committee is really important because you have to start thinking these issues further forward. Things are moving very quickly, with a remarkable degree of misunderstanding in Scotland of what the issues are. The whole thing in Scotland now is "More powers mean we can do something about inequality. At the same time, we are going to cut taxes". Welfare devolution in Scotland seems to mean having higher benefits than in England. The question of how those are financed is something that people do not address.

**Mr Ó Muilleoir:** I will move on. You talk about going back to the 1980s: when devolution appeared here, the sewerage system did not work, we still did not have a dual carriageway to our second

biggest city in the North and we were totally undercatered for in all types of infrastructure. We have been under pressure since. I do not know what they are going to replace Barnett with, but it certainly has not been a magical formula or panacea for us. We always felt we were underfunded. You said we could be overfunded. I do not think we were overfunded at all when I look at the state of many of the services that were bequeathed to us on devolution.

**Professor Heald:** OK, just to clarify a point I made earlier: what I said was that, in the 2000s, huge amounts of money came down the Barnett pipeline to the devolved Administrations in Scotland, Wales and Northern Ireland because of English health and education increases. The timing of that was not very good, because in fact people could not spend it wisely. If you suddenly get more money, you have to get the real resources. You have to get the teachers, nurses and capital projects in place. Fear that eventually the Treasury would cancel the end-year flexibility led to some pretty unwise decisions, certainly in Scotland. I was talking more about timing. The money came fast, beyond the capacity to spend it sensibly. I accept that there was significant infrastructure neglect in Northern Ireland because of its political history. That is why, provided one does it openly and transparently, there is nothing necessarily wrong about Barnett-plus. Barnett gives an anchor, and then you argue about specific issues beyond that.

**Mr Ó Muilleoir:** Thank you.

**Mr McQuillan:** Given that devolution of corporation tax is imminent, what do you see as Barnett's part in that? What is the potential to develop Barnett into a different formula because of that?

**Professor Heald:** Corporation tax devolution would take a chunk out of the existing block grant. The question then becomes how that deduction is indexed in future years. That is the really big technical issue. It is also a question of how much risk is involved, because, frankly, we do not know. Back in 2006-07, Gordon Brown was boasting that the UK had 54 consecutive quarters of economic growth, going back into pretty old history about whether that had happened before. Very few people anticipated the chaos that was going to come in 2007-08. Hence, once you lock in a deduction with a set of rules about how that reduction is indexed through time, you have got a significant deduction from the block.

The much-canvassed alternative to Barnett has been to replace Barnett with a needs assessment. The view, possibly contrary to this Assembly and Committee, would probably be that Northern Ireland, with regard to funding, would come out relatively badly from a needs assessment. Nobody actually knows what the result would be, but certainly there have been examples of applying English formulae to Scotland, Wales and Northern Ireland with the purpose of showing that they were overfunded. The needs assessment would lead to a really big argument about what the relative needs are. DFP did an exercise with the Departments about 12 or 13 years ago trying to benchmark their needs against needs in Great Britain, but to my knowledge none of that was ever published.

If you are in a position where you have tax devolution, the big question is whether it is actually usable. The alternatives in a largely grant-based system are to have the kind of adjustment mechanism that we have in Barnett, or to have a needs assessment. If there was a needs assessment and, as some people would argue, Wales is shown to be underfunded and not Scotland and Northern Ireland overfunded, you then have to have a formula to phase in the reduction. If you suddenly took a big hit it would have calamitous macroeconomic effects, quite apart from the social effects.

Essentially, the practical alternative is a needs-based formula. The question then arises about who is going to do that assessment. My view is that nobody should trust the Treasury to do that assessment. If you are going to have a needs assessment, it has to be done by an independent body. There is an obvious example in Australia with the Commonwealth Grants Commission. That is a very big and expensive operation, and it is very controversial in Australia, but it is remarkably resilient.

Alternatively, you could have a kind of adjustment mechanism but, in future, the mechanism has to be much more transparent. For example, what happens if the UK Government want to keep reducing levels of public services and the devolved Parliaments do not want to do that? If Scotland wants to have a higher rate of income tax than in the rest of the UK, the Finance Secretary in Scotland has to be sure that there is no penalty operated through the grant system. If you are going to use a tax power and recommend to the Parliament that the rate is higher than one is expecting in the rest of the United Kingdom, you have to be sure that there is not going to be some back-door way of taking the money away from you, otherwise it is completely politically unusable. That is the big danger. One of the things about the Scottish referendum was the astonishing turnout. A turnout of 85% or 86% is

really quite incredible in a modern election or referendum. The expectations that have been built up from that are going to be very difficult to manage.

**Mr McQuillan:** You talked about the needs-based assessment. Why do you think we would do so badly compared with Wales, after what we have come from in the last 10 or 15 years to where we are today?

**Professor Heald:** I do not know what will happen. I know what other people say will happen. The Holtham commission did a simple needs assessment which was considerably derived from English formulae and which showed that Wales was underfunded and Scotland and Northern Ireland were overfunded. The fact that it was done by a Welsh commission makes one, perhaps, not terribly surprised that that should have been the result. However, there is an obvious point to make. I take the member's point about the neglect of infrastructure, but the day-to-day expenditure is on things such as health and education. One of the things that DFP has done recently is the net fiscal report for Northern Ireland, which is the same kind of exercise as that which is done by 'Government Expenditure and Revenue Scotland' (GERS). The fact that Scotland has been doing that for a long time has created a much better knowledge base about Scotland's public finances than would otherwise have existed. There are various reasons why that is more difficult to do in Northern Ireland than it is in Scotland. One of the striking things about that report was that, in the reference year that they used, revenue in the UK covered 80% of the expenditure, while it covered 60% in Northern Ireland. What it did was quite sensible, in that it was quite open about the fiscal transfer to Northern Ireland. My view is that the better data you have, the better position you will be in to argue.

**Mr Girvan:** My question is on the data. We went through a difficult enough time trying to work out what our block grant would be hit for if we went down the route of transferring corporation tax. As a result of Treasury's usual black arts, we do not know; they cannot tell us what the exact tax take on corporation tax is in Northern Ireland. How can we have confidence in the data we are receiving?

**Professor Heald:** You have to distinguish between a reluctance to share what people have and a genuine difficulty. When companies make their corporation tax declarations to HMRC, they do not do it on the basis of dividing corporation tax between different countries in the United Kingdom. There is a genuine knowledge problem. Also, the minute that you have a different rate of corporation tax and a different set of rules within the UK, two things will happen: you will start to get better data, and people will have reasons to locate their profits in the lower tax jurisdiction.

**Mr Girvan:** Can any mechanism be used to make it a more transparent process? Up until now, we have had to accept what has been said.

**Professor Heald:** I honestly do not know what calculations you have been given about what the loss would be for corporation tax, but —

**Mr Girvan:** There is a variance of almost 100% between what they say and —

**Professor Heald:** I can see that there is a genuine difficulty, because there has been no past reason for having data. As an aside, the corporation tax figures in GERS are based on where the economic activity is, but that is not how corporation tax works between countries. It is based on tax residence, which is not the same thing. So there is a genuine difficulty. Without more transparency, there will not be trust in the system. In that way, I completely understand and agree with your comment.

**Mr D Bradley:** Good morning, Professor.

**Professor Heald:** Good morning.

**Mr D Bradley:** One might be forgiven for coming to the conclusion that you are slightly sceptical about the transfer of corporation tax powers to Northern Ireland, to judge from what you have said. You made a number of points about that and said that there was a danger of long-term legal disputes. Can you clarify what is involved there?

**Professor Heald:** One would have to be very careful not to fall foul of state aid rules. The key judgment is the Azores judgment that was made by the European Court of Justice. Basically, in crude, non-lawyerly terms, you have to be able to prove that what you lose by having lower corporation tax in revenue is not fed back to you by the UK Government through a back door. Given



what I said about Barnett-plus before, that might be quite difficult to prove. These cases have a habit of running on for a very long time. An analogy that makes the point is that Birmingham City Council is having to sell a lot of its assets to settle an equal pay claim that has been mounting up over a very long time and has become a massive sum. One has to be careful not to pass bills to the future in quite a dangerous way.

One of the reasons for my scepticism about whether it will ever happen is that if Scotland got a devolved corporation tax within the United Kingdom, it would be much more damaging to the Treasury than Northern Ireland getting it. Think of the size of the Scottish financial sector, and you can imagine that it would be a very substantial diversion of tax domicile to Edinburgh. One understands the frustration that Northern Ireland has about lower corporation tax in the South, but that was tolerated in a completely different economic climate relative to companies paying corporation tax. One of the dangers is that you can argue that corporation tax is dying internationally and that, despite the OECD base erosion project, since 2008 countries have been saying that they are taking this seriously at the same time that the UK is leading the race to the bottom with headline rates and is doing things like the Patent Box. There is a significant danger: just because it is perceived as having worked in the South 20 or 30 years ago does not necessarily mean it is going to work here.

**Mr D Bradley:** I think you said that you had written in an earlier paper — you had expressed the view, anyway — that we were being led up the garden path in relation to the transfer of corporation tax powers. Did you mean that the UK would be saving on the block grant and also possibly gaining from the increased income tax and VAT payments that might come from a lower rate?

**Professor Heald:** In 2003, the point was not about being led up the garden path. Basically, I was expressing scepticism about that as being the economic development tool in Northern Ireland. My point now is that the time for the corporation tax mechanism has almost certainly gone. Governments across the world, including the US Government, are very seriously worried about the collapse of their corporation tax revenues. The Obama Administration have been trying to do something about what is called inversion by US companies. It is a much bigger international issue, so what happens in countries is monitored much more carefully now than it was 20 years ago.

**Mr D Bradley:** Thanks. Getting on to my question, is there a case for a neutral regulator between Treasury and the devolved Administrations in relation to Barnett?

**Professor Heald:** In 1976, which was a long time ago, I proposed a territorial exchequer board. The time has now come for that. The direct answer to your question is yes. Because of the past lack of transparency on how the system operates and the lack of trust in how it operates, we definitely need a body — I am not sure I would use the word "regulator" — separate from the Treasury that actually collects and publishes the data. "Regulator" implies decision-making. I am more sceptical about decisions, but I would want to see the information on which decisions are going to be taken put in the public domain.

**Mr D Bradley:** Some means of objectifying the information.

**Professor Heald:** Yes. As I said in reply to an earlier question, there are sometimes things you just do not know because either the data does not exist or, conceptually, it is very difficult to get a measure. What one does need is some kind of organisation that is going to put the numbers in the public domain, with access to Treasury information. It is partly a question of getting inside the Government data perimeter. Academics can only do so much; there is a limit, because they do not have access to the information. You need a body that is like the Office for Budget Responsibility, which has access to the data and can say, "The best we can do on the information we've got is this. What we could do to get better information is this and that." As soon as you start talking, in the Scottish context, about having more dependence on your own tax revenues, that is absolutely essential. As I said, I really worry about the idea, in the Scottish context, that you are bringing in lots of tax revenues but you have absolutely no control whatsoever of what is coming in; it is all being driven by UK decisions. The costs of diverging from the UK, in terms of administrative costs and compliance costs and political hassle, are just too big.

**Mr Weir:** I have a couple of issues. Obviously, the transparency bit was a key theme. You mentioned the position of Northern Ireland, Scotland and Wales. You said that, where there is a common interest, there is a greater level of leverage in that regard. One of the tensions is between Wales and Scotland in terms of the positions. Looking at the flip side of the coin, you mentioned the greater levels of disparity within English councils and the regional side of it. Obviously, one of the key debates

across the water at the moment, largely as a reaction to the Scottish referendum and some of the promises that were made off the back of that, is the idea of greater autonomy for English regions, or English votes for English laws. There seems to be a general range of potential actions. There is no great consensus at present as to precisely what direction that goes in. What impact do you believe that English sensibilities in that regard will have as to the development or, potentially, the replacement of the Barnett formula?

**Professor Heald:** One of the consequences of the first-past-the-post electoral system for Westminster is that one has no idea of what is going to happen at Westminster. Because of that, there is a very serious danger that the English-votes-for-English-laws issue is going to disrupt the system quite seriously. When one country is 84% of the whole, there is not such a thing as an English law. Anything that is subsequently going to affect the funding of Scotland, Wales and Northern Ireland is not solely an English matter. For example, the introduction of NHS charges in England has nothing to do with Scotland, except for the fact that Scotland, Wales and Northern Ireland would get less money as a result of that policy change. Presumably, it would be conceivable to try to find some way of stripping out certain measures that are entirely organisational matters in England, but I suspect that that is not the way that Westminster works. I cannot see Westminster wanting to change its practices just because of the devolved Administrations.

**Mr Weir:** I appreciate that on one level. In one sense, the issue of English votes for English laws probably has, at least on the face of it, a greater governance issue in terms of, shall we say, the unity of the UK rather than a direct financial implication. Given the fact that, at one level, there may well be, from a parliamentary point of view, a degree of resistance to going down that road, is there a danger that an alternative route is looked at that, leaving aside the pure autonomy of Scotland, for example, then results in pressure from English MPs saying, "Well, OK, we're not in the position to do something entirely about the autonomy of this"? Quite often, the general complaint from a lot of English MPs is that an awful lot more freedom has been given to Scotland. Worse than that, from their point of view, they see, per head of population, a much greater spend in Scotland. Consequently, if there is a certain level of frustration on the governance side of it, that flips over, with a consequence for Northern Ireland, into a greater level of fiscal constraint in the sense of less money being given by whatever formula is there.

**Professor Heald:** I completely take your point about the frustration of English MPs, but the problem is because of the asymmetry of population size across —

**Mr Weir:** I understand that. From that point of view —

**Professor Heald:** That, essentially, is —

**Mr Weir:** Whether, objectively from outside, it is particularly justified, is a different question.

**Professor Heald:** I accept the point about the frustration. The difficulty is in trying to devise a mechanism that does not devalue the status of the Scottish, Welsh and Northern Ireland Westminster MPs but makes, for example, Scottish MPs not at all interested in Westminster. Having just had a referendum with a reasonably clear majority for Scotland to stay in the Union and then, completely unadvertised during the referendum campaign, you get restrictions on Scottish MPs — you can imagine how that inflames things. If you are asking me whether there is a political difficulty because of the acceptability of the funding of devolved Administrations to English MPs or the fact that Scotland and Northern Ireland have powers that England has not had, one should remember that when the north-east of England had the opportunity to have such powers, it did not take it.

There is great ambiguity about what England wants for itself. The bizarre thing now, as I said earlier, is that there have been massive cuts in local government expenditure in England at the same time as you are getting the city deals for the big cities. You have a big withdrawal of resources and then a selected passing back of some of those cuts to particular areas. Paradoxically, having settled reasonably what is going to happen in Scotland, Wales and Northern Ireland, one has the problem of what to do with England. That is the fundamental point, and that is relevant to the rest of us, because, if England is dissatisfied, there is the sheer population size and representation of England. I do not know about Northern Ireland, but there is a sense in Scotland, which is certainly shared by parts of England, that the UK is run for the benefit of London and the south-east. That was a very powerful driver in the Scottish referendum campaign, and it was a very serious problem for the "No" side of the referendum campaign that that impression was held well beyond the conventional, normally expected "Yes" voters.

**Mr Weir:** The biggest thing that I have grasped from your evidence is the benefit, both from a wider generically sensible position but also perhaps from self-interest as a region, is the benefit of knowledge, power and transparency. I think they have a high level of significance. I suspect that you will find that we will be pressing for common ground in that regard. Without reopening the debate on corporation tax, it has relevance both to that and to the Barnett formula. You have also indicated a note of caution in that, whereas there can be justification across the UK — even if it could be done relatively easily, but I take it that it cannot because of needs-based analysis — it may, at best, be a double-edged sword for us, in that, although it has been quite often trailed in Northern Ireland, it may be an issue of being careful what you wish for. The belief may well be that, if you radically change the formula by way of a pure needs base, there is the risk that we may end up getting considerably less money.

In terms of advice outside those two principal areas and our approach to any modification of Barnett, the continuation or replacement or any of those types of things, do you have any other advice for us as a region, particularly for us as a Committee that is looking into the issue of the Barnett formula? Is there a direction that you feel we should push to go in or at least where you feel we should simply be holding ground?

**Professor Heald:** One of the important things that you can do is improve public understanding in Northern Ireland of how it works. I have been trying to improve public understanding in Scotland for more than 30 years, and much of what was said during the referendum suggested that I have failed. It is quite remarkable when the former First Minister of Scotland does not know how the formula works; that is not at all encouraging. What you ought to do now —

**Mr Weir:** Without being slightly cynical on this, whatever else you say about Alex Salmond, he is perceived as being very intelligent. Whether he genuinely does not understand it or whether —

**Professor Heald:** That was not a reference to Alex Salmond; it was a reference to a previous First Minister.

I urge that you try to improve public understanding in the political elites and in the population. As I say, you have to know whether your worry about Barnett is that Barnett is giving you too much money and hence you are not doing public-sector reform or that it is not giving you enough money, which is creating significant hardship.

We have implicitly talked entirely about the DEL side of the Northern Ireland Budget, but there is clearly a potential macroeconomic effect from reductions in welfare. People talk about growing the private sector, but the private sector depends on the purchasing power of people who work in the public sector and people on benefits as well as people who work in the private sector. The first point is to improve the quality of the public debate. The link to that is that one just wants more transparency about how the system works. As I said, you could make a cynical argument that the devolved Administrations did quite well through it all being done reasonably secretly. I have made the point several times elsewhere that it is interesting to note that, ever since devolution in 1999, a Scottish MP has been a Cabinet Minister in the Treasury. It would be very interesting to see what happens if there is not a Scottish Minister in the Treasury, because very significant changes to Barnett would have big implications for Scotland. What has tended to happen with Barnett is all sorts of complications have got into the system without the basic principles being eroded.

**Mr Weir:** I do not think that any of us will disagree with concept of trying to deepen the level of discourse that leads to public understanding of those sort of issues. I guess that the cynic might say that, unless an issue is red in tooth and claw — I suspect that Northern Ireland is no different from anywhere else — there is quite often a difficulty in getting everybody to engage in a lot of the minutiae of politics in general, but when you try to get people to understand economic formula, the general glaze that comes across the eyes about politics can be multifold. By your own admission, you have been at this for more or less 20 years, and you have had a very limited amount of success in being able to engage it. How do you think we could crack that greater level of deepening public understanding?

**Professor Heald:** We just have to keep at it. That is the crucial point. It is interesting that, when I called it the "Barnett formula" in 1980, it took about 15 or 20 years for the Government to use the term. It was totally resisted. In academic publications, I was using the name "Barnett formula" and other people were using it, but the Government did not do it. It was probably around the time of devolution

that the name took off; to the extent that it appeared on the front of the 'Daily Record' a few days before the referendum. That showed how it had gone up in the public consciousness, but there was not a sufficiently good understanding of what issues the mechanism raised.

**Mr Weir:** Keep hammering and some it will eventually get through, hopefully.

**Ms Boyle:** Thank you, Professor Heald. It was a very interesting presentation. One of the Smith commission's recommendations is to strengthen the borrowing powers in Scotland. Do you agree that we should have our borrowing power strengthened here? What would that look like? Can you give me a brief view on the implications that that would have here? Do you have an opinion on the national minimum wage? Should that be reviewed?

**Professor Heald:** One of the things about borrowing powers is that you always have to ask yourself whether you are getting more spending power or whether it is actually getting relabelled. Are you getting Barnett plus some borrowing power or is some of what would have been Barnett becoming borrowing powers? That is an important point. One of the complications that I referred to earlier is financial transactions capital, which can be spent only in a restricted way. Clearly, there is a risk in those areas that you underspend and lose the money or spend in less wise ways than you would have done if you had had more control over the spending. On the question about borrowing powers, the UK Treasury, because of its obligations under the European stability and growth pact, has to control public debt and borrowing, and the UK is still one of the highest-borrowing countries as a proportion of GDP in the European Union, such was the big hit from 2007-08. If borrowing powers are the right instrument for what you want to do, yes, take them, but be very careful that you are not losing flexibility. Once you lose flexibility, you get the double danger of underspend or not spending it wisely.

I do not particularly have a view about the minimum wage. One of the things that is very obvious is that the labour market is splitting, and various factors are leading to the polarisation of the labour market, with lots of people not far from the minimum wage or on zero-hours contracts. Obviously, disturbing things are happening at the bottom of the labour market. It is fascinating, because, for a long time, talking about inequality was an extremely unfashionable thing to do. It was regarded as a bit left wing. It is interesting that much of the best work that is being done at the minute is coming from the OECD and the IMF, which are now starting to argue that very serious economic damage is being done by the growth of inequality. They are not arguing that inequality is necessarily bad on a political values level; they are arguing that it is bad because it damages economic performance. The whole question of what is happening at the lower part of the labour market is presumably to do with the globalisation of the economy, the possibility of offshoring jobs, the decline of union densities and so on. I do not regard this as a public finance matter in the sense of what we have been talking about, but, in context, it also creates an issue about the interface between what you can earn in the labour market and what you get in benefits. One of the things that worries me about Scotland is the standard presumption that, if we have welfare devolution, our benefits will be higher. Leaving aside the question about how you pay for them, that takes away the fact that you have this problem of the interface between the labour market and the benefits system.

**Mr McCallister:** I have a couple of points to pick up on. I am sorry that I missed the start of your presentation. You had a discussion with Michaela around borrowing powers. Will borrowing powers become more essential with the more taxes that you devolve to a region, in that you would necessarily need that flexibility if we have corporation tax here and tax receipts go down? The national Government easily do that. We were supposed to have balanced the Budget by now and we are still £98 billion in debt. Will that become more important the more taxes you devolve?

**Professor Heald:** Yes. I answered the previous question with reference to capital, but you are absolutely right. The more that you are dependent on your own revenue, particularly if your own revenue is largely driven more by what happens at the UK level in terms of policy and the UK macroeconomic risks, you obviously need borrowing power for smoothing purposes. Otherwise, you would have sudden public expenditure cuts.

One of the points that I did not make about Barnett is that it gives the Finance Ministries of the devolved Administrations a degree of predictability about what the Budget will be. We have lost that to some extent because the spending review of 2013, for political reasons, covered only one year because the coalition could not agree to do it beyond 2015-16. Yes, if you are subject to revenue volatility from, in Scotland's case, income tax, or, in Northern Ireland's case, corporation tax, you must have the borrowing capacity to offset shortfalls and the saving capacity to park your money so that you

do not have to surrender it. You have to be able to park a surplus in the good years, which you pay in the bad years. The design of that will be really quite important.

**Mr McCallister:** My two concerns in our debate around corporation tax have been the volatility of it, which the borrowing ties into, and the economic data. There have been a lot of questions around the reliability, and the data tends to be several years out of date by the time that you are doing it. We would have a job to do even to catch up on the economic data.

**Professor Heald:** Quite a long time ago, an economist in the Northern Ireland Government pointed out to me the difference between Scotland and Northern Ireland. Scotland is a much more self-contained economy, and there has been a long tradition of pretty good economic statistics about Scotland. Northern Ireland is a much less self-contained economy, and it has a long land border with a member of the eurozone. It is smaller and more difficult to map. The smaller a geographical area that you go to and the more interconnected it is, the more difficult it is to get reliable economic statistics. Clearly, one needs better economic data, but one should not fail to recognise that there is a practical difficulty because of the nature of the economy and its interfaces with the South.

**Mr McCallister:** On the wider Barnett discussion, you mentioned a few times that the devolved regions and nations are doing quite well, apart from the Welsh maybe. If you are doing well out of anything, it is probably a case of keeping your head down and not making too much of a fuss about it. Has Northern Ireland managed to do that mainly because it is quite a small part of the UK in economic terms? In our last presentation on this, we were told that we get 30% above the spend in England, with our relative need maybe being somewhere between 14% and 20% higher than that of England. If you moved to a needs-based formula, we would take a fair hit to the block grant.

**Professor Heald:** On those numbers, yes. For about 20 years, I have been trying to get the right numbers from the Treasury for what the level of spending in each of the devolved Administrations is, relative to what is spent in England on those same services. People overuse the data in the public expenditure statistical analyses, and that data covers things that are not in the Barnett system. My guess would be that, if those numbers that you quoted held up, there would be a difficult adjustment period. If, for example, on your numbers, it was decided that Northern Ireland was overfunded, which would obviously be disputed, you would have to have a period of time where you converged on where it should be. You cannot suddenly, except with enormous disruptive political, social and economic consequences, cut the Budget. You need to phase in what you do. As I said, I think that there will be very significant difficulties in doing a needs assessment. My favourite example is that, when the Labour Government did the needs assessment in 1978 with a view to when devolution was going to happen then, which was published later in the Treasury needs assessment study, they refused to allow the fact that Wales had two languages be a needs indicator. The additional cost of Welsh was not a needs indicator, which just shows how much it was a matter of political judgement.

**Mr Weir:** Do not be putting ideas in people's heads.

**Professor Heald:** It shows just how judgemental the question is about a needs indicator.

**Mr McCallister:** England makes up 84% of the UK. We have one of the most centralised systems of government. There is pressure around English city regions, if you like, such as Manchester and Birmingham, and the question of what you might want to devolve to them or require them to do. There is the issue of driving economies in the north of England. Parts of the north of England have a pretty high dependence on the public sector as well, so the argument that most things seem to be driven for London and the south-east probably makes sense for a lot of people across the UK. Where do you see that debate going? Is it not also going to put pressure on where Barnett ends up and whether we move to a needs-based assessment or stick with Barnett? Would there not be pressure around that if parts of England go down the road to rejuvenate, particularly the north of England?

**Professor Heald:** My view is that much of the talk of localism in England is just political rhetoric. Parts of England have suffered enormous public spending cuts, so the counter-rhetoric is about localism, city deals and special things for Manchester. Newcastle, for example, has taken hits.

To repeat something I said earlier: the real political problem we have got in the UK is what to do with England, because England does not know what it wants. There is resentment and the perception that things are done for the benefit of London and the south-east, yet there are not the identifiable political units that could have the kind of devolution that Scotland, Wales and Northern Ireland have. It is

arguable that the John Prescott regional reforms in England might have taken hold had they been better managed, but that is completely off the political agenda.

What I worry about regarding localism in England is that it basically means devolving functions without giving the money to pay for them. The classic case is localisation of council tax benefit in England, whereby councils got the existing spending on council tax minus 10%, thereby transferring the burden of poverty relief from the central taxpayer to the local taxpayer. The question about what happens in England becomes fundamentally important. If England is dissatisfied, some of that dissatisfaction comes out in hostility towards the devolved parts of the United Kingdom.

Crucially, there is a serious economic problem for the whole of the UK. A thought experiment helps. Now that the south-east of England and London are doing incredibly well, there is a temptation for people to want to keep what they kill. There is increasing pressure for people to keep their tax revenues, particularly in London. As a thought experiment, what would have happened if the UK Government had not backed the financial sector in 2008 and let it collapse? That would have had devastating consequences for London and the south-east, and it just showed that the rest of the United Kingdom was underwriting London and the south-east at that time.

**Mr McCallister:** On the back of all this debate and the Scottish referendum, the UK is going to look quite different over the next number of years between pressures that will come around Barnett and tax-varying powers being devolved to Scotland, Wales and Northern Ireland, albeit different powers and with different abilities. Does that mean that things like the minimum wage might need to be different? We might not have a national minimum wage but a more regionalised minimum wage. One of the issues around the tax credit system is, I think, that we use about 14% of our welfare spend on tax credits. Are we effectively subsidising business and poor pay at that point? Do you see all those things diverging, given the way the UK is headed?

**Professor Heald:** You are raising a really big issue. People have a different view of cash benefits than they do of public services. There is much more support for and acceptance of having things like education and health run by a local political jurisdiction, but there is rightly or wrongly a view that old-age pensions, for example, and welfare benefits ought to be the same across the UK. Some free-market economists would like to reduce benefits, but not necessarily pensions, in lower-wage areas. However, as I said earlier, that could have significant macroeconomic effects on the lower-income areas.

There is a psychological view that cash is different from services. That is not just a UK thing; there is across the world a belief that this is, in the current jargon, part of the social union of the UK and to try to change that might be quite difficult. Obviously, a low-wage economy creates issues that do not apply in a high-wage economy. That is a political judgement.

**The Chairperson (Mr McKay):** Revenue Scotland has now been established and it is the first tax-collection system specifically for Scotland in 300 years; that is how it is being marketed. Is that something that we should look at here? In any debate about devolving fiscal powers, there is always an argument about fiscal costs. We can set a tax rate, but it is about whether we want the administration costs of that as well. Is that something that would be of benefit in Wales and here as well as in Scotland?

**Professor Heald:** When it started, Revenue Scotland had the advantage that stamp duty land tax at the UK level was just so stupid that, clearly, by having that tax devolved, you could try to get a more sensible structure for it. In terms of more important taxes in terms of money, the question becomes about whether you use HMRC. There are two issues. The first is that one would assume that substantial economies of scale are operating at HMRC level in the UK that you would lose if you tried to separate them out for Scotland, Wales and Northern Ireland. There is also the question of access to data. Without access to data within the UK Government perimeter, you could have difficulty.

One of the arguments running in Scotland at the moment is about whether HMRC ought to have access to health records to establish where people live for their declarations as Scottish taxpayers. It has never mattered in the UK whether I was regarded as an English or a Scottish taxpayer, but it does now. The question of deciding where people live, going beyond the self-declaration, is potentially an important issue. There is a question about what kind of access to UK Government records a devolved tax Administration would have. I have always argued that one should keep using HMRC. Obviously, if Scotland was independent, that is quite different, but within the UK, I see no advantages in breaking

it up. Having Revenue Scotland to manage these pretty small local taxes where there might be information advantages in being local is, I think, different.

**The Chairperson (Mr McKay):** If we were to get further powers here over the next two or three years, would setting up such an organisation be of benefit? We were talking about corporation tax earlier. Would there be a benefit in those terms? You are right about the question of having the correct information, but the establishment of such an organisation would perhaps back up an argument for further transparency and better information coming from the Treasury.

**Professor Heald:** The difficulty would be that your local Administration would not have the access that HMRC has got. There would clearly be a role for DFP on the policy side, given the fact that a lot of companies paying Northern Ireland corporation tax would also be paying UK corporation tax for their operations outside Northern Ireland. You would have to be very careful about losing the economies of scale and expertise of HMRC.

**Mr Ó Muilleoir:** I am baffled by the fact that we are told by London that all these systems are of huge benefit to us but we cannot get the exact data for some reason. There is a question of trust and transparency there, but that is not what I want to ask about.

I have just joined the Committee, so remind me about the Olympics. You mentioned the Olympics earlier and everyone else smiled. What happened around Barnett and the Olympics?

**Professor Heald:** The point about the Olympics is that you have to decide which expenditure in England is comparable for the purposes of the Barnett formula. One thing that the UK Government can do is argue that this expenditure might take place in England, such as in the east end of London, but it is for the benefit the UK as a whole in the same way that defence, foreign affairs and overseas aid is for the benefit of the UK as a whole. The big argument was this: what part of the total Olympics budget was solely for the benefit of England — London — and what part of it was for the benefit of the UK as a whole because it was going to raise the UK profile internationally?

There was a big row about that between the devolved Administrations and the Treasury. Treasury Ministers were going round saying in public that the Olympics was wonderful for the reconstruction and development of east London, but in private they were saying that it was nothing to do with England and it was all to do with the UK. There was eventually a deal, and the devolved Administrations got a small amount of money in the end. I think that Alan Trench gave evidence on that quite recently. They did a deal and there was a bit of conversation. It is a good example of the question about who decides what is and is not Barnett comparable. As I said earlier, my view, which is not shared by all academics by any means, is that on the whole the Treasury has played it reasonably honestly since devolution. However, once you start having significant tax powers, you cannot rely on it being played reasonably honestly. You do need the numbers on the bottom line.

**Mr Ó Muilleoir:** I want to work that through: what did the Olympics cost? Was it £2 billion or £3 billion?

**Professor Heald:** I honestly do not know; it was a bigger number, I think.

**Mr Ó Muilleoir:** How was that reflected in our —

**Professor Heald:** There were parts of the Olympic expenditure for which consequentials were allowed, but there were some that were not allowed for and then there was some kind of settlement.

**Mr Weir:** We got a really big 50-metre pool in Bangor.

**Professor Heald:** It was a question of how big the settlement was in relation to what should have come in the first place.

**Mr Ó Muilleoir:** What about our annual Budget? You mentioned defence. I know that Mr Cameron is going to spend £3 billion on a new aircraft carrier and wants to spend £20 billion on new fighter jets. Are we paying for some of that as well?

**Professor Heald:** That is a good example of what is not comparable. That is not expenditure for the benefit of England; it is for the benefit of the UK.

**Mr Ó Muilleoir:** Well, I am arguing exactly the opposite. I am quite happy that he should take that; I do not want a second aircraft carrier. One is quite enough for Mr Cameron, and I certainly do not want his new generation of fighter jets. He is not really saying to people here that we should bear the brunt of that. There is no money for schools, but —

**Professor Heald:** Well, no. It is being paid for out of UK taxes, to which you contribute.

**The Chairperson (Mr McKay):** Professor, you have been more than generous with your time. Thank you on behalf of the Committee. Your contribution will go towards our report.

**Professor Heald:** Thank you very much and best wishes for your report.