



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Operation of the Barnett Formula:
Professor Colin Thain

18 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 Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Peter Weir

Witnesses:

Professor Colin Thain University of Birmingham

The Acting Chairperson (Mr McCallister): Good morning, Professor. Can you hear everybody?

Professor Colin Thain (University of Birmingham): I am losing you every now and again.

The Acting Chairperson (Mr McCallister): Hopefully, everyone will speak as slowly and clearly as possible so we will get through this. You are very welcome to make some opening remarks on the Barnett formula, if that would be useful, and then we will ask you some questions. You are welcome to the Committee.

Professor Thain: Thank you for the opportunity to talk to you as part of what is, I think, a very good investigation. I am very impressed by the material that you have already collected from other colleagues. To give you a bit of background, I have been working on Treasury public spending for 31 years now, man and boy. I worked on the Treasury under new Labour. I gave evidence to the House of Lords Committee on the Barnett formula, which I think a number of your evidence givers have also done. In your inquiry, you have had a very good series of evidence-giving sessions, which will have taken you through some of the big issues on the minutiae of the operation of the Barnett formula. My help to you might be to suggest some of the bigger questions that you have in your terms of reference. For example, there is a lack of transparency in the data, which you note; there is a huge issue in making sure that the public are more aware of how public spending consequentials come from London to the devolved Administrations; and there is a bigger question about how we run our devolved fiscal system. I know that your terms of reference will not go as far as that, but, given the potential devolution of corporation tax in Northern Ireland [*Inaudible.*] longevity of the Barnett formula as a structure for allocating resources is a problem for the rest of the United Kingdom.

I think there is also a general question that you raise in your terms of reference and in the general discussions you have had so far about the independence of an arbiter outside the Treasury. That is long overdue. The obvious one is the Office for Budget Responsibility (OBR), because it is used to going into the Treasury. Its officials are used to going into Treasury positions and are well aware of the technical questions that might arise. It certainly has the expertise. You would need a lot more investment in resources, and you would also to physically ask the Treasury for those, but that is perhaps a separate question. I hope that that helps.

The Acting Chairperson (Mr McCallister): It does, indeed. Thank you. That has been very useful. I should say at the outset that my name is John McCallister and I am the Acting Chairperson today. I will ask members to introduce themselves.

Professor Thain: Thank you very much. That would be very helpful.

The Acting Chairperson (Mr McCallister): That might be useful. Some of the recurring themes we are getting in these evidence sessions are on lack of data and how decisions are being made. I think that your point about looking at this independently through the OBR and how you might arbitrate between devolved regions and nations in the UK, central government and the Treasury is interesting.

I will start by asking you about what we think of as the Barnett squeeze on convergence between public spending per head of population in Northern Ireland and the UK average. What are the risks of Northern Ireland being underfunded in the context of relative need in the future due to long-term convergence? If such circumstances arise in the longer term, how feasible would it be to introduce a supplementary or top-up mechanism to take account of relative need?

Professor Thain: Those are very good questions, and they have resonated around the whole history of the Barnett formula, which, as you have been told, was never intended to last this long. It was a fix for a potential needs-assessed-based system for the allocation of resources. I think there are real difficulties *[Inaudible.]* whilst if Scotland is given more autonomy, Barnett becomes less significant. To be clear, with the devolution of resources, which is invariably going to be given to Scotland, given its size, the only *[Inaudible.]* this much of a squeeze, as some of your other evidence givers have told you, is because of the things outside the formula.

You either *[Inaudible.]* Barnett *[Inaudible.]* historical process whereby Northern Ireland agencies and the Treasury have debated whether elements of public spending are not consequential on patterns in England and, therefore, there has been a case for special dispensation that helped a little bit on the squeeze. The biggest *[Inaudible.]* is because of the aggregate-managed spending and the demand-led spending on social welfare that are always going to maybe help Northern Ireland appear to be doing slightly better than the Barnett system allows. Its intention *[Inaudible]* convergence. Given long enough, that is the only mechanism that Northern Ireland will suffer.

The big political case that has to be made is that we go back to what the Treasury was doing in the 1970s and ask how we can have a needs-based system where we assess the particular needs for not just Northern Ireland but Wales, whether we should have a regional structure that comes out of the further discussions about devolution in England and whether we could have needs assessed in the north-east and south-west. I think that that is evident, but it requires the political will to say that needs have to be addressed, as opposed to having a kind of useful political, administrative tool that involves all and turns into a formula. It has been very helpful. It has avoided the Treasury having to walk all over every part of the United Kingdom's public spending decisions. It has kept Northern Ireland on the level that Treasury envisions it, which probably has some benefits.

It means that the Department of Finance and Personnel could be more autonomous. However, that is maybe at the cost of having a proper discussion about Northern Ireland's particular needs, including its social deprivation needs in particular, which need to be addressed through a separate allocation of resources.

The Acting Chairperson (Mr McCallister): Thank you for that. I have a couple of follow-on questions. The big concern here is about moving away from Barnett. Other academics who gave evidence to the Committee warned us about the shock of that. Indeed, any transition period would need to be of a considerable length. We are already seeing evidence that the Welsh are suffering quite badly because of convergence. We would need a considerable length of time if the formula were to be changed from Barnett to a needs-based one. Effectively, the Northern Ireland economy could

not sustain that shock to the system. You would need a considerable length of time to move to that system.

Professor Thain: Yes. One of the problems we have, in the way our whole fiscal structure is incrementally evolving, almost through happenstance, is that we have not had the discussion about what we are trying to do with the allocation mechanism [*Inaudible.*]. What are we trying to achieve by the incredible decision to allow Northern Ireland to potentially have devolved authority for corporation tax? I never thought that it would be granted. That in itself will cause problems for Barnett, because the Treasury will have to take up the notional allocation of resources that will come out of that new stream. That would start the process of adjusting Barnett.

The other thing that I think we always need to preface this with is the idea that Barnett works very well when there are incremental rises. It does not work as well when there are decremental cuts. In a period of austerity, the consequentials are going down [*Inaudible.*] so it makes it harder for any devolved Administration to calculate the costs, which may be differentially more for Wales and Northern Ireland. Scotland maybe has its own capacity to use resources to countermanage some of that. Wales and Northern Ireland do not have such reserves of revenue that they can draw on and are therefore particularly vulnerable to a period of austerity.

I think that we are talking about potentially changing Barnett at a time that is completely different to that in which it is rooted, which was under new Labour — it is a pity that Barnett needs to be looked at again — when there was a massive increase in public spending generally. [*Inaudible.*] Therefore, problems could be exacerbated for Northern Ireland's continuity and structure. I think that that is a fair point.

I think that we need to do the work. We definitely need to make the case that the various parts of the United Kingdom have needs that should be addressed through something that is not just an arithmetical formula that is based on English expenditure positions.

The Acting Chairperson (Mr McCallister): Thank you for that, Colin. I will now hand over to Leslie Cree.

Mr Cree: Good morning, Professor. You touched on corporation tax. Obviously, with its imminent devolution to Northern Ireland, there will hopefully be a wider debate on fiscal powers being devolved. What potential implications do you foresee from such developments to the Barnett formula?

(The Chairperson [Mr McKay] in the Chair)

Can I just say that some of the expert witnesses that we have heard advised that, because of that, the calculations for reducing the block grant will become, in their words, "increasingly notional" given the lapse of time following taxes being devolved. What are your thoughts on that, Professor?

Professor Thain: Yes. That is a perfect use of words. Looking at all the advice that is coming out of the Treasury on how it is going to manage potential Scottish devolved powers, as well as the corporation tax decision, we see that expectations are being raised that the Treasury is thinking that this is the revenue that you should have raised. There is even the rather worrying caveat to add to that, which is that, if a business in north-west England relocated to Northern Ireland because of the corporation tax variation, the Treasury would claw some of that back. That really starts to make the whole thing become almost unworkable.

The decision to allow Northern Ireland to take charge of that, given the proximity of the lower tax regime south of the border, was a huge symbolic change. The Treasury is proposing, as it maybe has to, to some extent, because of some of the European rules, so it is going to be really [*Inaudible.*] problems that Northern Ireland has been given not just the possibility to vary something that the rest of the UK has as a central rate, but also that it could become state aid if Northern Ireland has extra resources and there is not some sort of clawback from that. The calculation of that clawback will be done on the basis of the Treasury's expectation of your [*Inaudible.*] the expectation of the size of the Northern Ireland economy and the expectation of all sorts of issues in the future. I think that that is very worrying. It is one flip side of the big announcement that was a major shift in Treasury policy. The way in which it is going to be allocated and the way in which there will be a sliding scale of Barnett means that you are going to lose £200 million or £300 million almost immediately, which is then going to have to be found, as Northern Ireland takes its tax rates down to the Republic's level.

The other worrying thing, and something that I believe we have to watch very closely in both Scotland and Northern Ireland, is the expectation that the rule will take your corporation tax down to a level and that there will then be an assumption that you will then raise the revenue yourself. It is not like *[Inaudible.]* the same and then a decision to reduce it. There is an assumption that it will be at a lower level and then you will have to raise the revenue up to that level. That creates all sorts of potential problems for estimates and delays in data collection where the revenue would be coming in at a later stage and the allocation of public spending for the financial year will already be in train. Those are potential worries.

Mr Cree: Thank you for that, Professor. That leads very nicely to the second question that I had in mind. Obviously, we have had difficulty calculating the likely cost of the devolution of corporation tax. That has been quite a struggle. We have a concern that the Government may not offset the real values of the increased economic activity, for example, income tax, National Insurance and so forth. What are your views on that? Does that have to be part of the equation for it to be fair and equitable?

Professor Thain: It has to be. It absolutely must be. The Treasury cannot have it both ways. It cannot say that it will find some mechanism of borrowing that money if it thinks that the north-east or north-west of England is being affected by the fact that we have a corporation tax regime across the Irish Sea and, at the same time, allow for a mechanism to look for the potential benefits of the cost of reducing corporation tax, which could *[Inaudible.]* Northern Ireland's private company. That will have an impact on revenue, VAT and income tax. That needs to be built in to a fairly sophisticated model, but it cannot be a model that the Treasury delivers just as a fait accompli. It has to be something where Northern Ireland officials and politicians are in on the decisions about how we make sure it is a broad-based assessment of the impact on the public of corporation tax. That is why independence outside the Treasury is really important. A mechanism could be chosen, which could be that the OBR is given a more statutory footing and literally holds a place outside the Treasury building. There are some problems with that, but, if we are to create a statutory body and set up somewhere outside Whitehall, its job would be to be fair to the devolved parts of the United Kingdom. We might need a new concordat — we are not going to go through the route of having legislation — that sets out how the various elements of the whole picture are built in to decisions about a possible clawback of Barnett or *[Inaudible.]*.

Mr Cree: Thank you very much for that, Professor. That is very helpful.

The Chairperson (Mr McKay): Professor, an issue that we have been discussing recently is independent public finance data. There is a belief that the Treasury always has the upper hand, because it works out the calculations and formula. There is a frustration here that there is not enough transparency in public finance data, so when Ministers and the Executive go into negotiations with the Treasury, they are starting at a disadvantage. How could that be addressed to provide assurance that any further devolution of fiscal powers results in a fair and proportionate adjustment to the block grant?

Professor Thain: I practised a response to your question. Let me say that, as an academic, it is incredibly difficult to get any information about the Barnett formula or about the public spending theatre. The fact is that we have a central state making decisions, so it is basically a group of Treasury officials working through what they think is a sub-programme level of allocation. You have a very good example of how the minutiae of something that is considered as an inconsequential becomes vital to the decision on whether something will then come forward and apply the formula to Northern Ireland.

The only way you can guarantee that that will happen is if you are allotted responsibility for some of the public spending data, rather than the general *[Inaudible.]* which is what it does at the moment. You have to make sure that the OBR's remit is strengthened and broadened to include the discussions about the sub-programme level public spending decisions that were taken at the time of the public spending survey.

You would then have an OBR element of deliberation about those figures, which would then become to all sides in the discussion the clear, agreed position. It would be a case of saying, "These are the figures that we are working on". The discussion would then be on whether something should be allowed, whether something has been under-calculated or what these figures are and how they were arrived at.

It is incredibly difficult for officials and yourselves to work through this. *[Inaudible.]* public spending decisions have always been shrouded in secrecy, but it becomes crucial that decisions then start to be formulaic, generating a grant that then determines in large parts what we are spending in Northern Ireland. That in itself is almost some sort of threat because of changes to the revenue streams.

The only way is to strengthen the OBR's oversight on public spending data. I cannot see any other way of doing it. The Office for National Statistics (ONS) does a good job, but there is all difference in the world between ONS data and public spending survey data, which ends up being the stuff of decisions about the allocation of the block grant to Northern Ireland. That is where you need clever political sensitivity of the OBR coming on board so that it can have the mileage for relations with the Treasury and a remit for the whole of the UK.

There is an even bigger question, which is that the Supreme Court needs to start getting involved in some of the decisions about arbitration between Westminster and the devolved parts of the UK. We have an underdeveloped sense of proper redress for some of the debates that we might want to have on these questions. It is all done as an administrative redress rather than in a proper quasi-like judicial sense where we can start talking about rules *[Inaudible.]* I wonder whether the gentlemen's agreement — the concordats — can survive in an increasingly complex political and fiscal situation. That is how we have run it so far. Do we need to have more rules about how decisions are adjudicated on? Maybe we could start with the OBR. Certainly you could look broader than that and start asking questions about how far London, Edinburgh, Belfast and Cardiff — I include London itself, which has the GLA — decisions are made on behalf of the parts of the United Kingdom and whether there is a second bite at the decision *[Inaudible.]* internal decision.

The Chairperson (Mr McKay): Given what you have just said about how different parts of the Union operate their finances, is the complexity that we have to operate in unique? We have referred to this in previous discussions, but are there other countries with perhaps more transparent, federal operations that we should look to for models of best practice going forward to make it fair for us here in the North?

Professor Thain: I think you probably should look to Canada. From what I understand of the fiscal arrangements in Canada, it is more federal. We have a messy, quasi-federal system in Britain. It has elements of federal allocation but not in the *[Inaudible.]* The beauty of the Canadian model is that it follows the Westminster model to some extent, so there are elements of our system. It is a Commonwealth state, and there is a sense of some of those shared historical elements. However, there is a debate between the Ottawa central Government and the provinces of Canada on the allocation mechanism, which is far more open and transparent than the one that we have in the UK. It would definitely be worth looking at Canada. Look at the way in which Quebec was handled. The Quebec referendums in the 1990s, for example, suggest that the political importance of it was well recognised in Canada. It is analogous to Britain in the sense that you have to be aware of the politics and the fact that the Union is a highly political issue, but, on the other hand, you can find ways in which there would be a proper adjudication in decisions made by Ottawa to the rest of the Canadian provinces. Australia is, in my understanding, less relevant.

The key question is whether Northern Ireland is able to have tax-revenue-raising powers. The problem with that fiscal devolution is that, unlike Scotland, other parts of the United Kingdom are not really being given the powers to raise the other side of the badge. You are a pocket-book Assembly, or maybe a partial pocket-book Assembly, if corporation tax is devolved. But what about VAT? What about income tax? What about inheritance tax? What about the general rate in Northern Ireland and how that is brought into general discussions about tax-revenue raising? If you do not *[Inaudible.]* equation, it becomes very difficult to have a proper, grown-up political debate in Northern Ireland about how to allocate. That is true in Wales as well and, to some extent, in London, with GLA. Whereas Scotland will have that grown-up debate, because the Treasury will assume that the tax revenue will be from zero upwards and then it will be up to the Scottish Parliament to decide what level of income tax to set. Northern Ireland needs to move towards having a closer approximation to the capacity to raise revenue.

The Chairperson (Mr McKay): What taxes do you believe that the Assembly should or could have power over?

Professor Thain: I do not understand the logical rationale of Scotland being given responsibility for almost all its income tax and half of VAT and Northern Ireland not being able to do that. *[Inaudible.]* Prime Minister raised, at the time of the whole discussion about corporation tax and the package and

subsequent negotiations on extra elements on the back of the welfare spending cuts. He raised the question that Northern Ireland maybe did not have the capacity to look after its own spending and, therefore, we would not want to devolve anything to Northern Ireland if it could not control decisions about what it could spend and there was no proper oversight of public spending decisions. Therefore, you have to be really careful. I think that that is becoming increasingly the case with age. The Assembly and Executive have been going for long enough now. We either trust the Northern Ireland political system to deliver or we do not. Therefore, we need to have discussions about devolving more of those tax-raising responsibilities to Northern Ireland. It will create difficult decisions. It might create some real tensions in the priorities. However, maybe Northern Ireland's politics would then really come into the light, as it were, if people were talking about the best way of ensuring the balance between our tax and spend, rather than always just talking about the public spending element.

Mr Weir: Thank you, Professor. Peter Weir here. The discussion tends to centre on comparators with the two other main devolved regions, Scotland and Wales. I wonder whether you have any views on the other side of the coin. The Scottish independence referendum provoked an increased discussion on the parliamentary role and ideas such as English votes for English laws. What about those other factors that have a bearing on the Barnett formula? What developments have there been, from an English point of view, around what is potentially likely to happen at Westminster or through any further trickle down through devolution to regions? One issue being talked about now is super-cities in the north of England. What impact do you feel that those discussions will have on consideration of the future and future direction of the Barnett formula?

Professor Thain: I am glad that you have raised that question. It was on my list of things to talk about, but I thought that it may have been a bit broader than *[Inaudible.]* You are absolutely right. If there is a super-council in Manchester, real decisions about allowing that council to raise revenue will start to directly affect the whole debate about the regions and nations of the United Kingdom being given more authority and autonomy on a whole range of fiscal matters. To that extent, even just the decision *[Inaudible.]* the capacity to have more strategic macroeconomic policy tools, which is effectively what they would be. It would be more than just allowing them economic development tools; it would actually give them resources and could then lead to the very specific allocation of resources to help businesses and science parks or to generate biotech or whatever it happens to be. It will very much focus on the needs and capacities of those super-cities, and that will start to come up *[Inaudible.]* about the degree to which we create a proper, federal system in Northern Ireland.

The dog that has not barked on the English votes for English laws, which in many ways is a red herring in how it is being framed by at least one part of the coalition, is the impact on the regions of England of Barnett. There is no allocation of resources pro rata to the north-east, north-west or south-west as a result of some decision taken *[Inaudible.]* unitary English system *[Inaudible.]* London. We have a real problem *[Inaudible.]* dissonance. The debate, on a rhetorical level, is about too many Northern Ireland, Welsh and Scottish MPs voting on English matters and that it should be left only to the English. The biggest argument against that has always been Barnett, because *[Inaudible.]* debates in the House of Commons that want to have a consequential public spending element *[Inaudible.]* repeat through to the rest of the United Kingdom, in which case Welsh and Northern Ireland MPs *[Inaudible.]* about education, health and environment *[Inaudible.]* because that would then impact on Parliament. There are a couple of lines that will generate a degree of change in the whole discussions about Barnett and fiscal devolution. The potential of these super-cities having revenue-raising powers, and the fact that we would really have to start thinking more clearly about these if we are going to start talking about the rest of England having some sort of allocative mechanism. That could start to have a big impact on Northern Ireland's future fiscal arrangements, which is why possibly we really do need to have a proper convention where we discuss these as a Union, rather than bits and bobs of issues that come out incrementally from some decision. We need to sit down and talk about how we want to allocate across the UK, and make the Union *[Inaudible.]* than symbolic and important only when there is a referendum on the cards, but important as a living, breathing entity that actually can adjust to changing circumstances.

Mr Weir: It is quite a useful debate. People sometimes see particular, almost simplistic, solutions, both from a financial and constitutional point of view. There is a very strong domino effect of almost any decision. I suppose that while the decisions are not unforeseeable, and indeed the consequences are not unforeseeable, at times, they have not really been fully discussed or the implications thought through.

On a slightly different topic — to some extent, you have covered a lot of this already — on advice on the way forward, particularly for Northern Ireland, you have highlighted a long-term situation and that

really we should be looking beyond Barnett to something that is much more closely akin to needs-based analysis, be it for Northern Ireland or other UK regions. You have also highlighted, perhaps more as a lesson, particularly in the short-term and ongoing, that one of the weaknesses with the current system is both a lack of independence of the way in which things are calculated and tight control by Treasury. You have mentioned, particularly with regard to the Supreme Court and the OBR, a much greater independent role to be able to assess that. In many ways, you have painted a certain, particular way forward for us in Northern Ireland. Do you have any other advice on either modifications to Barnett or, particularly from a Northern Ireland point of view, any route that we should pursue that you have not already touched on in your evidence so far?

Professor Thain: The technical potential change that would not involve greater constitutional discussions would be the Treasury publishing the consequentials — as simple as that — instead of this, kind of, hidden world of, "Well, we have had a discussion and we have come out with this series of consequentials that *[Inaudible.]* to the block grant." Why not publish at a sub-programme level what the Barnett formula has generated out of the public spending round, essentially in England? Then we could all see, even though we might still have difficulty understanding how this all adds up, with all the caveats and footnotes, and actually, as the beginning of a process of educating your voters in Northern Ireland, you could say, "Look, this is how complicated it is, but this is the *[Inaudible.]* the full block grant, which we then have discussions about how we allocate." Look at the divisions across sub-programme levels. I see no reason *[Inaudible.]* but we would have to change, even more, the culture of keeping everything very much inside the public expenditure survey structure, which is very much dominated by Treasury officials. This would involve a degree of transparency that I think would *[Inaudible.]* If you then look at that and say, "Well, that is interesting: we have got a lot of money for flood defences because there are flood defences in England", that is quite good because of the issues that Northern Ireland may face with environmental costs. You can see that *[Inaudible.]* there are not parallels and why there are not consequentials. *[Inaudible.]*

Mr Weir: I think that that would be useful. The only slight caveat you would put with that is that people then do not see it as a degree of straitjacket. Here is a certain amount of money coming across as a consequential, but there would not be a great deal of point to devolution if it was simply a question of that money then being replicated.

Professor Thain: Absolutely. *[Inaudible.]* allocated on the basis of discussion within the Executive. That is an absolutely essential part of how the system works, as are decisions taken on the ground on areas of local spending, because there are local needs, traditions or questions, rather than just simply giving pro rata across to that programme in Northern Ireland. Absolutely. If we are to be serious in Northern Ireland, Wales and Scotland, the debate has to be grown-up about real *[Inaudible.]* and real programmes and sub-programmes and spending. That then adds up to a package and that package is discussed. The debate then will be on why we are not putting — currently, there is debate in the House of Commons about why Wales is not putting more money into health. If the national health system in Wales is not as good because the Welsh have taken that decision, let us have a debate about why the Assembly in Wales or the Northern Ireland Executive took a decision. The decision has political rationale. Let us debate it on the basis of factual information. I take your point about the quality of independent decision-making on the whole Budget; I think that that is a really important part of the mechanism as it works. However, at this stage, we really need to move on to talk about revenue and public spending *[Inaudible.]* I think that that is true of British politics. This general election campaign talked about the cost of fiscal decisions, as opposed to the benefits. The allocation of decisions on tax had huge implications for social policy and equality. You just start talking about those as seasoned democrats, rather than *[Inaudible.]*

Mr Weir: A very simple analogy is the kid at school doing the complex maths question. Instead of just coming up with a figure at the end of it, it is a question of them showing their workings out and how each element of the equation was put together, so that it can be scrutinised.

Professor Thain: Yes.

Mr D Bradley: Good morning, Professor. Dominic Bradley here. In evidence to the Committee, Professor Alan Trench argued that the operation of the Barnett formula ties devolved Governments into the English model of public services. For example, if health in England were to be privatised, that would affect the devolved block grant. What is your view on that?

Professor Thain: He is absolutely right. His evidence to you was compelling and forthright. I thought that it was really good. I would not demur with many of the things that he said. The problem with

Barnett is that it works only if you have a fairly stable public administration system in England. As soon as you move away from an aggregated to a disaggregated public administration system in England, that has major impacts on the rest of the United Kingdom, particularly if other parts of the Union decide to stick with the more traditional forms of public administration, for good reasons or ill. Any decision taken on putting that money outside public policy into the private sphere will have an impact on the Barnett formula. Privatisation is a good example, with the increasing contracting out of services in England and the whole debate about bringing social care and the NHS together, which Northern Ireland has been doing for generations, at a cost of not putting enough resources in, that will have an impact on Northern Ireland, because it would be seen as a way of trimming money by contracting out the negotiating procedure. Therefore, there will be less public spending on the programme, and less money would come across to the devolved Administration. That is why English votes for English laws was never a runner. Given the way that the region operates, Northern Ireland, Welsh and Scottish MPs really must be involved in the discussions about fundamental changes to the structure of English public policy, because it will impact on Barnett. That is one reason why a lot of your expert advisers are saying that the straw is in the wind for Barnett not surviving long term. With all the changes going on, how does a relatively simple to administer system, which was a stopgap, take on the role that is expected of it now, particularly if the political structures in England start to devolve and we have major decisions to debate in England? The changes to welfare is a good example. In the draft Bill, the devolution of power to Scotland excludes, largely, the welfare reform programme for universal benefit, so *[Inaudible.]* that allow Scotland to do things differently. That seems to be our idea of subsidiarity; the political system in Scotland, Northern Ireland and Wales is increasing. You have a political culture in the various parts of the United Kingdom, and you start trusting those political cultures and have discussions about a broader range of fiscal and economic matters. The trends of policy-making in England are really quite dangerous, particularly to Wales and Northern Ireland. Austerity does not help either. Therefore, Barnett becomes a vessel in the stormy sea, as it were. We really do need to start thinking about needs rather than the simple mechanism of Barnett. Convergence to England means convergence to England; by the back door or by the front door, it means that all decisions taken in England will eventually seep through to the constituent parts of the United Kingdom. I do not think that that is consistent with the spirit of devolution, which is to allow those parts to make separate decisions on the basis of separate elections, separate caucuses and separate discussions within parties. That is grown-up democracy that is able to allow difference in the various parts of the United Kingdom, whilst maintaining a basic structure that would be recognised as the Union. It really is a potentially dangerous development.

Mr D Bradley: Thank you very much, Professor.

The Chairperson (Mr McKay): Daithí McKay again, Professor. Do you believe it would be feasible to modify the Barnett formula to take account of the economic circumstances of the different jurisdictions? For example, where it is the case that the GDP figures are not available at a local level, could you use economic productivity or GVA to calculate how the Barnett formula works, as opposed to just simple population figures?

Professor Thain: I think that that is the nub of getting to real discussions of change. The British way would be to graft on to Barnett a kind of adjunct series of discussions that topped it up or took it down on the basis of some calculations either side. That is becoming increasingly untenable. Barnett, as it works, is relatively simple. A public spending survey happens in England, and then there is an arithmetic calculation, which you always have to monitor carefully to make sure that every programme is counted in the consequential. After you have done that, that is the end. You either have that or you have a needs-based assessment. I am sceptical that the grafting on of a modifier would work, because you would still come back to debates about different needs in different parts of the United Kingdom. Therefore, we might as well have a proper discussion on needs assessment, tax, revenue, the capacity of the various parts, differential GB rates of growth and poverty levels. That goes straight to the world of needs. Some of your own people whom you have had give you evidence are far better qualified than I am to talk about whether GVA would be a better mechanism. As a political economist and political scientist, I am sceptical about whether Barnett can be adjusted again. There is already *[Inaudible.]* of Barnett for discussions outside the formula for things that are part of the debate between London and Belfast, Edinburgh and Cardiff. There is already a little bit of that happening. It is already *[Inaudible.]* the demand-led programmes.

If we are then going to have another element to it, we might as well go the whole hog and have a proper needs-based assessment. We would then know what we were trying to achieve in allocating government resources to the different needs, and in which parts of the United Kingdom.

I defer to all those who think that it is possible to modify. The beauty of Barnett *[Inaudible.]* about the Treasury visits *[Inaudible.]* to go over what is relatively small compared with the whole UK spending programme. It produces a relatively quick decision-making process. Once the survey is done, you then get into the discussions about what the consequential is, then there will be a discussion with the Department of Finance and Personnel on what the block grant will look like. That is relatively simple administratively. We are told that we need to wait for a system like that and that it will be also be complex. In that case, you might as well go the whole hog. It is *[Inaudible.]*.

The Chairperson (Mr McKay): Obviously, the Westminster election is going to be fascinating this year. The SNP might be involved in some sort of Administration, and the Scottish First Minister has indicated that there is going to be some form of Scottish home rule. Given the processes that will be involved in further devolution, will Barnett survive?

Professor Thain: No, it cannot. It cannot survive Scotland *[Inaudible.]* going to have a separate discussion for Northern Ireland and Wales. In which case, why can there not be a separate discussion on the basis of more data? It will make for only a worse system if you are allocating everything outside England. If Scotland is out of the equation, because Scotland is effectively always given macro-economic devolved and revenue-raising powers, we are talking about a far looser Union.

There would also be consequences if there were a coalition Government or even agreement with Labour and the Scottish Nationalist Party about whether there will be further austerity, which would impact on public spending levels. We would be in a completely different world. I do not think Barnett would survive, if we are talking about allocations to just Wales and Northern Ireland.

The next four months or so will be fascinating and potentially momentous. However, I would have thought that that will be the time when the biggest decisions are taken, because that is when there is the maximum political impetus behind change. The longer that a fixed-term Parliament system goes on, the less likely that you are to get any decisions out of Westminster, so we are in for a really important period. It is very difficult to calculate the exact outcomes for the rest of the UK as well.

The Chairperson (Mr McKay): OK, professor. It has been a fascinating discussion. Thank you very much for your time.

Professor Thain: You are welcome. Thank you. I commend you for the range of people that you have to advise you. You have the wherewithal for an excellent report.

The Chairperson (Mr McKay): Excellent. Thank you very much.