



Northern Ireland  
Assembly

## Research and Information Service Briefing Paper

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**The Public Finance Scrutiny Unit**

# The Barnett formula: update 2014

This Briefing Note provides an update on issues that have arisen since January 2013 about the prevailing devolved funding arrangements in the United Kingdom (UK), particularly those relating to the continued operation of the Barnett formula in the wake of the referendum on Scottish Independence.

**This information is provided to MLAs in support of their Assembly duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice or as a substitute for it.**

## Key points

- The Committee for Finance and Personnel's (CFP's) on-going *Review of the operation of the Barnett formula for allocating public expenditure to Northern Ireland* takes place against a complex backdrop of calls for reform of devolved funding. Those calls include proposals from both political and non-political parties, which offer competing recommendations to redress issues that have arisen about the prevailing funding arrangements under devolution in the United Kingdom (UK)
- The leaders of the three main Westminster parties have pledged to retain the Barnett formula in the wake of the No vote on Scottish Independence (section 1);
- There are two on-going legislative inquiries – in both the Scottish and UK Parliaments – which are currently considering issues of direct relevance to CFP's Review (section 2.1.). The Scottish Finance Committee's inquiry has just commenced, whereas the UK Parliament's Political and Constitutional Reform Committee's deadline for written evidence passed on 23 October 2014;
- In addition, two commissions – in Wales and in London - have recently published reports which include recommendations that may be relevant to CFP's Review (section 2.2.). The UK Government has responded to the Welsh Commission's first report and has already accepted a number of recommendations, but has not responded to the Commission's second and final report. There has been no formal response from the UK Government to the London Commission report;
- There have also been a number of recent contributions to the academic literature on the Barnett formula that raise potentially important questions for CFP's Review. In particular, it has been questioned whether further devolution is compatible with retention of the Barnett formula. (section 3)

## Introduction

This Briefing Paper is the latest in a series of RaISe papers considering the Barnett formula and devolved funding – these are listed below. This Paper aims to support and inform the Committee for Finance and Personnel's (CFP's) *Review of the operation of the Barnett Formula for allocating public expenditure to Northern Ireland*. CFP agreed Terms of Reference for its Review on 8 October 2014.<sup>1</sup>

The Paper is structured in the following way:

- Section 1 briefly explains the background to CFP's Review;
- Section 2 describes current and recent inquiries into UK devolution and devolved funding; and,
- Section 3 briefly reviews recent contributions to the relevant academic literature.

### Previous RaISe papers

The following papers provide context for CFP's Review, outlining relevant background and explanatory material:

[\*Update on Fiscal Devolution and Devolved Funding \(2013\)\*](#)

[\*Pros and cons of the Barnett Formula for Northern Ireland \(2012\)\*](#)

[\*Barnett Consequentials \(2012\)\*](#)

[\*The Barnett Formula \(2009\)\*](#)

[\*The Northern Ireland Block Grant and calls to reform the Barnett Formula \(2009\)\*](#)

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<sup>1</sup><http://www.niassembly.gov.uk/Documents/Finance/minutes/20141008.pdf>

## 1. Background

Understanding the context in which CFP's Review is taking place is critical. Most of this context is influenced by developments leading up to the Scottish Referendum, and those arising after it.

### 1.1 Referendum

On 18 September 2014 people in Scotland voted in a Referendum on whether to remain in the United Kingdom. Voter turnout was almost 85%: 55.3% voted No and 44.7% voted Yes to the question "Should Scotland be an independent country?"

In the run up to the Referendum, the leaders of the three main Westminster parties signed 'The Vow', as highlighted below.<sup>2</sup> Alongside a pledge for further devolved powers for Scotland, the Vow included an explicit reference to the continuation of the Barnett formula.



*“Because of the continuation of the Barnett allocation for resources, and the powers of the Scottish Parliament to raise revenue, we can state categorically that the final say on how much is spent on the NHS will be a matter for the Scottish Parliament.”*

The import of this reference arises from the reality that for many years there have been widespread calls for either reform or abolition of the Barnett formula. The reference in the Vow however, makes clear that Barnett will not be abolished. However, it arguably begs the question of reform. (The literature review outlined in section 2 of this Paper highlights proposals relating to such reform.)

<sup>2</sup><http://www.dailyrecord.co.uk/news/politics/david-cameron-ed-miliband-nick-4265992>

## 1.2 Post-Referendum

On 18 October 2014 – a month after the Referendum - the Secretary of State for Scotland stated that the UK Government was delivering on the commitments that were made in the Vow:

*During the referendum campaign we set out a timetable for the devolution of further powers and we're not only meeting it, we're beating it.*<sup>3</sup>

This followed the Scotland Office's publication of a paper on 13 October 2014, in which it set out the proposals of the three main UK political parties for further devolution. The publication included a section on direct funding to Scotland from the UK Treasury, shown in the Box below.

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<sup>3</sup><https://www.gov.uk/government/news/uk-government-is-delivering-the-vow>

## Current Situation

*The core of the Scottish Government's funding is the 'block grant' allocated by the UK Government. Changes to the Scottish Government's budget are largely determined by the Barnett Formula, which provides a population-based share of changes in comparable spending by UK Government departments.*

*Under the Scotland Act 2012, Stamp Duty Land Tax and Landfill Tax are being fully devolved from April 2015 and a Scottish rate of Income Tax is being created from April 2016. As a result, **part of the Scottish Government's block grant is being replaced by tax revenues – the Scottish Government's budget will therefore be determined by the Barnett-based block grant, less a block grant adjustment that reflects the tax revenues foregone by the UK Government, plus the tax revenues generated by the Scottish Government.** [...]*

### Published Proposals

*Liberal Democrat commission: '...a continued block payment from the UK Treasury will continue to be necessary in a federal system... The remaining funds required to fund the Scottish Government's annual programme should come from an equalising payment from the UK Treasury as recommended by the Steel Commission. **The UK should move to an independent, transparent, needs based formula to serve all parts of the UK well and allow fiscal federalism to be sustained in the long term, recognising that the Barnett Formula was only ever intended to be a temporary measure at the end of the 1970s.** For transparency reasons, such a needs based payment system should be based on recommendations by an independent fiscal agency separate from the UK Treasury'.*

*Liberal Democrat 2015 pre-manifesto: 'In Scotland we will...Take forward the recommendations of the Campbell Commission on fiscal federalism for Scotland, including powers to raise the majority of the money it spends, not least through control of the taxes on incomes and wealth, and assigning to Scotland corporation tax receipts from Scottish businesses...The Barnett Formula is the mechanism used to adjust spending allocations across the UK. **In order to ensure reliable funding at this time, we will retain the Barnett Formula as the basis for future spending allocations for Scotland and Northern Ireland'.***

*Labour commission: 'Labour will give the Scottish Parliament the power to raise around £2 billion more in revenues beyond the recent Scotland Act, so that it raises about 40 per cent of its present budget from its own resources. **The Barnett formula should remain as the funding mechanism for public services in Scotland. Under our policies, as is the case under the Scotland Act, the Barnett grant will be reduced to take account of the fact that the Scottish Parliament will have a revenue stream of its own.** As a result the Scottish Parliament will be funded partly by grant calculated under the Barnett formula and partly by its own tax resources'.<sup>4</sup> **[emphasis added]***

<sup>4</sup>Scotland Office (2014) 'The parties' published proposals on further devolution for Scotland' available online at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/363236/Command\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/363236/Command_paper.pdf) (accessed 22 October) (see pages 30-31)

The published proposals highlighted above serve to illustrate the relatively complex tapestry of differing proposals proffered by various parties. This backdrop is relevant to CFP's Review.

In addition, consideration should also be given to a number of on-going, or relatively recently completed inquiries which – to varying degrees – have relevance to CFP's Review. These are described in the following section.

## 2. Inquiries into UK devolution and devolved funding

### 2.1. Current inquiries

There are currently two on-going Parliamentary inquiries into matters that are directly or indirectly relevant to CFP's Review.

#### 2.1.1. The Scottish Parliament's Finance Committee

On 8 October 2014, the Scottish Finance Committee agreed to hold an inquiry into the devolution of further fiscal powers to Scotland. The Committee's inquiry will look at the general principles applicable to the devolution of further financial powers and what those powers should be. The inquiry will also consider the impact any further financial powers could potentially have on the allocation of the block grant.<sup>5</sup> The inquiry will continue throughout November and December.

Recently the Committee called for evidence,<sup>6</sup> specifically welcoming views on the following issues:

- What general principles should apply to the devolution of further financial powers to the Scottish Parliament?
- What further financial powers should be devolved to the Scottish Parliament and why?
- What further financial powers should not be devolved to the Scottish Parliament and why?
- To what extent could the Scottish Government be constrained in how it uses new tax powers given the interaction with fiscal decisions at a UK level?
- What are the implications of further fiscal devolution for the block grant?
- What are the implications of further financial powers for the role of Revenue Scotland?

The deadline for submission of evidence is 14 November 2014.

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<sup>5</sup><http://www.scottish.parliament.uk/newsandmediacentre/82237.aspx>

<sup>6</sup><http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/82244.aspx>

**Issue for consideration: CFP may wish to consider engaging with the Scottish Parliament's Finance Committee as part of its Review.**

### 2.1.2. The Westminster Political and Constitutional Reform Committee

On 19 September 2014, the Political and Constitutional Reform Committee agreed to hold an inquiry looking at the future of devolution in the UK, in the light of the Scottish referendum result.

The Chair of the Committee said:

*The consequences for our democracy of the referendum result will be examined by the Select Committee and a report issued to Parliament and the public. The inquiry is likely to include a consideration of the need for the levels of devolution being offered to Scotland to be offered to England, Wales and Northern Ireland, a written constitution to entrench that settlement, and other matters that will require an immediate view from Parliament.*

*We are living through very exciting times for our democracy and I am keen to seize this chance to consider the future of devolution. My own view is that if it's good enough to offer to Scotland, it's good enough for England, Wales and Northern Ireland.<sup>7</sup>*

The Terms of Reference for the inquiry are:<sup>8</sup>

- Should England, Wales and Northern Ireland be offered the level of devolution that has been discussed in relation to Scotland?
- If so, what should be the next stages to take forward devolution in a) Scotland, b) Wales, c) Northern Ireland, d) England?
- To what extent is the Government's timetable for considering the future of devolution realistic?
- What measures, such as a written constitution, could most effectively entrench future devolution settlements?
- Given that different parties have put forward different proposals for further devolution to Scotland, what is the best way forward? and,
- What implications does further devolution to Scotland have for how the House of Commons should deal with legislation that deals with only part of the UK?

The deadline for written submissions was 23 October 2014.

<sup>7</sup><http://www.parliament.uk/business/committees/committees-a-z/commons-select/political-and-constitutional-reform-committee/news/new-inquiry-devolution-after-referendum/>

<sup>8</sup><http://www.parliament.uk/business/committees/committees-a-z/commons-select/political-and-constitutional-reform-committee/news/new-inquiry-devolution-after-referendum/>



**Issue for consideration: CFP may wish to consider engaging with the Westminster Political and Constitutional Reform Committee as part of CFP's Review.**

## 2.2. Recently completed inquiries

There have also been a number of relatively recent inquiries into issues around UK devolution that have completed their work since the last RaSe paper on devolved funding. These are outlined below.

### 2.2.1. The City Growth Commission

In October 2013, the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) City Growth Commission led a 12-month inquiry into how cities could be empowered to shape and drive their economies. The Commission sought to influence the main political parties as they prepared their manifestos in the run up to the next UK General Election. The Commission made the case for, and explained how, cities could take a new role in UK political economy, creating greater, more inclusive and sustainable economic growth.<sup>9</sup>

On 22 October 2014, the Commission published its report *Unleashing Metro Growth*. This included a number of recommendations. Of particular potential relevance to CFP's Review is the case which the Commission made for decentralisation to cities of a range of policy remits, including:

- Housing and planning;
- Skills strategies; and,
- Innovation and higher education.

The Commission stated:

*Decentralisation would enhance [...] economic benefits by empowering metros with the capacity to respond more dynamically to the needs and opportunities of their economies. Those metros with the most robust governance structures, which have a track record of delivery and risk management, should be considered for 'Devolved City Status'. **This would grant the same consultation rights as the Devolved Administrations within Whitehall decision-making and UK government structure.** Powers and responsibilities would be agreed between the Devolved City-region and central government and might vary by time and place.<sup>10</sup>*  
*[emphasis added]*

<sup>9</sup><http://www.citygrowthcommission.com/about/>

<sup>10</sup>City Growth Commission (2014) 'Unleashing Metro Growth' available online at: <http://www.citygrowthcommission.com/publication/final-report-unleashing-metro-growth/> (accessed 22 October 2014) (see page 13)

The Commission suggested that the powers and responsibilities devolved to such city regions might include:

- Greater flexibility of capital reserves and more borrowing flexibility, including ability for the most devolved metros to borrow from sources other than the Public Works Loan Board (e.g. open markets);
- The freedom for the most devolved metros to raise and fully retain a suite of taxes (at the very least the whole of Business Rates, Council Tax, though preferably more in line with the Communities and Local Government (CLG) select committee and London Finance Commission proposals), offsetting these revenues in a net neutral grant settlement with HM Treasury;
- Freedom to spend grants without ringfencing, enabling city-regional pooling of budgets;
- Multi-year finance settlements of between five and 10 years (depending whether resource or capital); and,
- The ability for metros to negotiate Payment by Results mechanisms, building on the work of Manchester, Glasgow and Cambridge, to benefit from the proceeds of growth.<sup>11</sup>

The connection with the Barnett formula and the implications for devolved funding of such city-level devolution may not be immediately apparent. This type of devolution could have long-term ramifications for Northern Ireland.

For example, the impact of devolving policy remits such as adult skills from central government might be to reduce the expenditure of the relevant central UK department. This might in turn impact upon Northern Ireland through the Barnett formula because skills are a devolved matter, and are therefore comparable.

Such consequences may be a long way off and may not, of course, materialise at all. However, CFP may wish to consider the issue, both for completeness, and to help to 'future-proof' any change to the Barnett formula mechanism.

**Issue for consideration: CFP may wish to seek evidence from the City Growth Commission as part of its Review.**

## 2.2. The Commission on Devolution in Wales

Previous RaISe paper [Update on Fiscal Devolution and Devolved Funding \(2013\)](#) presented the recommendations contained in The Commission on Devolution in Wales' (known as 'the Silk Commission') report *Empowerment and Responsibility: Financial Powers to Strengthen Wales*, which was published on 19 November 2012.

Subsequent to that RaISe paper, on 3 March 2014, the Silk Commission published its

<sup>11</sup>City Growth Commission (2014) 'Unleashing Metro Growth' available online at: <http://www.citygrowthcommission.com/publication/final-report-unleashing-metro-growth/> (accessed 22 October 2014) (see page 13)

second report on Part II of its remit on the wider powers of the National Assembly for Wales.<sup>12</sup>

Whilst the Silk Commission's second report was not really concerned with funding matters, there was one recommendation that may be relevant to CFP's Review:

*...transfers of powers should be accompanied by (and be conditional on) transfers of funding being fully agreed between the two Governments in each case, and by agreed changes to the Barnett formula comparability factors.<sup>13</sup>*

The cited recommendation alludes to a familiar issue in the Northern Ireland context, in relation to the potential devolution of corporation tax. One of the themes in that long-running debate seems to have arisen from apparent difficulties between the Executive and the UK Government in reaching agreement over the costs of such devolution.

An illustration of those difficulties was provided by the previous Minister of Finance and Personnel in evidence to CFP on 3 October 2012:

*At the moment, the overall initial cost is likely to be between £350 million and £400 million. Then, with the escalator — the formula that the Treasury wishes to apply to what happens in subsequent years — the cost is likely to go up to £700 million, on Treasury figures, by 2030. **I do not believe that those figures are fair, reasonable or affordable.** At the end of the day, a political judgement will have to be made as to what is a fair figure to devolve corporation tax at. We are making very strong arguments that there is no point in hampering Northern Ireland with a financial burden that counters any of the possible positive impacts of the devolution of corporation tax.*

*Over the summer, a lot of work has gone on to try to get an agreed approach to reduce the cost [...]*

*I suppose that the key point is that **I think it is possible to reach an agreement, but it will depend upon flexibility being shown by the Exchequer Secretary and by the new Secretary of State.** I was critical of the previous Secretary of State, in that I believed that he was far too willing to endorse the Treasury's line on this issue. That was something that we did not expect, because he was so keen on rebalancing the economy in Northern Ireland and yet, at the same stage, he was backing a*

<sup>12</sup><http://commissionondevolutioninwales.independent.gov.uk/>

<sup>13</sup>Silk Commission (2014) 'Empowerment and Responsibility: Legislative Powers to Strengthen Wales': <http://commissionondevolutioninwales.independent.gov.uk/files/2014/03/Empowerment-Responsibility-Legislative-Powers-to-strengthen-Wales-Executive-Summary.pdf> (accessed 23 October 2014) (see page 20)

*line that would have made it very difficult for us to do that.*<sup>14</sup> [emphasis added]

The highlighted parts of the Official Report appear to suggest Ministerial dissatisfaction. It may be that it is these sort of difficulties that the Silk Commission was hoping to avoid in future discussions in Wales.

### 2.3. The London Finance Commission

In May 2013, the London Finance Commission published a report *Raising the capital*.<sup>15</sup> This report was concerned with the devolution of financial powers to the UK capital city, and in the Foreword, the Chair wrote:

*The commission believes that there would be more jobs and growth in London if the government of London had greater financial autonomy.*<sup>16</sup>

As part of its deliberations however, the Commission did consider how any changes would affect the rest of the country. Section 5 of its report addressed relationships within and outside London. It stated:

*...the balance of funding between England, Scotland, Wales and Northern Ireland is not currently subject to any needs and resources equalisation. The Barnett Formula merely adjusts the resources available to Scotland, Wales and Northern Ireland so as to reflect changes to the funding of England, taking account of changes in population. There have been no official estimates of changes in the expenditure needs or local taxable capacity of, say, Scotland in relation to England at any point since the Barnett Formula was created in the late 1970s. **If London were similarly (to some extent) removed from England an analogous mechanism could easily, if desired, be put in place, such that London government can retain all the growth from its property tax base.***<sup>17</sup> [emphasis added]

This cited passage seems to hint at the possibility that some form of 'Barnett-for-London' was considered. If there were such a development, the implications for Northern Ireland are not clear.

One possibility might be that devolving some London-focused expenditure from central government to the city could impact upon Northern Ireland's Barnett consequentials. This is because if spending on a comparable activity in England falls, it could potentially trigger a negative Barnett consequential under the prevailing arrangements.

<sup>14</sup>Official report, 3 October 2012: <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Committee-Minutes-of-Evidence/Session-2012-2013/October-2012/Corporation-Tax-Ministerial-Briefing/>

<sup>15</sup><http://www.london.gov.uk/sites/default/files/Raising%20the%20capital.pdf>

<sup>16</sup>LFC (2013) 'Raising the capital' available online at: <http://www.london.gov.uk/sites/default/files/Raising%20the%20capital.pdf> (accessed 23 October) (see page 4)

<sup>17</sup>LFC (2013) 'Raising the capital' available online at: <http://www.london.gov.uk/sites/default/files/Raising%20the%20capital.pdf> (accessed 23 October) (see page 76-77)

**Issue for consideration: CFP may wish to seek evidence from the City Growth Commission as part of its Review.**

### 3. Academic literature

The previous RaISe papers noted in the Introduction to this Briefing Paper provided reviews of academic contributions to the debate on the Barnett formula. This section does not seek to repeat that work, but instead to update it in the following sub-sections by noting recent contributions made by academics working in this field.

#### 3.1. Further devolution and the Barnett formula

Bell and Eiser, writing shortly after the No vote in September 2014, published an interesting paper called *Scotland's fiscal future in the UK*.<sup>18</sup> The paper primarily examines the proposals that the Conservative, Liberal Democrat, and Labour Parties have made for further fiscal devolution to Scotland from the perspective of fiscal federalist theory.

The authors reached the following conclusions:

*...following the No vote in September 2014, even the more modest of current proposals envisage Scotland evolving into a semi-autonomous state within a fiscally federal UK. The more ambitious proposals envisage Scotland becoming one of the most fiscally autonomous regions in the developed world, although there are many practical obstacles involved in realising this vision.*

***The extent to which realisation of these proposals will mitigate future threats of secession will depend on the interplay of factors including the extent to which globalisation strengthens the importance of the stabilisation role of federal governments, on the way in which the notion of a social union is reflected in UK government policy, on the reform to Scotland's block grant (Barnett) arrangement and, possibly, on the trend of North Sea revenues.***<sup>19</sup>*[emphasis added]*

The cited passage illustrates that the authors clearly see a link between further devolution to Scotland and reform of the Barnett mechanism.

Later in the paper, Bell and Eiser examine the block grant more closely. They raise a point which is very relevant to CFP's Review: "*The issue of whether a needs-based*

<sup>18</sup>Bell, D and Eiser, D (2014) 'Scotland's fiscal future in the UK' available online at: <http://escrcotecon.files.wordpress.com/2014/09/scotlands-fiscal-future2.pdf> (accessed 23 October 2014)

<sup>19</sup>Bell, D and Eiser, D (2014) 'Scotland's fiscal future in the UK' available online at: <http://escrcotecon.files.wordpress.com/2014/09/scotlands-fiscal-future2.pdf> (accessed 23 October 2014) (see page 2)

*grant system can be consistent with the notion of semiautonomous devolved government is a matter of contention.*<sup>20</sup>

For example, they observe that:

*Canada has repeatedly rejected the idea that grant should be allocated to provinces based on spending need, as this is seen to threaten provincial autonomy (Lecours and Belland, 2010). Germany does make limited grant allocations to Lander on the basis of spending needs, but this must be seen within the context of Länder which have little policy autonomy and largely deliver federal policy at a decentralised level. Spain does allocate grant to its Autonomous Communities (ACs) on the basis of spending need, but the formula is very simple, reflecting the parameters that the ACs could agree on, and largely consists of a small number of basic demographic variables (Bosch, 2009). It is only in Australia where extensive needs assessment is used to allocate grant to States. Although the system relies on a complex set of calculations to determine average policy levels, it is not without controversy.*<sup>21</sup>

The cited passage suggests that if there were a move towards making the Barnett formula more needs-based, it would be internationally a relatively novel approach. It is almost inevitable that it would be more complicated than the current, relatively straightforward, arrangements.

Finally, the authors also note that:

*The demise of Barnett has been forecast repeatedly since 1999, but successive UK Governments have been unwilling to address the issue, even though the formula has no statutory basis. **There is a strong case for arguing that the Barnett mechanism is not suited to a more fiscally autonomous style of devolved government in Scotland.** Furthermore, if some income tax devolution to Wales is implemented, this will increase pressure for Barnett reform. However, the political economy literature would suggest that it may continue to be in the interests of the UK Government to fund Scotland relatively generously if it wants to mitigate future secession demands.*<sup>22</sup>

This excerpt serves to further highlight the timeliness of CFP's Review.

**Fundamentally for Northern Ireland, proposed and/or potential changes in both Scotland and/or Wales imply that some form of change to the Barnett formula would become necessary given the formula's design.**

<sup>20</sup>Bell, D and Eiser, D (2014) 'Scotland's fiscal future in the UK' available online at:

<http://escrcotecon.files.wordpress.com/2014/09/scotlands-fiscal-future2.pdf> (accessed 23 October 2014) (see page 16)

<sup>21</sup>Bell, D and Eiser, D (2014) 'Scotland's fiscal future in the UK' available online at:

<http://escrcotecon.files.wordpress.com/2014/09/scotlands-fiscal-future2.pdf> (accessed 23 October 2014) (see page 16)

<sup>22</sup>Bell, D and Eiser, D (2014) 'Scotland's fiscal future in the UK' available online at:

<http://escrcotecon.files.wordpress.com/2014/09/scotlands-fiscal-future2.pdf> (accessed 23 October 2014) (see page 17)



**Issue for consideration: on the basis on these arguments, there would appear to be a tension between the move towards greater devolution in the UK and the retention of the Barnett formula in its present or revised form. CFP may wish to seek the views of expert witnesses on this apparent dichotomy.**

### 3.2. The Barnett formula and political power

Cairney and McGarvey have recently published a book chapter which raises some interesting and potentially controversial points about the relationship between the Barnett formula and political power. They highlight three aspects:<sup>23</sup>

- **Treasury control over Scotland’s total budget undermines its ability to fund any new policies with a significant cost.** In other words, any changes to Scottish spending must be incremental and can only keep pace with the total budget assigned by Westminster;
- **The Scottish Government [...] comes under pressure to make spending decisions similar to those announced by the UK Chancellor.** In particular, if the Scottish Government is controlled by the same political party as Westminster, the Scottish Government is under pressure to play ‘catch up’ with UK policy agendas – for example in relation to NHS waiting lists; and,
- **Treasury rules influence Scottish policy indirectly.** There have been some cases when there has been tension between devolved and national policy. For example, the Treasury decided not to refund Attendance Allowance benefits foregone by older people receiving ‘free personal care’ funding.<sup>24</sup>

The authors go on to observe that:

*The Barnett formula was introduced in relative secrecy as a temporary measure and only acknowledged publicly when it had enough support within Government. Then the formula was used to keep the potentially controversial issue of territorial finance out of the spotlight.*<sup>25</sup>

It should, of course, be noted that - beyond a relatively superficial level – the constitutional debate differs in Scotland from the debate in Northern Ireland. In addition, the authors’ assertion may well be contested by some. Nevertheless, the point remains that **the issue of territorial finance in the UK is most definitely not out of the spotlight at present.**

<sup>23</sup>Carney, P and McGarvey, N (2013) ‘Money and Power: Public Expenditure in Scotland’ in *Scottish Politics*, 2<sup>nd</sup> Edition, Palgrave Macmillan

<sup>24</sup> According to Cuthbert, J and Cuthbert, M “the Scottish government hoped to use the attendance allowance of those in care homes to help meet the overall costs. The UK government refused to transfer the attendance allowance monies, so Scotland was penalised by over £20 million per annum” see <https://www.opendemocracy.net/ourkingdom/jim-and-margaret-cuthbert/treasury%E2%80%99s-%E2%80%9Cunion-dividend%E2%80%9D-calculation-deeply-flawed> (accessed 23 October 2014)

<sup>25</sup>Carney, P and McGarvey, N (2013) ‘Money and Power: Public Expenditure in Scotland’ in *Scottish Politics*, 2<sup>nd</sup> Edition, Palgrave Macmillan (see page 234)

Finally, the authors return to the issue of Treasury power stating:

*The centrality of the Treasury to the level of taxation raised in Scotland, as well as its influence over how the money is spent [...], demonstrates its absolute power.*<sup>26</sup>

This view is supported by statements the Treasury itself makes in policy documents. For example, in *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: statement of funding policy* says:

*Responsibility for United Kingdom fiscal policy, macroeconomic policy and public expenditure allocation across the United Kingdom remains with the Treasury. As a result, the devolved administrations' budgets continue to be determined within the framework of public expenditure control and budgeting guidance in the United Kingdom.*<sup>27</sup>

This is reinforced in another Treasury policy, where it states, specifically in relation to access to the UK Reserve:

*...the Treasury retains the right to apply whatever penalties are appropriate to incentivise good financial management and value for money.*<sup>28</sup>

Information outlined throughout this sub-section has particular relevance in Northern Ireland's current political context (e.g. budgetary considerations, Welfare Reform, etc), necessitating CFP's consideration during its Review

**Issue for consideration: CFP may wish to seek views from expert witnesses on how the Barnett formula mechanism may be reformed to lessen the impact of the three aspects of Treasury control highlighted above.**

## 4. Concluding remarks

This Briefing Paper has demonstrated that there are a number of complex and overlapping debates, which are on-going throughout the UK, and are relevant to any discussion about the Barnett Formula. CFP's Review is therefore timely, providing an official forum to register Northern Ireland's unique interests and concerns in this area, from an Assembly perspective.

In particular, these include:

<sup>26</sup>Carney, P and McGarvey, N (2013) 'Money and Power: Public Expenditure in Scotland' in *Scottish Politics*, 2<sup>nd</sup> Edition, Palgrave Macmillan (see page 234)

<sup>27</sup>HMT (2010) 'Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy' available online at: [http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sr2010\\_fundingpolicy.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sr2010_fundingpolicy.pdf) (accessed 23 October 2014) (see page 6)

<sup>28</sup>HMT (2012) 'Improving Spending Control' available online at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220648/improving\\_spending\\_control.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220648/improving_spending_control.pdf) (accessed 23 October 2014) (see page 15)



- The on-going work of two parliamentary inquiries into issues relevant to the potential reform of devolution in the UK;
- The findings and recommendations of the City Growth and Silk Commissions;
- The sustainability of the Barnett formula in the context of potentially wide-ranging changes to devolution; and/or,
- Whether potential changes to devolution may impact upon the level of central Treasury control over devolved funding.