

Preliminary Remarks from Professor Gerald Holtham

- I do not know the extent of convergence in Northern Ireland. The Barnett formula causes convergence automatically whenever there is nominal growth in public spending. By the same token it generates divergence when spending falls in nominal terms. (It may fall in real terms but overall rise with inflation; that would cause convergence). The reason is simple. If spending in England goes up or down by x pounds per head in departments where policy is devolved, the grant and hence spending in Northern Ireland also goes up or down by x pounds per head.

But since spending per head in Northern Ireland is higher than in England x will be a smaller percentage of the baseline than it is in England. In a period of growth if your growth is at a lower percentage rate than in England, they will slowly catch you up and you will converge to the English level. This is not a problem when spending is falling so convergence has been less of a problem in the austerity era since 2010 and may not be a problem in the next few years. It becomes a problem when growth of public spending resumes. A factor which can confuse the issue is population growth.

The Barnett formula works only on the increment to the block grant each year. That increment is made on a per capita basis so adjusts for changes in population. But there is no correction to the level of the whole grant for population changes so if population growth is different in Northern Ireland from England that will alter the spending per head. The reason there has been little convergence in Scotland historically is that the Scottish population has fallen, allowing spending per head to rise and offset the Barnett squeeze.

- The growth or decline of public spending and relative population growth will affect convergence. The other factor is changes in devolved responsibilities. In a period of austerity the UK government will be happy to devolve responsibilities and less happy to devolve the funds to pay for them. Changes to the devolution settlement could influence convergence – either way, depending on the bargain struck.

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- It is often said that allowing for need will be complicated but that is a matter of choice and is not necessarily so. Formulae used to distribute public spending within England, and within the devolved territories, are often very complicated, containing many variables. But those variables are usually highly correlated with each other and can be explained or modelled by a small number of underlying factors. Those factors are: demographics, particularly dependency ratios of old and young, poverty or deprivation, incidence of chronic health complaints and the sparsity of the population.

Data on all these are readily available and they can be factored into the Barnett calculation, adding a line or two to the spreadsheet in use. An example was given in the final report of the Independent Commission on Funding and Finance for Wales, July 2010, chapter 3 and Annex 4. There, weights on the different factors were derived from the formulae in use in Great Britain at the time. The reason this approach has not been adopted is not administrative but political difficulty; it would probably result in a smaller grant for Scotland which is inopportune when Scottish independence is on the agenda.

- The formula has no statutory underpinning and is therefore at the discretion of the government, in practice the Treasury. It would be good to give it legal existence, delimiting the Treasury's powers of discretion. There is a case that initial calculation of Barnett consequentialials should be carried out by an independent agency, like the ONS or OBR. The size of the grant would still be subject to political decision but those decisions should not be able to hide behind manipulation of technical factors.
- Our very rough calculations for Northern Ireland in 2010 suggested the province was emerging from a period of being overfunded given its relative needs and would soon be fairly funded. Continue convergence would then take it below the appropriate need-based level.

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I have not updated those estimates and it may well be that austerity since 2010 has delayed convergence and indeed may have improved Northern Ireland's relative position. I doubt if there is immediate cause for complaint but there is no doubt that over the longer term of the next decade or more, Northern Ireland would benefit from the formula:

1. being put on a proper statutory basis with an element of independence from Treasury introduced into technical calculations;
2. getting a simple needs-based adjustment factor added to the formula. That would necessarily be simple and not fine-tuned but a coarse adjustment that solves 90 per cent of a problem is better than nothing and should not be dismissed because it is not perfect. The present situation is even further from perfection.