Review into the Operation of the Barnett Formula
Comments on the Northern Ireland Experience

Professor Derek Birrell

I am a member of the School of Criminology, Politics and Social Policy at Ulster University. I have published mainly in the area of devolution, governance and social policy, and I have listed some relevant books below.

I wish to bring the Committee's attention to seven issues addressed fairly briefly in the paper

1. The View of the Treasury

The Barnett Formula was introduced in 1978 for Scotland and Wales in 1978 and for Northern Ireland in 1980. The complete Formula as:

Baseline previous year's allocation x change in UK departments' expenditure x comparability percentage x population proportion. This was seen as roughly ensuring an equity in resources and service provision through the UK. With devolution to Scotland, Wales and Northern Ireland the use of the Formula meant limited revenue raising powers were given to the devolved administrations and they operated as an expenditure based decision making system rather than a revenue based system. The Treasury has had a strong commitment to supporting the continuation of Barnett for a number of reasons:

- The Formula is simple to apply and is applied largely automatically.
- It removes the need for direct annual negotiations about public expenditure between the Treasury and the devolved administrations.
- It has proved to be a robust mechanism for public expenditure allocation over many years.
- Each devolved administration has the Formula applied equally.
- It has minimised conflict between the four countries of the UK over total allocations and over spending levels.
- It delivers stable and largely predictable allocations without disruptions or large fluctuations.
- It removes many of the problems of revenue raising from the devolved administrations.

Only in more recent years has there been some questioning of the benefits from Scotland and Wales, although not from Northern Ireland.

2. Funding Outside Barnett

It is sometimes overlooked that the allocations from the Barnett Formula account for around 50 per cent of total identifiable public expenditure. Some 40 per cent of total managed expenditure is Annually Managed Expenditure (AME), which covers programmes which are not subject to firm multi-year limits. AME is agreed annually with the Treasury because it consists of demand led programmes. The main component is social security including tax credits where the actual total cost is met by the Treasury. This arrangement is different from Scotland and Wales where social security has been a totally reserved function A second aspect of outside Barnett is what is called the Barnett bypass where there has been significant funding outside the Barnett Formula. Such funding has often been associated with post conflict requirements, for example, there was a special allocation for the costs of devolved policing, and for the re-investment and reform initiative. It has been suggested that funding outside Barnett has been a factor in explaining why there has not been the expected movement to convergence through the application of the Formula towards the level of expenditure in England.

3. Alternative of a Needs Based Assessment

There has been substantial support for Barnett to be replaced by a system based on an assessment of relative needs including support from a House of Lords inquiry in 2009. A needs formula would take into account socio-economic indicators, the resource base and special territorial factors. The House of Lords report suggested any needs assessment should take into account; the age structure; low income; ill health and disability; and economic weakness. A view can be taken that a calculation of relative need might benefit Northern Ireland, and there would be special cases, for example, for expenditure on policing and security. However, the UK Government may have difficulty in accepting a need in Northern Ireland for; expenditure in lieu of water charges, expenditure on social housing because of the absence of housing stock transfer, or the extra costs of managing a divided society. Divergence in structures can also make a difference to assessing need, for example, the integrated health and social care structure in Northern Ireland. Thus disputes could arise over finding agreement on definitions of need. It is likely that a mechanism for negotiations would be necessary to resolve disputes on an annual basis. The thought of an annual set of negotiations akin to part of the processes related to the Stormont House Agreement might not be an attractive proposition. It can be noted that a needs based formula does not necessarily imply that the devolved administrations cannot continue with the power and discretion to allocate the funding, as under Barnett.

4. Treasury Statement of Funding Policy

The Treasury exercises control over the operation of the Barnett Formula within the framework of public expenditure control in the UK and specifically the guidance of the Treasury statement of funding policy for the devolved administrations. It has been argued that such Treasury control may not be compatible with the proposed increase in devolved fiscal powers, particularly for Scotland and Wales. However, this may be a mistaken interpretation, short of a Devo max system or a federal system. Even with the planned changes responsibility for the fiscal policy, macroeconomic policy and public expenditure allocation across the UK remains with the Treasury, as a non-devolved matter. It is not always understood in Scotland and Wales that even if all the recommendations of the Smith Commission are implemented overall more powers are still devolved to Northern Ireland than to Scotland. This includes social security, employment, the civil service, trade unions, equality and social issues, although Scotland and Wales may have more devolved fiscal powers. The position will remain of the devolved administrations being subordinate to the UK Parliament and Government.

Some problems can be identified with interpretations of the Treasury Statement of Funding Policy. An important example is the decision making over welfare reform. The relevant wording in the Treasury Statement is (p. 17), 'UK funding will be in line with the actual entitlement of claimants, if the Northern Ireland Executive change social security policy to differ from the rest of the UK, UK ministers will need to take a view on whether and how to adjust this funding'. It can be argued that this wording does not mean that the Treasury/UK Government should remove financing from the Barnett allocation, but only from the social security contribution. Some confusion is also suggested in the wording of section 87 of the Northern Ireland Act 1998 which specifies that the UK minister and the Northern Ireland minister consult one another with a view to securing, to the extent agreed between them, a single system of social security, child support and pensions, thus suggesting a statutory requirement for consultation, as has probably been taking place in Northern Ireland to resolve the welfare reform impasse. It can be noted that there have been institutional devices used to adjudicate when negotiations have been necessary with the UK Government, in the form of a Joint Authority and originally a Joint Exchequer Board, although not bodies with external representation.

5. The Subventions to Northern Ireland

The view is often expressed that Northern Ireland is highly dependent on UK support through the Barnett Formula and other funding and should aim at becoming less financially dependent. This requires some careful consideration as it is normal for regional dependency in countries and the position of Northern Ireland can be compared with other regions of the UK.

Regional Dependency 2010

Region	Expenditure £bn	Fiscal balance £bn
North-East	29.0	-12.1
North-West	74.2	-23.9
Yorks and Humber	52.4	-16.9
East Midlands	42.0	-9.8
West Midlands	54.8	-16.0
Eastern	53.5	-5.5
Greater London	94.0	1.4
South-East	80.9	-1.0
South-West	55.5	-15.6
Wales	33.5	-14.6
Scotland	61.9	-14.3
N Ireland	22.6	-10.9

Source: Silk Commission, 2012

This shows all regions operating with deficits except London. Comparatively per capita Northern Ireland is most dependent but the gross amount is among the lowest.

6. Barnett Consequentials

This is the term used to describe changes to the assisted budget as a consequence of changes in spending during the lifetime of a spending review, e.g., resulting from an autumn statement by the Chancellor of the Exchequer. The calculation relates only to comparable expenditure, i.e., what is defined as England only expenditure. The distribution of the additional funding from consequentials is still a matter for the devolved administrations. However, concerns have been expressed at the limited information which is published in this process for publicity scrutiny. Figures produced by Professor David Heald for 2010-11 gave an example of the source of the generation of Barnett Formula Consequentials.

Formula Consequentials

Department UK	2010. £millions	2011. £millions
Health	429	667
Schools and Children	182	314
Skills and Universities	47	76
Transport	29	51
Communities	32	48
Environment, Rural	11	16
Local Government	11	15
Culture and Sport	3	5
Home Office	0	0
Justice	0	0
Business and Enterprise	0	0
Others (0 or -)		
Total	736	1175

Current figures are likely to be similar as UK Government is protecting health and also to a degree education. What appears uncertain is the DFP allocation of these funds to Executive Departments. Obviously this may be a controversial issue, if 60 per cent of Barnett Cosequentials or more are generated by extra health expenditure in England, is it appropriate a smaller amount to health in Northern Ireland?

7. Increased Fiscal Devolution and Northern Ireland

Northern Ireland is sharing in some aspects of the move to greater fiscal devolution; in corporation tax; in air passenger duty and perhaps other small taxes, an increase in the use/acceptance of borrowing powers.

However, there has been no demand for greater devolution of income tax powers, as has happened in Scotland and Wales. In Scotland the new Scotland Act means that the rate of income tax set by the UK Government will be reduced by 10 per cent and the Scottish Parliament would then levy a single rate of Scottish income tax which would be applied in addition to the UK rate. So the rate of income tax could be the same as the UK, or higher or lower and the Scottish Government can keep the revenue from the Scottish income tax. The original intention was to increase the financial accountability of the Scottish government to the electorate. The new Wales Bill devolves some powers over small taxes, stamp duty and landfill tax and a power to reduce income tax by 10 pence in the pound, similar to Scotland, and put a Welsh rate of income tax in place, to be voted on in a referendum. After the Scottish referendum the Smith Commission has recommended a list of benefits to be devolved, but not Universal Credit or state pensions, and the block grant will be amended initially. There has been no strong support for the partial devolution of income tax to Northern Ireland but there may be pressure on Northern Ireland to consider this. If the Northern Ireland Government requires additional funding and has no available or agreed sources then devolved taxation is an alternative to the need to repeat regularly the Stormont House Agreement type deal.

Derek Birrell is the author of the following recent books:

Derek Birrell (2009) *Direct Rule and the Governance of Northern Ireland*, Manchester University Press.
Derek Birrell (2009) *The Impact of Devolution on Social Policy*, Policy Press.
Derek Birrell (2012) *Comparing Devolved Governance,* Palgrave Macmillan.
Derek Birrell with Deidre Heenan (2010) *Social Work in Northern Ireland: Conflict and Change*, Policy Press.
Derek Birrell with Ann-Marie Gray (2013) *Adult Social Care*, Policy Press.
Derek Birrell with Cathy Gormley-Heenan (forthcoming) *Multi-level Governance and Understanding Government in Northern Ireland*, Palgrave.