



Northern Ireland
Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Review of the Operation of the Barnett Formula:
Chartered Institute of Public Finance and
Accountancy

29 April 2015

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Ian McCrea
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Alan Bermingham Chartered Institute of Public Finance and Accountancy

The Chairperson (Mr McKay): I welcome Mr Alan Bermingham. You are very welcome, Alan. Alan is the policy and technical manager of the Chartered Institute of Public Finance and Accountancy (CIPFA). Alan, if you want to make a brief opening statement to the Committee, we will then go to questions.

Mr Alan Bermingham (Chartered Institute of Public Finance and Accountancy): Thanks, Chairperson, for the opportunity to attend. By way of introduction, as Daithí said, I am Alan Bermingham, the policy and technical manager. I have a remit to look after the devolved regions of the UK and Ireland. The Chartered Institute of Public Finance and Accountancy, as the name suggests, is a chartered accounting body. We probably consider ourselves the specialists in public financial management. Most of our members work in public finance or related fields. We have worked reasonably closely with some of the other inquiries into the Barnett formula. I suppose I have made the main points in our submission to you.

One thing I would say is that, looking at the evidence that you have had to date and given that your terms of reference are to come up with some kind of report to inform the Assembly and add to that debate, it strikes me that you have had a lot of academic input from the experts; I hope that the institute's submission can maybe put a bit more practicality on that. We would probably challenge some of the evidence that you have had to date, particularly around the issues of whether it is currently benefiting Northern Ireland or not and what position you should take as a result of that.

I will just talk about the main points in our submission. Obviously we have mentioned that we see the way forward as withdrawing the Barnett formula, primarily because we see it as fairly inequitable. It does not lead to a great deal of accountability at a devolved level. It does not take account of need. Increasing pressure on further devolved powers as a result of the Scottish referendum will probably

make the Barnett formula even more irrelevant and archaic in its operation. I think you have had plenty of evidence suggesting that it is not fit for purpose, and we fully support that view. We think that, in particular, the vows that were made to Scotland after the referendum by the UK Westminster Government about retaining the Barnett formula yet at the same time devolving more powers, particularly tax powers, and being able to hang on to some of those financial levers, are at odds with each other and do not really work. I think it is fair to say, as an observation, that Scotland in particular probably does benefit from that and from the continuing operation of the Barnett formula, but I think it is unfair and inequitable to suggest that, if you get further fiscal powers and levers at your disposal, the Barnett formula is suitable to operate in that kind of environment. That is why we are saying that it should be withdrawn and replaced with something that is more needs-based, provides more accountability and is more equitable. Those are the things that are missing from the current Barnett formula approach.

The other thing that we mentioned in our submission is that we feel that a lot of the controls around the Barnett formula are held by Treasury. Effectively, Treasury dictates things like bypass arrangements and outlines in its statement of funding policy how the operation of the formula works. If we are going to move to a more devolved Assembly — I am not saying fully autonomous devolved Assemblies — we believe that the operation of the formula should be taken away from that kind of approach and put with an independent body. I think that chimes quite well with the House of Lords commission that looked at this back in 2009. We fully support that view as well.

One point that we made in our submission that may be at odds with or challenge some of the academic view that you have had before is that we said that it would perhaps be in your interest to widen up your remit and, from a Northern Ireland perspective, actually lead some of the debate on what should replace the Barnett formula. We say that with the view that Northern Ireland may be best placed for that, in the sense that any of the studies that have been done on needs-based assessment before — I can probably point to three — suggest that Northern Ireland, of the three devolved areas, is probably closer to its needs-based position than the other two, with Wales perhaps being underfunded, Scotland perhaps being overfunded and Northern Ireland being within a reasonable statistical variation of where it should be.

There are two Treasury studies. Obviously, they go way back and are not up to date or anything like that. There are probably a million and one ways that you can produce statistics to cut this cake, but, essentially, the one from 1976-77 and the one completed in the early 90s suggested that Northern Ireland was perhaps closest to its needs-based assessment. Some of your previous evidence from Iain McLean suggested — although it is quite a crude calculation, using gross value added (GVA) as a relative assessment of where needs-based is against that — that you were just marginally below your needs-based assessment. Taking the view that there are three bits of evidence there, if I was going to draw a conclusion from that I would say that Northern Ireland is perhaps the closest of the three devolved regions to its needs-based funding level.

That said, Barnett has its simplicity, ease of use and things like that, but it is not a needs-based calculation. I think that, if you want to get to a point where you retain tax incomes and have more hands on fiscal levers, undoubtedly the measure is going to come under a lot of pressure under those circumstances to be changed. It is fair to say that it has been tinkered around with for years and years, so it is not a new debate, but it is a debate that is potentially coming to a head. Where Dr Gudgin suggested to you that you might be best keeping your head down and saying nothing, because there is a perception that you benefit from it, we are saying that, if you want to get to a fair and equitable position funding-wise, there is an opportunity to be at the forefront of that debate, rather than putting your head in the sand. I strongly suggest to you that, if you are going to influence policy, keeping your head down and saying nothing is probably not the best way to go about it. You are then going to leave it in the hands of Treasury and others to make those decisions for you, and I would certainly not advocate that.

The Chairperson (Mr McKay): Thank you very much. On that last point, Alan, what do you mean by us needing to be at the forefront of the debate? What points should we be making? Are you saying that devolved areas should have more transparency in financial data to inform decision-making? What area are you trying to direct us towards?

Mr Bermingham: The difficulty is not so much that there is a recognition that at some point there needs to be a subvention to the devolved regions. If you were to, let us say, retain more tax revenues in the future — income tax, VAT, corporation tax or whatever it happens to be, and some of the smaller taxes. I always think about the local government analogy. If they raise taxes — ie rates — they retain them. A regional rate then goes into a pot and it gets redistributed. In effect, that gets

redistributed on a needs basis as well. I have been involved in that, and there is some input by councils to DOE that goes into statistics and gets reallocated as a rates support grant, which is based on a deprivation or needs type of assessment — some sort of assessment. I am not exactly sure how that works, but the principle is really what I am on about. Obviously, that —

The Chairperson (Mr McKay): That is the principle that was set out by Smith in Scotland, in that anything you generate should stay within —

Mr Bermingham: Yes, exactly. The difficulty is not so much about the principles. A lot of academic work has been done that says that getting to a needs-based assessment is risky and difficult and all that, but there are plenty of examples of needs-based assessments being available in public funding. I have a report here on the police grant for England and Wales. That is done on a needs-based assessment and is distributed in that way, and that is £4.5 billion grant. So there are lots of examples of where that is available.

The difficulty is agreeing what those needs-based measures are, not that you could not do it. I suppose that the debate comes down to that negotiation. You have to first decide whether there is change pending in that area, and the evidence suggests that it will come under more pressure. All the main parties in Westminster are promising further powers, including changing things around England as well, with English votes for English laws and the devolution of certain funding to major cities — all sorts of things like that. It is evident that it will come under more pressure. Will it change? I obviously do not have a crystal ball, but if it comes down to getting down to actually implementing those changes, having your voice at the table to say what measures you think are important and things like that would be quite important in that debate. That is the opposite of keeping your head down and saying nothing. It is about trying to lead the debate — "Yes, we have a need, and here are the sorts of measures that we think are evident and that should be included in that."

Mr McQuillan: Alan, thanks for your presentation. Regarding the Barnett squeeze or the convergence between the public spend per head of the population here and in the UK, and mindful of the difficulties that you highlighted in paragraphs 3.4 and 3.6 of your paper around inadequate data, how might we establish whether convergence has actually occurred in the Northern Ireland context?

Mr Bermingham: I am aware that everybody says that it is difficult to measure, and I accept that. Convergence is probably a very slow process, so you need to take a longer view. If you look anecdotally at the statistics that are available, in the 1970s, for example, if England was 100%, you in Northern Ireland were probably spending about 131% or 135%. More recently, you are down to about 121% or 122%, so about 20% above the English spending or funding level. I suppose that, anecdotally on those figures, you could deduce that the way the formula works and the way that that has gone down — that is consistent across the other regions — suggests that there is evidence of convergence.

Mr McQuillan: Can we draw any parallels between the Holtham commission's findings in Wales and what is happening here?

Mr Bermingham: I am not too sure on that. It is a difficult one to measure. There is an inherent mathematical point in the formula which means that, because you are getting funded on a per capita basis the same as England, the way that the consequential work mean that, in the long run — and it is the long run — there will be convergence in that. I do not think that was the original intention of the formula, but that is the way that it works. Consequently, coincidentally, at the moment, where there is a squeeze on funding, that convergence has either slowed or levelled out. That is a consequence of the way that the formula works.

Mr McQuillan: What are the risks for us being underfunded here in terms of relevant need in the future due to long-term convergence?

Mr Bermingham: CIPFA is an independent body, so we take the view that it is what sort of government or powers you want to have, so the accountability issue, in my mind, plays a big part in that. If you have more hands-on fiscal levers like tax-raising powers and various other levers — the ability to hold reserves, much more year-round flexibility and so on and so forth — you have more of an accountable link between the taxes that you are raising and what you are spending. The subvention makes up the gap because it is fair to say that most, if not all, the regions in the UK probably do not generate enough tax, outside of the south-east, to pay for all their services, so that

redistribution happens on a needs basis. At the moment, there may be a frustration that you do not really have enough fiscal levers to rebalance the economy here. You are a devolved spending body without many levers to do that. So there is a point that there will be a long transition if it changes, and it might be several years before you got to the point where you were fully out on your own, but you have the opportunity with that to develop the economy as you see fit. That is the prize.

Mr McQuillan: How feasible would it be to introduce a supplementary or top-up mechanism to take account of the relevant need that we have here?

Mr Bermingham: I think that there has been evidence before. The name escapes me now of the commission that did that — whether it was Holtham or somebody else — but it looked at a mechanism to supplement the Barnett formula, apart from the comparability bit and the population-based bit, putting in a ceiling or base level to reflect need in the devolved regions. That would eliminate the convergence element. That is eminently doable, but you are still maintaining the fundamental flaw in the formula that it is not reflecting needs. For example, population-wise, the baseline originally gave you an element of funding above England when it first started, apart from more recently where those statistics have been available and the consequentials are updated year by year based on population, but the original baseline probably never has been. It is probably fair to say that Northern Ireland's population growth has perhaps been greater than Scotland and Wales, so, in some respects, that is a detriment, and you have maybe lost out through that.

Mr McQuillan: So you think that there is room for some sort of top-up.

Mr Bermingham: Yes, definitely.

Mr McCallister: I have a couple of points. You were talking about the crystal ball. How likely is it that Barnett will be replaced, given that the Prime Minister said immediately after the Scottish referendum that he was going to stick with it after the outcome of the election? Do you see pressure from other devolved nations and regions wanting tax-varying powers, or do you think that the pressure will become so inevitable that Barnett will be replaced, or even part of it?

Mr Bermingham: Yes, I do not see a lot of pressure in England for devolved powers. I see a lot of pressure from larger city and local government bodies for greater fiscal powers. I can understand that, because local authorities in England have far more powers than local government bodies here. They are large organisations delivering lots of services in their own right. However, I do not see your average English person wanting Manchester to have its own income tax rate.

The pressure comes from the devolved regions of Scotland, Wales and yourselves. If you are asking my personal opinion — and it would not be the institute's view, because it probably would not have a view — unless you get full fiscal autonomy, it will go in the direction of the Barnett formula being supplemented in some way to reflect need. That would appease the English vote that perhaps you guys get more than your fair share of the cake because there is now a needs-based supplementing measure.

If you did get to the point of full fiscal autonomy, where you were retaining tax and things like that, there would be a clear-cut case to change completely to a needs-based system and ditch the Barnett formula altogether. The institute's view is that it should be withdrawn because it does not deliver accountability or a needs-based approach, so it does not reflect that. That is right and fair. That is the position.

Mr McCallister: Over your approach, then, if we were to go with "need" and "equity" principles, would it, for example, be necessary to provide additional funding for regions with greater need to eventually achieve equalisation across the board? Is that what you are going to drive and, over presumably quite a lengthy period of time, eventually achieve equalisation?

Mr Bermingham: Yes, I think so, but Barnett has suffered from not being regularly reviewed and updated. As you know, it was a temporary measure in the first place.

When you talk about equalisation, I take it you mean on a per capita basis, where you get to a point where public spending per head in Scotland is similar to England or Northern Ireland. I take equalisation to mean that the central pot of tax revenues is redistributed in a way that reflects need. I do not necessarily see equalisation as meaning that somebody in Scotland gets the same spending

per head on their services as somebody in England. To me, that does not reflect need and perhaps how the devolved Assemblies want to cut up their bits of the cake and their priorities. I am talking about a fair mechanism that distributes the central pot and gives you a subvention to reflect that need. That, to me, is equalisation.

Mr McCallister: Even for us now, whatever Government is formed next week, under the current system we benefit if spending on health rises. I take the point that social services are slightly different. We have an integrated model of social services here that tends to be done by local government, so it is a very different model. If health and education spending was to rise, and it probably did in the last Parliament, that would shield us slightly from the worst effects of cuts in public spending. Of course, we can divert that to whatever area of spend the Northern Ireland Executive want. Over that time, there probably is this longing here, if this is working well. As you mentioned earlier, just keep our heads down and take the money.

It is interesting, that entire debate around the structure of the UK. I suppose we are working with a system devised in the mid- to late 1970s. Twenty years after that, there was devolution to Scotland, Wales and Northern Ireland, and 16 or 17 years on, we still have that same system and have not really reviewed it. There is pressure coming on the debate round devolved tax, and I feel that Northern Ireland is probably not quite at the races on that debate as to how we would manage whatever taxes we might like to have devolved. We had a presentation last week on air passenger duty, and I suspect that it might be a tax that larger cities such as Manchester or Liverpool might want to look at more so than income tax, because it disadvantages, say, regions. You are talking about rebalancing the economy — the entire UK economy is very heavily dependent on London and the south-east.

Mr Bermingham: It is, yes.

Mr McCallister: If you look at people in the north-east of England or the Welsh, they are not desperately far behind us in their dependence on public spending. It is about how we use the powers that we have and the money that we are generating to the best effect.

Mr Bermingham: It is a difficult situation for you in that you have a block grant. Yes, you have discretion over that and it is allocated under quite a simple methodology, which is great. In summary, the evidence suggests to me that you are not too far away from what a needs-based assessment would give you anyway. The statistical difference that that would make is minimal, but if you are really going to rebalance the economy and so on, then I think that you will probably want more fiscal levers in order to do so.

You have got corporation tax, and it is somewhat surprising that the Treasury gave you that, so that is kind of a win. Others are looking at doing that too in the same manner, but you are probably slightly behind the other devolved regions that have done things on landfill, income tax and so on. However, we are still in this position where any kind of loss to Treasury that derives from that means that you suffer the consequence on the block grant. You are not benefiting from that. When I talk about fiscal levers, I mean getting to the point of hanging on to those tax revenues and being able to come up with economic and financial policies that support growth in certain areas or whatever. That is the position where you can start to make real differences.

Mr McCallister: There is one line that has stuck with me. A Minister in the Republic of Ireland once said that small things around the margins can make a big difference, and it is all about having the power to be able to change that. You are pushing corporation tax: yes, you take the hit on the block grant and any increases through jobs, income tax and National Insurance do not stay; they go back to the centre.

I agree that, as a UK region, we have not looked seriously enough, or set up a commission to look, at what powers would be desirable for us to manage in Northern Ireland and to really be the game changer. It might be great to get corporation tax, but we have spent the past five or six years pushing solely for that, without taking the more holistic approach that our Scottish or Welsh colleagues have done. We are behind the curve.

Mr Bermingham: Yes. I am looking at my notes here, but I know that the output from one of the commissions — not the Scottish Finance Committee inquiry, but the Westminster inquiry — was considering having a kind of commission that would look into funding. A couple of the main UK parties have made a commitment to follow through with that. As opposed to what happened in the past, in

the 1970s, 1980s and 1990s, when people talked about the Barnett formula and left it as it was, there is now a more-than-probable chance that something will happen to it, maybe during the next Parliament or in that kind of time frame. That is one view, because I think that it is coming under increasing pressure. A lot of people are looking at it, and, as you know, it is quite a high-profile thing, constitutionally, in most parties' manifestos.

Mr McCallister: It is even the idea that, with Barnett, we are solely dependent on the block grant and have to go to Westminster for more money if we hit any problems. Local government— all right they have more powers now under the new model — raises something like 70% of its spend through the district rate. In Stormont, there is no correlation between what we spend and what we raise. The regional rate accounts for around 5% of what we actually spend, so it all comes from London. Changing Barnett and moving to a needs-based assessment with more tax-varying powers would increase responsibility for what we all have to do, what we sign up to or how we raise money.

Mr Bermingham: Yes, that is why, in some respects, local government is quite a nice analogy. As you said, it raises and retains most of its funding and gets a reallocation based on needs through the rate support grant and other similar mechanisms. I suppose that, at the end of the day, councillors are accountable to taxpayers for the services they provide and the priorities they come up with. That is quite a nice model of how that works.

Mr Cree: I want to go back a bit. You touched on corporation tax in your report, and that is fine. You also touched on the wider UK debate on the devolution of fiscal powers. What implications are there for the Barnett formula if further powers are devolved?

Mr Bermingham: At the moment, the way corporation tax legislation is framed, there will be a corresponding impact on the block grant and the funding you receive. If you lower the tax, the Treasury will get less and you will get less by way of the block grant. So, there is nothing in that for you, besides the fact that you will, hopefully, generate jobs — the right kind of jobs — and attract foreign direct investment; whatever it happens to be.

If you start to retain taxes, like Scotland is doing with the 10p income tax rate and things like that, then the idea that you can still be funded on a per capita basis through consequential adjustments to English Departments does not really make a lot of sense. That would be completely at odds with the model and would come under severe pressure to be changed. I think —

Mr Cree: Some of our expert witnesses pointed out that changes to the Barnett formula would become purely notional after a very short time: do you agree?

Mr Bermingham: I cannot see why Westminster would continue with that model. It is certainly not in anybody's interests, and it is clearly not fair and equitable. In effect, you would retain some of your tax while taxpayers in London would give you a disproportionate amount of their taxes on top of that. That just does not seem workable. Westminster would say, rightly, that it needed to review and change it. I am not sure whether it would tinker around the margins and include some other measure that takes account of that or scrap it completely and go to a needs-based system. As I said, the more you move towards fiscal autonomy, the more you need a needs-based approach, and there are plenty of examples of how that works in local government, in the police and fire services in England and elsewhere.

I accept that people say that a needs-based approach will be so difficult to get to. My view is that there is lots of evidence of it working already in lots of areas in the public services. The problem will be negotiating the needs that reflect what you want. That is what I am saying: this is your opportunity to get into the debate and say what your needs are. If you look at any evidence, there is a correlation. Northern Ireland has always historically had a bit more need than the rest of the devolved Assemblies.

Mr Cree: Would that in any way hasten the demise of the Barnett formula?

Mr Bermingham: I think it will, yes.

Mr Cree: You mentioned corporation tax. One of the difficulties we see with it is in bringing it in very soon so that we can have the benefits and are able to phase in those benefits — that is important. The difficulty is that, with increased economic activity, we would generate more income tax, VAT and

National Insurance contributions all going back to the Treasury. That is a disincentive. What are your views on that, Alan?

Mr Bermingham: In my mind, the devolved Assemblies are moving to a point where they are talking about the fiscal levers they need to do this and how they would manage that. There is developing consensus on the model. As you say, you do something with corporation tax rates, generate more income tax through employment and more VAT through spending in the economy, and all that money goes back to the Treasury. Nor do you benefit in the Barnett formula, because that is cut.

Yes, corporation tax is doing what it is supposed to do in generating employment, but it is not allowing you to reinvest the benefits of that into services, generate more employment or whatever. There is consensus that the fiscal powers that devolved Assemblies have need to be increased to make that work. That fits quite well with the idea that you would then be accountable for your spending and the taxes you raise locally. It gives you more accountability and redefines your relationship with the citizens of Northern Ireland.

Ms Boyle: You are very welcome, Alan. The Chair touched on the availability of data, and you raised some issues around that. Given the concerns that you and other commentators have raised around a lack of transparent or independent public finance data, how can that be addressed to provide assurance on funding allocations and that any devolution of further fiscal powers is based on a fair and proportionate adjustment to the block grant?

Mr Bermingham: Historically, it was the case that public spending statistics and analysis were a little weak. It would be fair to say that that has improved significantly; so, I would have less concern these days about the availability of information than maybe you would have had 10 or 15 years ago.

Ms Boyle: How has that been addressed? Can you expand a wee bit on that?

Mr Bermingham: If you look at the public expenditure statistical analysis, the whole area of even the way the UK has moved on Whole of Government Accounts and the Treasury's ability to collect that sort of information has improved greatly, so I see that as less of an issue.

There will always be issues at the margins where there will need to be fudged or consensus-type decisions about certain things. Take the Olympics as an example. There were swimming teams based here and other things, but the Treasury decided that this was benefiting the whole of the UK, so there was no consequential benefit to you in funding. You funded that out of your own pocket.

There will always be things around the margins that are not clear-cut. That is just the nature of it, particularly now that three devolved areas have gone in slightly different directions. You are all at a slightly different point in time. Scotland is probably a bit further on from you, as was said earlier. The commission, if Westminster sets it up, needs to look at what devolution will look like across the devolved Assemblies.

If you want to get to the position of having more powers, and there is a subvention from central government based on need, there may be an argument about what those powers should be and for all three devolved Assemblies to be at a similar point with those powers. Being at different points would make it difficult.

Ms Boyle: Obviously, full economic decision-making and financial accountability is required. How can we ensure that we secure that ability locally? Are there any lessons we can learn from Scotland? I know you gave some examples earlier of needs-based assessments.

Mr Bermingham: There are plenty out there. As I say, I have a document here, which is the police grant. Local government does a lot of that, and police and fire services do a lot of that. There are international examples. There are all sorts of examples. I go back to the point that agreeing the needs-based measures will be critical, as will making sure that you can review them regularly enough. The Barnett formula suffered because of that. There is no particular reflection of population growth in Northern Ireland, for example, in that, apart from more recent consequential-type issues.

A colleague and I will talk next month to Scotland's Finance Committee about its framework. Scotland has moved to a point where it is looking at the new powers it has and also at how it will manage them, what kind of governance and control arrangements it will put in place, its fiscal mandate and things like that. Once you get to that point, those are the sort of issues you will need to decide on. If you get

these powers, you will need to think about how you will manage them and ensure that your borrowing levels are affordable and sustainable and that you are not landing future generations with massive debt and things like that.

The Chairperson (Mr McKay): You said that how data is collected has improved greatly in recent years in public expenditure statistics. Is that holistically? I go back to corporation tax. We got all kinds of figures thrown at us on the cost of it. Is it feasible to get accurate figures about large stores here, such as Tesco, that have headquarters in England? We have raised that issue with a number of witnesses and said that, in a more federal system, there are better systems in place to have that data available. As you say, the data and how it is collected has improved greatly. Has the breaking down of that data by different regions improved greatly?

Mr Bermingham: To be honest, I do not have evidence to answer that. I would be making a statement without having a lot of evidence to suggest that regional data has improved. I know that data has improved, and, you are right: I suppose it is down to what they request.

When I worked in other sectors, I had to, as an accountant, fill in lots of forms monthly for the Office for National Statistics and other bodies like that. Those are a bit of a pain, to be honest. However, I now understand, working in the institute, the purpose of some of that. If these measures are agreed, then the duty is on the Treasury, and others such as NISRA and the statistics office, to get that information and set up the systems to collect it. I do not see that as an issue, because I have seen how it has worked from the point of view of somebody who fills in the forms and sends the data back. It is more of a system-driven thing. I do not see that as a problem, because it is a process. You can set that up and deal with that.

Mr Weir: Thank you for your evidence so far. There has been a level of political controversy, particularly across the water, about Barnett and a desire for either replacement or reform. Depending on political perspective, people are pulling in slightly different directions on that. In your submission, there is something that all of us would agree with, which is the objective that the resource allocation side should be depoliticised, and that there is some sort of commission that is independent from government. Can you expand on how you see that happening and the concern that any commission, however supposedly independent, does not simply become a cipher for government or for the Treasury? We have all seen commissions end mysteriously at times, and they ultimately report what government would quite like them to report.

Mr Bermingham: Obviously, our view is that such a body would have some sort of legislative basis. It would be set up a bit like the Office for Budget Responsibility or something like that.

Mr Weir: Do you see that as a potential model?

Mr Bermingham: I am not saying that it is a potential model, but in theory it is legislatively an independent body that has a remit to advise the Government on its Estimates and Budgets, those kind of fiscal projections and things like that. In the same way, the commission body would have a legislative basis, and its independence would be enshrined in that legislation. We would obviously want the appointments process to be independent too, perhaps on a fixed-term basis or something like that, so that you can get some kind of comfort that any risk of political bias would be short-term, at the very least. What you need to define is the relationship between that body and the Treasury. At the moment the Treasury makes the rules and sets them out in its statement of funding policy. What we suggest is that the body actually agrees the lead process and tells the Treasury, so that the Treasury is really just making the allocation and not the decision about the basis of the allocation.

Mr Weir: From outside, I appreciate the attractiveness of an independent body. To what extent do you think that any Government or, indeed, Treasury would follow that on the grounds that, if it is to be truly independent and set the parameters of policy and funding, the body, in many ways, is taking a very huge political responsibility for quite a large amount of money? To what extent do you see that being bought into by Treasury?

Mr Bermingham: You said making policy. I suppose I still see the Government, through their manifestos and other things, as making policy —

Mr Weir: Maybe that was slightly the wrong phraseology. You would have something that would have a very major financial impact, and if you are effectively devolving that power to a body, that would have a fairly significant impact on the broader government position.

Mr Bermingham: In a sense, the Barnett formula at the moment is a mechanical calculation; so, in some respects there is no say over that at the moment, really. I see this as a fair and equitable position. People might have a difficulty with it politically, but I think it has to be the way to go. It has to be the way to get consensus and do things independently. Policy may well be set by the Government and agreed with the devolved regions, but the body could, independently, get the allocation for the policy correct and then Treasury could just implement it.

The Chairperson (Mr McKay): You referred to the "English votes for English laws" debate that has gained some traction over the past year, certainly since the Scottish referendum. If that became a reality at Westminster, how would it impact on Barnett?

Mr Bermingham: The idea of consequentialism comes into play here. If a vote in England has a funding implication, then, at the moment, that vote, which may be for England only, could have a consequential funding requirement because of the way the formula works and because it is also a devolved function of the Assembly here. If funding is increased or whatever, you would get a consequential benefit for that.

The Chairperson (Mr McKay): Does that create another debate?

Mr Bermingham: It does a little bit, yes.

The Chairperson (Mr McKay): Primarily the English decision would be made and then the other regions, so to speak, would have to live with the consequences. They would be secondary to the English decision.

Mr Bermingham: That funding formula does not quite work in those circumstances. English devolution is a lesser debate than what we have in the devolved regions, because we are already on that road, and I am not sure there is the same appetite there. There might be in the idea of dealing with the West Lothian question in terms of the Westminster actual vote situation and law-making. The Barnett consequentialism is what impacts. As a result of legislation in England, there could be a funding consequentialism that you could benefit from. It may not impact on you or you may not be interested in it or whatever, but, lo and behold, you would benefit from it. I suppose that people in England would probably see this as being fairly inequitable. They might be right.

The Chairperson (Mr McKay): Do you think that Barnett might struggle on for another five years?

Mr Bermingham: It is a difficult thing to change. Going back to what I said earlier, it has been that way for a long time, so you could take the view that it will not change. What I suggest is that it is under far more pressure than it has been in the past. If it is likely to change, we are coming to that point relatively soon.

The Chairperson (Mr McKay): There are no more questions. Alan, thank you very much. That was a very useful contribution to our report.

Mr Bermingham: Thank you, Mr Chairman.