Northern Ireland Assembly

Research and Information Service
Briefing Note

Paper 29/12 | 8 February 2012 | NIAR 17-12

Colin Pidgeon

Pros and cons of the Barnett Formula for Northern Ireland

The purpose of this Briefing Note is to provide the Committee for Finance and Personnel with a concise summary of the advantages and disadvantages of the Barnett Formula for Northern Ireland. It draws together information from a number of previous RaISe papers[1] and provides background for the evidence session with expert witnesses on 8 February 2012.

[1] RaISe papers 'Funding the UK's devolved administrations' 693/11; 'The Barnett Formula' 49/09; and 'Barnett Consequentials' 911/11

1. Advantages of the Barnett Formula for Northern Ireland

This section summarises some of the advantages of the Barnett Formula funding mechanism for Northern Ireland that are commonly cited.

Members should note that the phrase 'Barnett Formula' is used for convenience to refer to the mechanism for providing the Northern Ireland Executive's assigned budget. In the strictest sense the Barnett Formula only adjusts the level of spending at the margins in response to changes in expenditure decisions in England.

1.1. The level of funding

Generally speaking, in UK terms the Northern Ireland Executive appears to be well funded.

Figure 1: Total identifiable expenditure per head (indexed) on services by English region and devolved administration 2005-06 to 2010-11[2]

UK=100	2006-07	2007-08	2008-09	2009-10	2010-11
North East	107	107	108	108	107
North West	105	105	105	105	106
Yorkshire and the Humber	96	96	96	96	96
East Midlands	90	90	90	90	90
West Midlands	97	98	98	98	97
East	85	85	86	87	87
London	116	116	115	116	116
South East	85	85	86	85	85
South West	90	90	91	91	91
England	97	97	97	97	97
Scotland	118	117	115	113	115
Wales	113	112	111	111	111
Northern Ireland	123	124	123	121	121

This table shows that for every £1 spent by government in the UK as a whole, each person in Northern Ireland received an addition 21p in 2010-11. Whilst this apparent disparity is down slightly on previous years, Northern Ireland retains the highest level of per capita spend.

It should be noted that the level of expenditure per head is not strictly due to the Barnett Formula. The Formula simply adjusts the baseline that has been carried forward incrementally for decades. Indeed, experts have argued that over time the mathematical properties Barnett Formula will lead to convergence – eventually per

[2] Source HM Treasury Public Expenditure Statistical Analyses 2011, chapter 9, available online at: http://www.hm-treasury.gov.uk/pespub_country_regional_analysis.htm (accessed 13 January 2012)(see table 9.16)

capita will end up equalised at a common level.[3] In other words, all other things being equal, after a – fairly lengthy - period of time the result would be every individual across the UK receiving the exactly same value of public spend.

1.2. Administrative simplicity

In the run-up to the UK Government's *Spending Review 2010* each UK department underwent a process of bidding for and negotiating the terms of its settlement. This process lasted for a number of months. The Barnett Formula is simple mechanism that avoids the need for detailed negotiations between the Northern Ireland Executive and HM Treasury.

The formulaic operation of the funding mechanism – in contrast to a system of negotiated settlements – leaves it less open to the political imperatives of UK government. It has been argued that from a budgetary perspective, the block and formula approach is clearly defensible as a simple and objective way of allocating resources.[4]

1.3. Executive spending discretion

The funding that the Northern Ireland Executive receives from the UK is 'unhypothecated'. This means it is entirely down to the devolved administration to decide how it is spent: it is not tied to a particular purpose. This allows the Executive to develop different priorities from the UK government (and from the other devolved administrations), irrespective of whether a change in funding to Northern Ireland is due to increased spending in a particular policy remit (such as health or education) in England.

[3] Bell, D and Christie, A (2007) 'Funding devolution: the power of money' in *Devolution and power in the United Kingdom* ed. Alan Trench, Manchester University Press.

[4] Midwinter, A (2006)'The Barnett formula and its critics revisited: evidence from the post-devolution period' Scottish Affairs no 55 page 83

2. Disadvantages of the Barnett Formula for Northern Ireland

This section summarises some of the drawbacks to the current funding mechanism for Northern Ireland.

2.1. Absence of needs assessment

Because the Barnett Formula does not make any assessment of needs (beyond the crude measure of population proportions) it leaves Northern Ireland (and the other devolved administrations) open to the charge that they are overfunded – see figure 1 above. Without an objective assessment of needs it is difficult to provide an empirical basis on which to counter this charge.

2.2. Opaqueness of decision making

This point is considered in more detail in the RaISe briefing paper 'Barnett Consequentials'.[5] There are potential and actual difficulties raised for all the devolved administrations in relation to:

- Barnett 'boundaries';
- Formula 'bypass'; and,
- The availability of data.

Because of a lack of transparent decision making, independent of the UK Government, there have been occasions when the Barnett Formula has apparently been bypassed – in other words, a spending decision relating to a programme in England that *should* have generated consequentials for the devolved administrations did not.

This problem is compounded by the lack of a single, coherent and consistent publication by the Treasury which would illustrate which spending decisions had triggered consequentials over a period of time. The absence of such data makes official challenge to the decisions taken by the Treasury more difficult.

2.3. Dispute resolution

Building on the point made directly above, on contested funding decisions the Treasury is judge in its own cause, including whether to bypass or include any expenditure within the application of the Barnett Formula.

The House of Lords Select Committee on the Barnett Formula in 2009 recommended that before decisions are made on whether the system is bypassed or create a 'consequential' there is a clear process and open consultation with the devolved administrations. It also recommended consideration be given to the establishment of

[5] RaISe (2012) 'Barnett Consequentials' available online at: http://www.niassembly.gov.uk/Documents/RaISe/Publications/Finance%20and%20Personnel/0412.pdf

an independent commission which could oversee both the development of a new funding mechanism but also the transparent administration of a new system.

In the absence of an independent funding body, the only dispute mechanism is through the Joint Ministerial Council (JMC). However, the Memorandum of Understanding between the devolved administrations and the UK Government contains the following passage:

> *There may be circumstances, particularly those arising from differences in political outlook, where the UK Government and one or more of the devolved administrations are unlikely to be able to agree. In these cases the parties to this agreement recognise that the JMC machinery is unlikely to offer any prospect of resolution. They also recognise, consistently with the principle that the JMC is not a decision-making body, that the basis on which the procedures will operate is the facilitation of agreement between the parties in dispute, not the imposition of any solution.*[6]

In other words the JMC allows disputes to be *discussed* but not necessarily *resolved.*

[6] Cabinet office (2011) PROTOCOL FOR AVOIDANCE AND RESOLUTION OF DISPUTES available online at https://update.cabinetoffice.gov.uk/resource-library/protocol-avoidance-and-resolution-disputes (accessed 16 January 2012) (see page 2, paragraph 4)