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The Barnett Formula

The Barnett Formula was a temporary expedient named after a former Chief Secretary to the Treasury Joel (now Lord) Barnett. It has, for the past twenty years, been used to partly determine the spending plans for, what were, the three territorial departments (the Scottish Office, Welsh Office and Northern Ireland Office) and, since devolution, the budgets for the Scottish Parliament, the National Assembly of Wales and the Northern Ireland Assembly.

This paper describes the origins of the Barnett Formula and looks at how it operates with respect to Scotland, Wales and, briefly, Northern Ireland. It also describes some of the issues surrounding its continued use and proposals for reform.

This paper updates a previous Paper on this subject (RP 98/8) which included more information on the pre-devolution system.

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Summary of main points

For nearly 20 years the non-statutory Barnett formula has been part of the mechanism for determining the budgets of the three territorial departments (the Scottish Office, Welsh Office and Northern Ireland Office) and, lately, the devolved administrations.

The Barnett formula does not determine the overall size of the budgets but provides that, where comparable, changes to programmes in England result in equivalent changes in the budgets of the devolved administrations calculated on the basis of population shares. The Barnett formula does not directly reflect public expenditure 'need'.

The Treasury Committee conducted a major enquiry on the Barnett formula in 1997 and 1998.¹

Strict operation of the formula could lead to slower increases in public sector provision for Scotland, Wales and Northern Ireland than for England. This has been called the 'Barnett Squeeze'. An alternative arrangement would be where expenditure provision for the regions is determined after a needs assessment, in much the same way as provision is made for local authorities. If the relative need of the regions were similar to that in an exercise carried out in 1979 the result would be an immediate and substantial fall in provision for all three territories.

¹ [Second Report](#), HC 341 available at <http://www.publications.parliament.uk/pa/cm199798/cmselect/cmtreasy/341ii/ts0202.htm> and [Fourth Special Report](#) HC 619 1997-98 available at <http://www.publications.parliament.uk/pa/cm199798/cmselect/cmtreasy/619s4/tss402.htm>

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I The origins of the Barnett Formula

Some type of formula for allocating funds between the countries of the Union can be traced back to arrangements introduced in the 1880s by the then Chancellor, George Goschen. In 1888 he decided to use a formula to allocate probate duties in support of local government.²

During the 1960s and early 1970s, public expenditure plans for Scotland, Wales and Northern Ireland were settled collectively and by negotiation within the wider public expenditure framework on much the same basis as other public spending programmes.³

The Barnett formula was introduced in relation to Scotland in 1978. The origins are not well documented. In 1980 David Heald (now Professor of Accountancy at Aberdeen University, currently on research leave to be Director of the Centre for Regional Public Finance) commented:

In 1978 there was a return to a formula [for determining public expenditure in Scotland]. It is an indication of the extent of official secrecy that this was never placed on the public record until the Select Committee on Scottish Affairs elicited this information from Mr Younger. The Labour Government did not reveal the existence of this formula despite its relevance to the debate on the financing of devolved assemblies. [...]

All formulae need a name. In the apparent absence of an official one, I now name this the 'Barnett formula', after Joel Barnett MP, the then Chief Secretary of the Treasury with responsibility for public expenditure. Perhaps, some day, this will make Joel Barnett as famous as Lord Goschen!⁴

The Select Committee hearing to which David Heald referred took place on 7 July 1980. The relevant exchange would appear to have been between the Chairman, Donald Dewar, and George Younger (then Scottish Secretary):

Mr Dewar: [...] Could I start by asking you a little about how the figure of almost £4 billion to which you have referred in the White Paper is arrived at as the total of expenditure within the Secretary of State's responsibility? The point that I am interested in is whether in fact the changes each year, recently the decreases which the Government have been anticipating, are worked out on a programme basis specifically for Scotland or whether, as has been suggested to me, the position is that the English comparable programmes are the subject of discussion and argument; and when they have been scaled down, or theoretically

² Source: HM Treasury, evidence to the Treasury Committee, *The Barnett Formula*, second report HC 341 1997-98 p.12

³ *ibid*

⁴ D. Heald, *Territorial Equity and Public Finances: Concepts and confusion*, University of Strathclyde Centre for the Study of Public Policy, Studies in Public Policy No.75

increased perhaps in other circumstances, but for the present scaled down, whether those decreases are applied on a purely proportional basis automatically to the Scottish programmes?

Mr Younger: There are two different sorts of expenditure which come under my control: those sorts of expenditure which have comparable forms of expenditure in England: things like education, health, etc are common to north and south of the border: and other sorts of expenditure which are not strictly comparable; they are dealt with differently. What you have just asked refers to the main block of expenditure which concerns the comparable programmes. The way those are adjusted year by year is that they are argued on a general basis within government as comparable programmes as a whole. I take part in those discussions, of course; and we come to a decision; and it is agreed that the Scottish block expenditure as it relates to those programmes is adjusted by a formula, which is 10/85 in the case of programmes which are comparable between Scotland and England only, and 10/90 for programmes which are comparable between Scotland on the one hand and England and Wales on the other. This is, I should stress, purely for the alteration of the programmes and not for the base line from which it starts.⁵

In fact, the formula had previously been alluded to in answer to a Parliamentary Question in April 1980, which stated:

The move [the creation of a separate Scottish programme] also gives formal recognition to arrangements under which, where there are comparable English and Welsh programmes, the Secretary of State has discretion in the allocation of expenditure in Scotland within a total determined by reference to these programmes.⁶

It would appear that the formula had originally been intended to be a temporary measure prior to Scottish devolution.⁷ However, it has been used continuously, with some modification, ever since. The formula was extended to Wales in 1980.⁸

In his evidence to the Treasury Committee's inquiry Lord Barnett described the origins of the formula as follows:

...I am flattered that the Barnett Formula has lasted twenty years. I hope it will last much longer. At the time, I must confess, I did not think it would last a year or even twenty minutes. I was not sure. Can I also make clear, as you also refer to the question of devolution, that the Barnett Formula, either then or now although I know somebody said it at the time, has nothing

⁵ *Scottish Aspects of the 1980-84 PEWP: Minutes of Evidence*, HC 689 1979-80 Q.2

⁶ HC Deb 14 April 1980 c.458W

⁷ Source: Treasury Committee, HM Treasury, evidence to the Treasury Committee, *The Barnett Formula*, second report HC 341 1997-98, Q.192

⁸ *ibid* Q.195

whatsoever to do with devolution. In my view, any Government would be bound to consider the facts as they now are in relation to income and expenditure between various regions of the UK. What is it? Put simply, the Barnett Formula set percentages of changes in comparable expenditure in Great Britain. That is to say, it would be 85 per cent for England, 10 percent of expenditure for Scotland and 5 percent for Wales. That is exactly what the Barnett Formula is. It was set up for a variety of reasons. First of all, for the need to recognise the spending levels between the various parts of the UK-population sparsity in Scotland, transport needs, needs because of relative ill health, rural needs for education and so on and industrial needs - but above all, of course, although I know some distinguished people have suggested it had nothing to do with it, with income per head. I am bound to say they simply did not understand how the whole allocation of public expenditure worked at the time and I can only speak for myself. I do not know what is happening today - I do not know who does but, as far as I am concerned, what happened then was that I first of all had to persuade Cabinet to agree a total level of public expenditure. Having got that agreement, to make life a trifle easier and have to handle only English departments, I then got Cabinet approval for what is now (not then) called a Barnett Formula - the way public expenditure should be allocated and the changes in public expenditure should be allocated between England, Scotland and Wales - and they agreed that. Then I had a much tougher job of persuading departmental ministers to accept their budgets as I had allocated them. It was a bit easier, I could play one off against the other by saying "You cannot have any more because it would mean taking it away from somebody else", and they could not say anything about the allocation to Scotland and Wales because they, in Cabinet, had agreed it. So all those factors were taken into account in deciding what should be the allocation of public expenditure.⁹

Although Lord Barnett placed emphasis on the relative public expenditure needs of England and Scotland, the Barnett formula - as will be seen from the following section - does not directly reflect need beyond population.

II How the Barnett Formula Works Now

A. The mechanism

The first key to understanding Barnett is to remember that the formula determines the amount of *additional* changes to the expenditure of Scotland and Wales. It applies to the margin, not to the bulk of expenditure as determined by past decisions. Secondly, Barnett only applies to some types of expenditure. In particular large expenditure areas such as welfare payments are outside of the formula's jurisdiction. Barnett has played very little role in the overall relative level of public sector provision, but simply produces a value for the increase in a single year.

⁹ *ibid* Q.1

The formula applies to the Scottish and Welsh ‘blocks’ which cover most of the expenditure within the responsibilities of the Devolved Administrations.¹⁰ In both territories the block only accounts for some 80% of spending. The formula is used in determining the aggregate size of the block which the relevant administrations are then free to allocate between services as they see fit. However, as much public spending is on-going or demand-led, the scope for the exercise of this discretion is limited in practice.

Public expenditure is now determined within the framework of the Comprehensive Spending Review (CSR). So far this has taken place biannually. The CSR determines departmental expenditure plans for three years ahead so that in the case of the 2000 round, the years were 2001/02, 2002/03 and 2003/04. At the start of the following review a new year is added to the survey: in the case of the 2000 round, the year would have been 2003/04.

The initial level of the blocks in this year is determined by the Treasury using rules applied to all departments. Often in the past this has involved a percentage increase on expenditure in the year before. Thereafter, if there are changes to the plans for English¹¹ programmes that are ‘comparable’ to the Scottish and Welsh blocks, then a fixed proportion is added to - or in the case of cuts subtracted from - the block. These proportions are population based and, until 1992, reflected (in rounded form) mid-1976 population estimates. Since devolution, however, the population shares have been revised more frequently. It is intended that the next expenditure review will be allocated on population estimates from two years previously and these will be revised annually thereafter. Finally, the extent to which the responsibilities of the Assemblies ‘mirror’ those in England also plays a part in determining the uplift. Where central government expenditure is on behalf of all the territories the comparability factor is correspondingly lower than when most expenditure is administered financed at the national level (e.g. education spending).¹²

Once these factors have been calculated the application of the formula is quite simple. To recap there are three elements in the calculation:

1. The change in planned spending in departments in England.
2. The extent to which the relevant English departmental programme is comparable with the services carried out by each devolved administration; and
3. The population proportion in each country.

¹⁰ Spending programmes forming the respective Scottish and Welsh blocks can be found in the appendix to this Paper.

¹¹ Spending on law & order is planned on an England and Wales basis. Thus, spending on law and order is outside the Welsh block and changes in the Scottish block use a slightly different formula.

¹² See Annex C of HM Treasury, *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly*, Dep. Paper 00/1169, for details.

Put simply 1 times 2 times 3 is the increased spending for each country funded by central government. An example of how the system allocates resources is given below.

For the 2000 Comprehensive Spending Review the Scottish population as a proportion of England's is 10.34%. For Wales, 5.93%. For programmes in, for example, the Department of Health, the comparability factor for Scotland and Wales is 99.7%. Thus, if £1 billion is added to planned health expenditure in England, then £103 million (£1bn x 10.34% x 99.7%) is added to the Scottish block and £59.1 million to the Welsh block. Conversely, if there were public expenditure reductions in England, there would be reductions in the territorial blocks. The formula principally applies to the public expenditure planning process and does not automatically apply to in-year changes (e.g. where a Whitehall department's budget is changed after the start of a financial year to reflect unforeseen circumstances).¹³

As noted above, the formula does not automatically apply to in-year changes. Generally the Scottish and Welsh Administrations are expected to contain expenditure within the assigned budget by re-allocating priorities. Additional funds from the UK reserve may be granted in exceptional circumstances and specifically where:¹⁴

- The Government is making available provision in-year for equivalent services in England in order to cope with unforeseen and exceptional circumstances affecting the UK as a whole.
- Scotland or Wales faces unforeseen and exceptional domestic costs – arising, for example, from a natural disaster – that could not reasonably be absorbed within the existing budget.

Additionally:

- If action taken by an Assembly in a devolved matter imposes costs upon the UK, or vice versa, the Assembly will be able to make or receive payments to departments of the UK government directly in respect of such costs.
- Adjustments are made where the cost of financing certain European Union expenditure programmes cross more than one departmental area. This is done following an annual inter-departmental review. Where appropriate this will lead to a revised allocation of responsibilities and shares to be carried forward to the next review.¹⁵

¹³ Source: HM Treasury, evidence to the Treasury Committee, *The Barnett Formula*, second report HC 341 1997-98, Q.101

¹⁴ *ibid*, para. 11

¹⁵ HM Treasury, Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly, Section 8

If the Scottish Parliament exercises its tax-varying powers, the resources available to it will be adjusted upwards or downwards by the appropriate amount.¹⁶

Although the formula represents the normal procedure, changes to the block can take place outside it. Such changes can take a number of forms. The blocks may be adjusted to reflect the transfer of responsibilities (e.g. training in 1991/92) from a Whitehall department to a territorial department. The UK government may decide to make a uniform adjustment across all departments. Professor Heald has used the example of a decision by the Government to fully fund a pay settlement for nurses. As Scotland spends more per capita on health than England, it is likely that in such a scenario it would gain a larger share of additional resources than the Barnett formula would suggest.¹⁷ Another example is that of police funding for Wales which is decided by a common Home Office formula outside of Barnett.

B. Northern Ireland

The formula works in an analogous way in Northern Ireland. The only additional mathematical change is that the Irish uplift, as calculated above, is abated (reduced) by 2.5%. This is because Departments in the Northern Ireland Executive do not require provision to meet VAT expenditure since any VAT paid by the Executive is refunded by Customs & Excise.

A change in procedure following the 1998 Comprehensive Spending Review made the Irish 'uplift' greater than it had been previously. Before, the population factor was the Northern Ireland share of Great Britain's population. In subsequent Reviews the population factor will be the Northern Ireland share of England's population except where the programme in question generally has a wider coverage than England only such as social security administration, Chancellors' departments and Cabinet Office programmes, when either the England and Wales or Great Britain proportion is more appropriate.

Public expenditure in Northern Ireland falls into three categories:

- Expenditure at the UK department level, principally the Army. This is outside of all territorial calculations;
- Expenditure by the Northern Ireland Office, mostly law and order and protective services which is not a devolved matter; and

¹⁶ *Scotland's Parliament* White Paper Cm 3658, para. 7.20

¹⁷ David Heald, *Formula-based Territorial Public Expenditure in the United Kingdom*, Aberdeen Papers in Accountancy Finance and Management, 1992 p.51

- The Northern Ireland Assembly expenditure on devolved matters. Some of this is Barnett determined whereas other expenditure, for example social security spending is not.

As in Scotland and Wales the Barnett formula does not determine the overall size of the block.

III A Need for Reform?

Three main reasons are given for reforming or abolishing the Barnett formula. First, the formula has no legal standing or democratic justification. Secondly a completely different and transparent approach is needed to determining resource allocation. Lastly, a different resource allocation is needed because the allocations are felt to be unfair. Such arguments have emerged more strongly since devolution. Such a development was envisaged by John Major. Writing in his autobiography the former Prime Minister noted (in a section dealing with Scotland in particular) that:

I feared also that by exposing the reality of the favourable spending treatment given to Scotland, devolution would stir up latent English nationalist resentment leading to a backlash. I was already well aware that there was considerable discontent within English departments about Scottish money. Mostly this was confined to griping behind the scenes about the size of Scottish funding. Feeling was especially bitter among Members of Parliament with constituencies in English Regions (such as the South West, the North East and many parts of London) which had social problems every bit as serious as Scotland's, but which lost out badly in the annual public spending rounds, and lacked the economic clout exercised by the government agency Scottish Enterprise.¹⁸

Devolution was clearly an opportunity for review and reform of the system. The fact that changes were not made was commented on in the Treasury Committee Report, which stated:

The argument that the Barnett formula should be retained unchanged did not go unchallenged. Lord Barnett, though he emphasised his position had nothing to do with devolution, argued in evidence that there was a case for a review of the formula. "The levels of income per head between Scotland and other parts of the UK are now very different" [from levels seen in the 1970s],¹⁹ though Wales' income per head was lower than virtually any other region of the UK. He suggested that there should be a Barnett formula Mark II based on needs. The

¹⁸ Source: *John Major*, 2000 p 419

¹⁹ Author's annotation in brackets

review would have to take account of needs, income per head and expenditure per head.²⁰

A. A Statutory Mechanism?

As noted above, the Barnett formula is not statutory and there is the possibility of a future UK government wishing to renegotiate it. It has been argued that the devolution legislation should have been more specific about the long-term financial arrangements. For example, the Constitution Unit of the School of Public Policy at University College London has stated:

The arrangements proposed by the Scottish Constitutional Convention are a sensible basis on which to establish the Parliament, but do not promise stability in the longer term. The Barnett formula, which determines changes in the Scottish Office budget each year by reference to changes in equivalent English spending plans, is under pressure in any event and could not provide a basis for financing eventual English regional government. The bill should aim to promote greater stability (and longer-term applicability throughout the UK) by specifying mechanisms for keeping the funding formula under review and making adjustments when necessary.

The key will be the establishment of an independent Commission to gather reliable data about spending levels and to relate them to relative need. The Commission might conduct a periodic UK needs assessment, say every five to ten years, to inform periodic review of the funding formula. The first such assessment might commence immediately following the establishment of the Parliament. The Commission would make recommendations to central government for approval by the Westminster Parliament. It would also provide an independent audit of the results of applying the formula in practice.²¹

In a speech to the Wales Conservative Council in November 1997, the then Shadow Constitutional Affairs Spokesman, Michael Ancram, stated:

[...] The [Government of Wales] Bill fails to guarantee an appropriate level of funding for Wales – indeed, it only states that ‘the Secretary of State shall from time to time make payments to the Assembly out of money provided by Parliament of such amounts as he may determine’. In other words, the Assembly is dependent – each year – upon the goodwill of the Secretary of State.

Moreover, this omission is despite a clear statement of intent in the White Paper that the Barnett formula should be preserved. If the Government has already dropped such an assurance from the legislation, and in light of its impending comprehensive review of public spending, there is absolutely no reason to

²⁰ Source: HM Treasury, evidence to the Treasury Committee, *The Barnett Formula*, second report HC 341 1997-98, para. 9

²¹ Source: <http://www.ucl.ac.uk/constitution-unit/sfin.htm>

believe that the current government will give Wales a fair deal. I am not surprised, therefore, that the Institute for Welsh Affairs last week called for the Barnett formula to be enshrined in legislation. They are right to be worried. For the Bill contains no statutory provisions relating to the Barnett formula, let alone enshrining it. A mere mention in the financial memorandum protects nothing.

The Assembly will not only be dependent upon the goodwill of the Secretary of State for its funding. It will also be reliant upon his ability to secure a fair deal for Wales each year in the public spending round. With most of his powers in the hands of the Assembly, the Secretary of State will be a ghostly apparition of his former self in Whitehall.

Now imagine that the neutered Secretary of State belongs to a party which does not control the Assembly of Wales: what chance (and, indeed what incentive) would he have to fight for additional resources to give to his political opponents?²²

The next main argument for reform is that expenditure levels should be set according to the level of need.

B. Needs assessment

Before looking at an alternative method of allocation it is worth recalling the very real advantages that using the formula has had.

Barnett has had three main advantages for the territorial departments or devolved administrations:

- the operation of the formula protects (to a large extent) the existing situation where spending per head is above the national average. (This point is discussed below in more detail.)
- there is no need for the administrations to argue the case for equal treatment on each occasion that a relevant programme in England receives increased funding.
- the administrations retain the freedom to allocate the block between programmes and are free from invasive Treasury scrutiny.

The argument against its continuation is that population share alone is too crude a measure to use to determine resources.

There may be valid reasons why it may be appropriate for per capita spending in Scotland and Wales to be higher than in England. For example, the more sparsely distributed

populations make the provision of equivalent services more expensive. Larger agricultural sectors imply higher spending on agricultural support. Also, for most of the post-war period, much of Scotland and Wales have experienced declining traditional industries and relatively high levels of unemployment. Hence a more general 'needs' analysis should be used instead.

Given the degree of unhappiness with the current arrangements it is not surprising to hear calls for reform. Of these the loudest has been to replace the Barnett formula with a full scale needs assessment as the basis of regional provision.

Such a mechanism is used in several other countries and is of course the basis for the allocation of funds to local authorities in the UK and for specific public services such as the police. Essentially a review body would look at things such as medical need, population and density factors, social and economic conditions and recommend levels of expenditure on the basis of these. Of course this is no easy task, nor would the findings be beyond the reach of political debate and argument.

The last such official assessment of needs was conducted in the late 1970s when legislation for devolution was first being considered. An inter-departmental study (co-ordinated by the Treasury) tried to assess the extent to which per capita expenditure in Scotland and Wales would need to be higher than in England in order to provide a comparable level of services.²³ That exercise - which was based on data for 1976/77 - looked at the six main services which were to have been devolved under the Scotland Act 1978 and the Wales Act 1978.²⁴ The exercise used a range of 'objective factors' including the age distribution of the population, road lengths, recorded crimes and numbers of sub-standard dwellings to determine need.

The overall results (albeit heavily qualified by considerations about the methodology) were that per capita spending in Scotland would need to be some 16% higher than in England, spending in Wales 9% higher and spending in Northern Ireland 31% higher in order to provide comparable service levels. The actual per capita expenditure levels on these services in 1976/77 were; in Scotland some 22% higher than England, in Wales around 6% higher and in Northern Ireland some 35% higher.²⁵ While the report itself made no explicit comparison of assessed needs and actual spending, the two would appear - given the methodological concerns - to have been broadly in line. It is important to remember that the needs assessment was limited to expenditure on services that were to have been devolved. Spending on national programmes such as social security - which are usually included in comparisons of spending levels - were not considered. Also the definition of public expenditure itself has evolved considerably since the late 1970s and applying the conclusions to the current situation is problematic.

²² Source: Conservative press notice 1558/97 29 November 1997

²³ HM Treasury, *Needs Assessment Study - Report*, 1979

²⁴ Health & personal social services, education (excluding universities), housing, other environmental services, roads & transport (excluding railways) and law, order & protective services (excluding the police)

²⁵ Source: HM Treasury, *Needs Assessment Study - Report*, 1979, p.6

In its report on the Barnett formula, the Treasury Committee agreed with Treasury officials that "...all governments would subscribe to the fact that spending should broadly reflect needs." The report concludes:

12. The Committee was disappointed that no Government studies have been made in relation to the appropriateness of the Barnett formula and how it relates to needs. The Committee only took evidence relating to the formula. We believe, however, that it is time to bring the needs assessment up to date; this would help to show whether the Barnett formula remains the appropriate method of allocating annual expenditure increases (or savings) to the four nations of the Union. There may be good reasons why this formula should continue to be used in the future as it has for the last 20 years, but it is an argument that cannot finally be settled until it is clear that total expenditure, not just the increase, is still being allocated according to relative need. It is important there should be maximum possible agreement on this in all parts of the UK.

The second reason for change is the simple fact referred to by John Major in the extract listed above; representatives of equally deprived English regions see no reason why Scotland and Wales should receive more money than they do.

C. Equity

Each year, for many years, the Treasury has undertaken to identify expenditure accruing to the four countries of the United Kingdom. It is worth repeating that the scope of identifiable expenditure is much broader than devolved expenditure. Thus, whatever differences are highlighted by this useful exercise they are not all caused by Barnett. Despite the difficulties this exercise is the clearest indication we have of where public expenditure goes. Although the precise definition of spending varies from year to year, identifiable public expenditure, as it is called, covers something like 80% of all public expenditure. Figures for selected years are shown in the table below:

Identifiable Public Expenditure per Capita				
% of UK Expenditure				
	1987/88	1991/92	1995/96	1999/00
England	96%	97%	96%	96%
Scotland	122%	115%	117%	118%
Wales	109%	107%	114%	113%
N.Ireland	146%	137%	131%	133%

Source: Public Expenditure Statistical analysis (various)

The extent of the disparity in spending patterns between regions is even sharper when it is looked at on a service by service basis. Comparative expenditure on selected services is shown in the table below:

Identifiable General Government Expenditure 1999/00**Expenditure £ per head**

	Education	Health & personal social services	Roads & transport	Housing	Trade, industry, energy & employment	Total
North East	686	1,090	133	29	119	4,837
North West	691	1,075	134	46	108	4,628
Yorks' & Humberside	659	1,051	102	36	105	4,224
England	659	1,041	133	42	103	4,283
Scotland	863	1,271	180	90	171	5,271
Wales	682	1,180	154	74	130	5,052
N. Ireland	935	1,193	123	166	293	5,939

Expenditure per head, UK= 100

	Education	Health & personal social services	Roads & transport	Housing	Trade, industry, energy & employment	Total
North East	100.1	101.7	96.4	56.9	103.5	108.6
North West	100.9	100.3	97.1	90.2	93.9	103.9
Yorks' & Humberside	96.2	98.0	73.9	70.6	91.3	94.9
England	96.2	97.1	96.4	82.4	89.6	96.2
Scotland	126.0	118.6	130.4	176.5	148.7	118.4
Wales	99.6	110.1	111.6	145.1	113.0	113.5
N. Ireland	136.5	111.3	89.1	325.5	254.8	133.4

Source: Public Expenditure Statistical Analysis 2001-02, tables 8.6b and 8.12

The disparity is substantial. Identifiable expenditure in Scotland on education is 25% higher than in the North West and over 30% higher than in Yorkshire & Humberside. Health service expenditure in Scotland is something like 20% higher. Expenditure in Wales is generally above that of the poorer regions of England but to nothing like the same extent as in Scotland. In reality therefore the equity question relates more specifically to Scotland than to either Wales or Northern Ireland, for which there are some obvious reasons for special treatment and higher costs.

The following exchange at a question time just before the 2001 General Election is typical of the parliamentary debate.

Mr. Michael Fallon (Sevenoaks): What recent discussions she has had with Treasury Ministers about the operation of the Barnett formula

The Minister of State, Scotland Office (Mr. George Foulkes): My right hon. Friend the Secretary of State and I have regular discussions with Treasury Ministers about a range of matters. The Barnett formula continues to provide a fair deal for Scotland within the United Kingdom and we have no plans to change it.

Mr. Fallon: Now that education and health spending are at least 25 per cent. higher per capita in Scotland than in England, and as that difference is paid for through the formula mainly by taxpayers in England, would not it be reasonable to invite the Scottish Parliament to use its tax-raising powers to enable Scottish

decisions on higher teachers' pay or free nursing care, which it is fully entitled to take, to be financed with enthusiasm and integrity by Scottish taxpayers?

Mr. Foulkes: I do not think that the hon. Gentleman understands the question. The spending allocations in Scotland were originally based on a needs assessment. The Barnett formula allocates the increases each year according to population, so they are updated annually as the population changes north and south of the border. I have been considering his constituency, which has an unemployment rate of 1.5 per cent. My constituency has an unemployment rate of 6.6 per cent. All the other indicators there are better than those in my constituency, too, which suggests that Scotland still has needs that do not exist in his part of England. Some parts of England will be receiving higher per capita expenditure than Scotland, however, as they also have substantial needs.

Mrs. Maria Fyfe (Glasgow, Maryhill): Does my hon. Friend agree that those who seek to abolish the Barnett formula are doing Scotland a great disservice? Will he speculate on their motive for doing so?

Mr. Foulkes: I do not think that such people can be motivated by a desire for re-election in Scotland, which has clearly been abandoned by the Conservatives. Sometimes, Opposition Members say that the decisions taken by the Scottish Executive, who have a finite budget, create preferential treatment north of the border. Devolution means that they decide their own priorities. If they choose to spend more on one area, it means that less will be spent on another area. However, that spending is in the context of the fastest increasing budget in living memory north and south of the border. By 2003, the Scottish Executive will have £3.4 billion extra to spend because of a Labour Government, and they will spend it according to the priorities decided in Scotland.

Mr. Alasdair Morgan (Galloway and Upper Nithsdale): Will the Minister concede that, year on year, the Barnett formula reduces the percentage of Government expenditure in Scotland? Despite that, the Government surplus of revenue from, against expenditure in, Scotland in the next couple of years will be approximately £7.7 billion, which should help to subsidise some Members and their constituents.

Mr. Foulkes: I find this a bit strange. The Tories from the leafy suburbs in the south-east claim that the settlement is too generous, while the nationalists whinge as usual and say that it is not generous enough. That suggests that it is about right.²⁶

All the main elements of the debate can be seen in this exchange. Confusion, there is no publicly available evidence that '*The spending allocations in Scotland were originally based on a needs assessment*'. Resentment, by English MPs at favourable Scottish

²⁶ HC Deb 6 March 2001 C136-7w

treatment. Fear, by Nationalists that the formula will in future reduce the resources available to Scotland. Lastly, an appeal by the government that the general rise in public spending targets throughout the UK will leave all regions better off. Of these three positions, the one that is less obvious or intuitive is the Nationalist claim concerning the future squeeze on resources that might affect Scotland.

D. The ‘Barnett Squeeze’

This claim is largely based upon theoretical models of how the formula will work in the devolved environment. A leading exponent of this theory is Professor David Bell of the University of Stirling. His work, *The Barnett Formula and Needs Assessment*, outlines the main strands of the argument.²⁷

The first point to note is that the study looks at an outcome as if the formula was rigidly applied. As has been stated earlier, in practice the formula has been imperfectly applied and, furthermore, although important, it is only one factor in determining the final level of expenditure. Hence the conclusions drawn from the study should be seen in this light.

The model devised by Bell shows that the rate of change in relative public spending between Scotland and England depends on:

1. The growth rate in public spending in England
2. The difference between the current expenditure shares and the Barnett factor.

Clearly, if public expenditure in England does not change it will not do so in Scotland either (Barnett only affects marginal changes). Moreover the speed with which the gap will close depends upon how wide the gap is now and the Barnett apportionment. If the Scottish share is larger than the Barnett share the percentage increase in resources allocated to Scotland will be less than the average superiority of resources determined by previous settlements. The following arithmetic example illustrates the effect. The model assumes that there is no relative population growth in either England or Scotland over a five year period. Each year public expenditure in England rises by five per cent and it is assumed that Scotland is responsible for all the departmental expenditure. Scotland receives an assumed population share (10%) of this increase.

²⁷ Available at <http://www.ucl.ac.uk/constitution-unit/leverh/events/BARNETTA.PDF>

The Barnett 'Squeeze'**Example 1: Constant Population Model**

		Programme Expenditure £millions	Expenditure per head £s	Scottish expenditure per head as a % of England's
Year 1	Scotland	125.0	31.3	
	England	1,000.0	25.0	125%
Year 2, 5% programme uplift	Scotland	130.0	32.5	
	England	1,050.0	26.3	124%
Year 3, 5% programme uplift	Scotland	135.3	33.8	
	England	1,102.5	27.6	123%
Year 4, 5% programme uplift	Scotland	140.8	35.2	
	England	1,157.6	28.9	122%
Year 5, 5% programme uplift	Scotland	146.6	36.6	
	England	1,215.5	30.4	121%

Over the period, expenditure per head rises in both countries but Scottish expenditure at the end of the period is 121% of that in England, whereas at the start of the period it was 125%.

The next example illustrates the impact of population change. As was mentioned earlier, the population of Scotland has declined compared to that in England since 1979.²⁸ This example assumes that Scotland's population declines by one per cent per year.

²⁸ Population statistics can be found in an appendix to this Paper

The Barnett 'Squeeze'**Example 2: Declining Population Model**

		Programme Expenditure £millions	Expenditure per head £s	Scottish expenditure per head as a % of England's
Year 1	Scotland	125.0	31.3	
	England	1,000.0	25.0	125%
Year 2, 5% programme uplift				
	Scotland	130.0	32.8	
	England	1,050.0	26.3	125%
Year 3, 5% programme uplift				
	Scotland	135.3	34.5	
	England	1,102.5	27.6	125%
Year 4, 5% programme uplift				
	Scotland	140.8	36.3	
	England	1,157.6	28.9	125%
Year 5, 5% programme uplift				
	Scotland	146.6	38.1	
	England	1,215.5	30.4	126%

The effect of the decline in relative population has reversed the squeeze that would otherwise have taken place. After five years the relative financial position of the two countries has changed, in Scotland's favour by just 1%. The point about the population shares pre devolution was that the population data used in the 1980s and 1990s was always many years out of date, thus benefiting Scotland. Since devolution the population share is to be reviewed annually and hence this will no longer benefit Scotland.

As well as population change, inflation affects the rate of convergence too. The examples above show nominal increases of five per cent expenditure. If the real level of increase was ten per cent, (five for inflation, five for real growth) convergence would increase. In the case of the first example, Scottish expenditure at the end of five years would be only 117% of England's rather than 121%.

Professor Bell comments:

The current working of the formula....is deceptively equitable. It is therefore easy to defend politically even though the generosity of the original settlement and the subsequent partial implementation of the formula still results in considerably higher per capita spending.²⁹

This comment is likely to be particularly appropriate in the context of the current comprehensive spending round which has substantial planned increases of public expenditure. Professor Bell's analysis of the current spending round concludes that:

²⁹ *ibid*, p 7

Because public spending in Scotland is not planned to grow as fast as in the rest of the UK, the Comprehensive Spending Review means that public services in Scotland will receive almost £1 billion less by 2003/04 than they would have done if the growth rate had been the same.

Bell estimates that on reasonable assumptions it will take something like thirty years for the difference in the level of provision between England and the other countries (the same principles apply to Wales and Northern Ireland too) to virtually disappear.

Another reason to expect convergence to take a long time is the limited scope of Barnett. Self evidently Barnett only controls that part of expenditure that is controlled by the formula. This is narrower than the whole range of devolved expenditure, which is in turn narrower than the published series (the only published series) of identifiable public expenditure.

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Appendix

Mid-year population estimates

30 June	Mid-year populations			Scotland	Scotland	Wales
	England	Wales	Scotland	as percent	as percent	as percent
	& Wales			of England	of England	of England
	(000s)	(000s)	(000s)		& Wales	
Mid-year estimates						
1976	49,459	2,799	5,233	11.22%	10.58%	6.00%
1977	49,440	2,801	5,226	11.21%	10.57%	6.01%
1978	49,443	2,804	5,212	11.18%	10.54%	6.01%
1979	49,508	2,810	5,204	11.14%	10.51%	6.02%
1980	49,603	2,816	5,194	11.10%	10.47%	6.02%
1981	49,634	2,813	5,180	11.06%	10.44%	6.01%
1982	49,613	2,806	5,167	11.04%	10.41%	5.99%
1983	49,681	2,807	5,153	10.99%	10.37%	5.99%
1984	49,810	2,806	5,146	10.95%	10.33%	5.97%
1985	49,990	2,810	5,137	10.89%	10.28%	5.96%
1986	50,162	2,820	5,123	10.82%	10.21%	5.96%
1987	50,321	2,833	5,113	10.77%	10.16%	5.97%
1988	50,487	2,854	5,093	10.69%	10.09%	5.99%
1989	50,678	2,869	5,097	10.66%	10.06%	6.00%
1990	50,869	2,878	5,102	10.63%	10.03%	6.00%
1991	51,100	2,891	5,107	10.59%	9.99%	6.00%
1992	51,277	2,899	5,111	10.56%	9.97%	5.99%
1993	51,439	2,906	5,120	10.55%	9.95%	5.99%
1994	51,621	2,913	5,132	10.54%	9.94%	5.98%
1995	51,820	2,917	5,137	10.50%	9.91%	5.96%
1996	52,010	2,921	5,128	10.45%	9.86%	5.95%
1997	52,211	2,927	5,123	10.39%	9.81%	5.94%
1998	52,428	2,933	5,120	10.34%	9.77%	5.93%
1999	52,690	2,937	5,119	10.29%	9.72%	5.90%
2000	52,943	2,946	5,115	10.23%	9.66%	5.89%
1998-based projections						
2006	54,021	2,969	5,098	9.99%	9.44%	5.82%
2011	54,915	2,993	5,087	9.80%	9.26%	5.76%
2016	55,853	3,021	5,078	9.61%	9.09%	5.72%

Sources: ONS, "Population Trends" Autumn 2001 table 1.2