



RESEARCH PAPER 98/8  
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# The Barnett Formula

The Barnett Formula – so-called after former Chief Secretary Joel (now Lord) Barnett - is used within the course of a public expenditure survey to adjust the spending plans for the three territorial departments (the Scottish Office, Welsh Office and Northern Ireland Office) to reflect changes in comparable programmes in England (or, in the case of Northern Ireland, Great Britain). Following devolution, the formula will contribute to the calculation of the budgets for the Scottish Parliament and the National Assembly of Wales.

This paper describes the origins of the Barnett Formula; how it operates in respect of Scotland and Wales, and the changes that will be introduced following devolution. The operation of the formula in respect of Northern Ireland is also briefly discussed.

Robert Twigger

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## I Summary

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

The Barnett Formula does not determine the overall size of the budgets but provides that, where comparable, changes to programmes in England (Great Britain in the case of Northern Ireland) result in equivalent changes in the budgets of the territorial department calculated on the basis of population shares. The Barnett Formula does not directly reflect public expenditure 'need'.

The Government has decided that with some minor adjustments, the Barnett Formula will continue to operate under Scottish and Welsh devolution.

The Treasury Committee published a report on the Barnett Formula in December 1997.<sup>1</sup>

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<sup>1</sup> Second Report, HC 341 1997-98

# II 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.<sup>2</sup>

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 on much the same basis as other public spending programmes.<sup>3</sup>

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) commented:<sup>4</sup>

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!

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):<sup>5</sup>

**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

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

<sup>3</sup> ibid

<sup>4</sup> 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

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

argument; and when they have been scaled down, or theoretically 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.

In fact, the formula had previously been alluded to in answer to a Parliamentary Question in April 1980, which stated:<sup>6</sup>

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.

It would appear that the formula had originally been intended to be a temporary measure prior to Scottish devolution.<sup>7</sup> However, it has been used continuously, with some modification, ever since. The formula was extended to Wales in 1980.<sup>8</sup>

In his evidence to the recent Treasury Committee inquiry Lord Barnett described the origins of the formula as follows:<sup>9</sup>

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<sup>6</sup> HC Deb 14 April 1980 c.458W

<sup>7</sup> Source: Treasury Committee, op cit, Q.192

<sup>8</sup> ibid Q.195

<sup>9</sup> ibid Q.1

...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 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.

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.

### III How the Barnett Formula works at present

#### A. The mechanism

The formula currently applies to the Scottish and Welsh ‘blocks’ which now cover all expenditure within the responsibilities of the Secretaries of State for Wales and Scotland except ‘agriculture, fisheries and food’ and finance for nationalised industries. In both countries the block currently accounts for some 96% of all spending by the territorial department. The formula is used in determining the aggregate size of the block which the relevant secretaries of state 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.

Each year the public expenditure survey (PES) process determines departmental expenditure plans for three years ahead so that in the case of the 1997 round, the years would have been 1998/99, 1999/00 and 2000/01.<sup>10</sup> At the start of a public expenditure round a new year is added to the survey: in the case of the 1997 round, the year would have been 2000/01. The initial level of the blocks in this year is determined by the Treasury using rules applied to all departments. In broad terms this normally involves a percentage up-lift on expenditure in the year before. Thereafter, if there are changes to the plans for English<sup>11</sup> 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. However, in 1992, they were revised, for the first time, to reflect data from the 1991 Census of Population. The ratios are set out in the following table:

Programme	Pre-1992	Post-1992
Scotland: Law & order	10/90 <sup>ths</sup> (11.11%)	10.06%
Scotland: Programmes other than law & order	10/85 <sup>ths</sup> (11.76%)	10.66%
Wales	5/85 <sup>ths</sup> (5.88%)	6.02%

Thus, for example, if £1 billion is added to planned health service expenditure in England, then £106.6 million is added to the Scottish block and £60.2 million to the Welsh block. Conversely,

<sup>10</sup> The 1997 public expenditure survey was cancelled pending the outcome of the Comprehensive Spending Reviews announced by the Government in June 1997.

<sup>11</sup> 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.

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if there were public expenditure reductions in England, there would be reductions in the territorial blocks. The formula principally applies to the PES 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).<sup>12</sup>

Although the formula represents the normal procedure, changes to the block can take place outside the Barnett Formula. 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 to gain a larger share of additional resources than the Barnett Formula would suggest.<sup>13</sup>

There is insufficient information in either the *Financial Statement and Budget Report* ('red book') or the departmental expenditure reports to show how the formula has actually operated. According to Thain & Wright,<sup>14</sup> there is considerable discussion between the territorial departments and the Treasury about what constitute comparable programmes as it is impossible to ensure a precise fit. Generally there is a "...willingness on both sides to 'take the rough with the smooth'..." but there are occasionally circumstances in which a department will 'bid outside the block' or seek an 'add-on'.

## B. Implications

The Barnett Formula approach offers three main advantages to the territorial departments:

- 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 department to argue the case for equal treatment on each occasion that a relevant programme in England receives increased funding.
- the Secretary of State retains the freedom to allocate the block between programmes.

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<sup>12</sup> Source: Treasury Committee, *op cit*, Q.101

<sup>13</sup> David Heald, *Formula-based Territorial Public Expenditure in the United Kingdom*, Aberdeen Papers in Accountancy Finance and Management, 1992 p.51

<sup>14</sup> C Thain & M Wright, *The Treasury and Whitehall: The Planning and Control of Public Expenditure, 1976-93*, p.316ff

The level of public spending in Wales and Scotland is higher on a per capita basis than in England and has been for some time.<sup>15</sup> In principle, in a situation where public expenditure continues to grow, the operation of the Barnett formula would, in the long-term, tend to reduce these differentials. This is because the territorial departments only gain their per capita share of new resources. (Reductions in spending would conversely tend to increase differentials.) However, work by Professor Heald suggested that, in practice, convergence during the 1980s was less than might be expected.<sup>16</sup> There are probably for two main reasons for this. First, changes to the blocks are made outside the Barnett formula (see above) and, second, there have been changes in the underlying population ratios. The overall size of the block is largely determined by its size in the previous year. If the population of Scotland or Wales is falling (or rising less quickly) than that of England, per capita spending will rise relative to that in England. This has certainly been the case in Scotland where the population has fallen relative to England's in every year since 1976 and is projected to continue to do so in the near future. Indeed, Scotland's population fell in absolute terms from 5,233,000 in 1976 to a low-point of 5,093,000 in 1988 before recovering to 5,128,000 in 1996. The population of Scotland is projected to fall again in the next 10 to 15 years. The population of Wales, however, has generally risen over this period and has fallen only marginally relative to that of England. Details are set out in the table overleaf.

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<sup>15</sup> See Research Paper No 97/78, *Public Expenditure in Scotland and Wales*, for details.

<sup>16</sup> David Heald, *op cit*

Table 1

**Mid-year population estimates**

30 June	Mid-year populations			Scotland as percent of England	Scotland as percent of England & Wales	Wales as percent of England
	England & Wales (000s)	Wales (000s)	Scotland (000s)			
<b>Mid-year estimates</b>						
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%
<b>1994-based projections</b>						
1996	51,979	2,922	5,149	10.50%	9.91%	5.96%
2001	52,661	2,937	5,135	10.33%	9.75%	5.91%
2006	53,207	2,947	5,108	10.16%	9.60%	5.86%
2011	53,712	2,995	5,083	10.02%	9.46%	5.91%

Sources: ONS - CSDB database  
 ONS, "Population Trends" Winter 1997 table 2

## C. Needs assessment

As noted above, the Barnett formula does not determine the absolute levels of expenditure in Scotland, Wales and Northern Ireland. However, in practice, the formula has tended to preserve the situation where per capita expenditure in these countries is above that in England. There are, of course, 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 much of the post-war period, much of Scotland and Wales have experienced declining traditional industries and relatively high levels of unemployment.

The last such official assessment of needs was conducted two decades ago when legislation for devolution was last being considered. An inter-departmental study (co-ordinated by the Treasury) in the late 1970s attempted 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.<sup>17</sup> 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.<sup>18</sup> Using a large range of 'objective factors' including the age distribution of the population, road lengths, recorded crimes and numbers of sub-standard dwellings, the authors estimated the cost of providing an equivalent level of services in Scotland, Wales and Northern Ireland to that in England.

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.<sup>19</sup> While the report itself makes 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.

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<sup>17</sup> HM Treasury, *Needs Assessment Study – Report*, 1979

<sup>18</sup> Health & personal social services, education (excluding universities), housing, other environmental services, roads & transport (excluding railways) and law, order & protective services (excluding the police)

<sup>19</sup> Source: *ibid* p.6

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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.

### D. Northern Ireland

The Barnett Formula works in an analogous way in Northern Ireland. Public expenditure in Northern Ireland falls into three categories:

- Expenditure by UK departments (e.g. on the Northern Ireland Court Service and the Army).
- Expenditure by the Department of Agriculture (NI).
- The Northern Ireland 'block'. This includes expenditure by Northern Ireland Office and the Northern Ireland departments (other than on agriculture) and central government grants to district councils.

The Barnett formula helps to determine the size of the Northern Ireland block. If during the course of the annual public expenditure survey (PES) there are negotiated changes to comparable programmes in Great Britain (excluding social security), then a fixed proportion of that change is generally added to, or deducted from, the Northern Ireland block. The relevant proportion is currently 2.87% representing the relative sizes of the populations of Northern Ireland and Great Britain in 1991.<sup>20</sup> For example, if £1 billion is added to health budgets in Great Britain, then £28.7 million is added to the Northern Ireland block. The Secretary of State has the discretion to allocate the block (other than social security) between services in response to local needs and priorities. Social security spending is largely determined by the value of benefits and the expected level of demand. As in Scotland and Wales the Barnett Formula does not determine the overall size of the block.

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<sup>20</sup> Source: Northern Ireland Office Departmental Report 1997, Cm 3616, para. 3.4. Prior to 1992 the relevant proportion was 2.75%.

## IV Proposals for devolution

Under the proposals set out in the white papers on Scottish and Welsh devolution, the Barnett formula will continue to be used as part of the mechanism for determining the level of expenditure of the Scottish Parliament and Welsh Assembly.<sup>21</sup> The Scottish Office publication *A Guide to the Scotland Bill* states:

The Government published earlier this month a paper setting out the principles which will govern determination of the Block budgets for the Scottish Parliament and the National Assembly of Wales. It explained that the arrangements associated with the Barnett formula will continue to operate under devolution, with only minor adjustments. Like the Barnett formula itself over the last 20 years, the formula by which the Scottish Parliament's budget will be calculated will be an administrative arrangement and will not be prescribed in legislation.

On 8 December the Treasury issued a document setting out how the present system works and how it would be amended to meet the requirements of devolution.<sup>22</sup> There will need to be changes in the coverage of the Scottish and Welsh blocks in order to reflect the responsibilities of the new institutions. For example, domestic agriculture, forestry, council tax benefit and (in Scotland) nationalised industries are being brought into the blocks. (The Treasury has suggested that a different formula might be used in relation to expenditure council tax benefit and housing benefit.<sup>23</sup>)

It has been decided that the Barnett formula will be up-dated annually to take account of the latest mid-year population estimates to be published by the Office for National Statistics (ONS). The first year to which the revised formula will apply will be 1999/00. The latest estimates from ONS relate to mid-1996. On this basis, the population of Scotland represents 10.45% of England's population (compared to the Barnett formula's 10.66%) and 9.86% of the population of England and Wales (compared to the Barnett formula's 10.06%). The population of Wales represents 5.95% of England's population (compared to the Barnett formula's 6.02%).<sup>24</sup> A reduction in the population ratios would mean that the Scotland and Wales blocks receive smaller increases as a result of expenditure increases in England but smaller reductions in the event of cuts.

The Barnett formula has no statutory basis and is not included in either the *Scotland Bill* or the *Government of Wales Bill*. Thain & Wright describe the formula as an example of a "...non-statutory policy rule based on a mutual understanding between parties within the policy network,

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<sup>21</sup> The financing of such expenditure will mainly be via a grant from the Westminster government but also by local authority borrowing, EU grants, etc.

<sup>22</sup> *Principles to govern determination of the block budgets for the Scottish Parliament and National Assembly for Wales*, Dep. Paper 3s/5621

<sup>23</sup> *ibid.*, para.7

<sup>24</sup> See table 1 p.12

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the implementation of which is subject to both sides observing the behavioural ‘rules of the game’.”<sup>25</sup> However, the white paper on Scottish devolution stated that any substantial revision of the formula “...would need to be preceded by an in depth study of relative spending requirements and would be the subject of full consultation between the Scottish Executive and the UK Government.”<sup>26</sup> A similar statement was included in *A Voice for Wales*.<sup>27</sup> The present Government has stated its commitment to the current arrangements for determining the Scottish and Welsh blocks. For example, the following exchange took place at Oral Questions on 27 November:<sup>28</sup>

8. **Mr. Randall:** If he will make a statement on the future of the Barnett formula.

**Mr. Darling:** The Government have made it clear that they intend to keep the existing arrangements. The Government’s position was clearly set out in the two White Papers on which the referendum campaigns in Scotland and Wales were fought and won.

In the past it has not been possible to tell from published documentation how the Barnett formula has been applied in a particular PES round. However, the white paper on Scottish devolution states that, following devolution, “...the operation of the formula each year will be a matter of public record.”<sup>29</sup> A similar statement was included in *A Voice for Wales*.<sup>30</sup>

As now, under devolution there may be changes to the Scottish and Welsh blocks other than those determined by the Barnett Formula. In particular, decisions taken by the Parliament or Executive will sometimes have financial implications for government departments. Similarly, government departments may, on occasion, implement policies that will lead to additional costs for the Scottish Parliament. The Government intends that the long-standing convention whereby the body whose decision results in higher costs meets those costs should apply. Where such decisions are made by the UK Government there will often be automatic compensation for the Assembly via the Barnett formula.<sup>31</sup>

There are some other circumstances in which changes to the Scottish and Welsh blocks will be made outside the Barnett Formula.<sup>32</sup> For example:

- The UK government decides to make a uniform general adjustment to public expenditure programmes.

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<sup>25</sup> Thain & Wright, *op cit*, p.307

<sup>26</sup> Cm 3658, para. 7.7

<sup>27</sup> Cm 3718, para. D12

<sup>28</sup> HC Deb 27 November 1997 c.1080

<sup>29</sup> Cm 3658, para. 7.5

<sup>30</sup> Cm 3718, para. D8

<sup>31</sup> Cm 3658, para. 7.9

<sup>32</sup> Dep. Paper 3s/5621, *op cit*, para. 9

- There are capital receipts from the disposal of assets in which the UK taxpayer (who financed the original purchase) has a continuing interest. The proceeds from other disposals can be recycled within Scotland.
- Self-financed local authority expenditure grows significantly faster in Scotland than England.

As noted above, the Barnett Formula does not automatically apply to in-year changes. Generally the Scottish and Wales will, as now, be 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:<sup>33</sup>

- 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.

If the Scottish Parliament exercises its tax-varying powers, the resources available to it will be adjusted upwards or downwards by the appropriate amount.<sup>34</sup>

A number of people have commented on the decision to retain the Barnett Formula after devolution. The Treasury Committee Report states:<sup>35</sup>

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],<sup>36</sup> 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 review would have to take account of needs, income per head and expenditure per head.

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

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<sup>33</sup> *ibid*, para. 11

<sup>34</sup> Cm 3658, para. 7.20

<sup>35</sup> Treasury Committee, *op cit*, para. 9

<sup>36</sup> author's annotation in brackets

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should be more specific about the long-term financial arrangements. For example, the Constitution Unit of the School of Public Policy at UCL has stated:<sup>37</sup>

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.

In speech to the Wales Conservative Council in November, the Shadow Constitutional Affairs Spokesman, Michael Ancram, stated:<sup>38</sup>

[...] 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 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?

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<sup>37</sup> Source: <http://www.ucl.ac.uk/constitution-unit/sfin.htm>

<sup>38</sup> Conservative Party press notice 1558/97 dated 29 November 1997

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