



# The Barnett formula: recent developments

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This note summarises developments related to the Barnett formula since the publication of the Library's [Research Paper](#) (RP 07/91) on this subject in December 2007. A number of reviews of the formula have been established over the last few years. Some of these have published reports and some are still to do so.

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## 1 Introduction

The Barnett formula is an important part of the process by which the budgets of the devolved legislatures are set. The background to the formula and an explanation of how it works are set out in a Library [Research Paper](#) published in December 2007.<sup>1</sup>

Critics of the Barnett formula argue that it produces an unfair distribution of public spending in the different parts of the UK, that it fails to provide financial accountability or give the devolved legislatures any tools of economic policy, such as control of tax rates.

Over the last few years, a number of reviews have been established to see whether the Barnett formula should be modified or replaced. The SNP government published a paper, [Fiscal Autonomy in Scotland](#), which argued for an independent Scotland having full control over public spending, taxation, borrowing and other elements of economic policy in Scotland. The Calman Commission, established by the pro-Unionist parties in the Scottish and Westminster Parliaments, published a [report](#) calling for greater taxation powers for Scotland as well as making a number of recommendations on other aspects of devolution in Scotland.<sup>2</sup> The UK government welcomed the conclusions of the Calman Commission. A steering group, chaired by Jim Murphy MP, Secretary of State for Scotland, has been formed to take the Calman proposals forward.

A commission has been established by the Welsh Assembly Government and a House of Lords *ad hoc* committee is examining the Barnett formula. The Treasury has said that it will publish a factual paper on the Barnett formula, but no date has been set for its publication.

This note gives further details of these various reviews and sets out their conclusions in those cases where a report has been published.

## 2 The Commission on Scottish Devolution (“The Calman Commission”)

### 2.1 Background

In December 2007, pro-Unionist parties in the Scottish Parliament (Labour, Conservative and Liberal Democrats) voted for the establishment of a Commission to review the devolution settlement, including the financial powers of the Scottish Parliament. The UK Government gave its support to this review and on 25 March 2008 Des Browne, the then Secretary of State for Scotland, announced that Sir Kenneth Calman would chair the Commission.<sup>3</sup> The Commission’s terms of reference were set out in a written statement by Des Browne on 25 March 2008:

I am pleased to announce today that Professor Sir Kenneth Calman has agreed to serve as Chair of a Commission to review the Scotland Act. Such a Commission was proposed in and approved by the Scottish Parliament. The Government welcome that Parliament’s support for the aim of strengthening devolution, and securing Scotland’s place in the Union. We are therefore giving our full support to this cross-border, cross-party review.

The terms of reference for the Commission, which have also been approved by the Scottish Parliament, are:

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<sup>1</sup> RP 07/91

<sup>2</sup> On the non-financial aspects of the Calman Commission, see Library Standard Note, [The Commission on Scottish Devolution – the Calman Commission](#), (SN/PC/4744)

<sup>3</sup> [HC Deb 25 March 2008 cc7-8WS](#)

“To review the provisions of the Scotland Act 1998 in the light of experience and to recommend any changes to the present constitutional arrangements that would enable the Scottish Parliament to serve the people of Scotland better, that would improve the financial accountability of the Scottish Parliament and that would continue to secure the position of Scotland within the United Kingdom”.

The Government and the Scottish Parliament will work together to provide support for the Commission, which will be asked to make an interim report by the end of this year. Its report will be submitted to both the Government and to the Scottish Parliament.

I hope that there will be full engagement by people in Scotland and elsewhere in the UK with this review, which will provide an opportunity to assess the successes of devolution to Scotland, and identify ways in which the devolution settlement can be developed to work better for the people of Scotland within the United Kingdom.

The other members involved in the Commission will be announced in due course.<sup>4</sup>

The Commission’s remit excluded the options of both independence and of returning to the pre-devolution arrangements.<sup>5</sup> The Commission published a [first report](#) in December 2008. The [final report](#) was published on 15 June 2009.

## **2.2 Recommendations on funding Scotland**

### **Introduction**

The Calman Commission made a number of recommendations relating to the financial relationship between Scotland and the rest of the UK. At the moment, most of the budget of the Scottish Parliament comes from a block grant from the UK Parliament. The level of the budget is determined by the Barnett formula. The Scottish Parliament has limited powers to vary the basic rate of income tax (up or down by three pence in the pound). This power has not been used to date.

The current system has been subject to a number of criticisms. Some argue that the current arrangements are unfair as Scotland enjoys a higher level of public spending per head than the UK average. Another criticism is that the Scottish Parliament has played little role in raising its revenue and therefore that there is a lack of accountability.

The Calman Commission made a number of recommendations to give the Scottish Parliament a greater role in raising its own revenue. In particular, the Commission recommended that the Scottish Parliament be given greater powers over income tax and some other taxes and that the block grant be reduced. In the view of the Commission, this would increase the financial accountability of the Scottish Parliament. Under its proposals, the Scottish government would raise around 35% of its revenue, compared with around 14% under the current arrangements.<sup>6</sup>

Other recommendations were made on borrowing, institutional arrangements between the Scottish and UK Governments, and transitional arrangements. A full list of the recommendations is reproduced in section 10 of this note.

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<sup>4</sup> [HC Deb 25 March 2008 cc7-8WS](#)

<sup>5</sup> Commission on Scottish Devolution News Release, [Commission on Devolution meets for second time](#), 30 May 2008

<sup>6</sup> Calman Commission Final Report page 105

## Income tax

The Commission proposed cutting the basic and higher rates of income tax levied by the UK Government in Scotland by 10 pence in the pound. The block grant would be reduced by the equivalent amount.<sup>7</sup> The Scottish Parliament would then be able to set a “Scottish” rate of income tax which would be added to the basic and higher rates. It could choose to levy this at 10p in the pound to restore the level of funding which would have occurred under the current block grant system. Alternatively, it could levy a higher or lower rate and thus receive a higher or lower level of funding. The Calman Commission report explained this as follows:

So if the Scottish Parliament set a Scottish income tax rate of 10 pence then Scotland’s overall income tax rates would be the same as the rest of the UK and its spending would be the same as it would have been if it had been funded wholly by grant. But the Scottish Parliament could also decide to set a higher or lower “Scottish rate” than 10 pence, and its budget would be affected accordingly.<sup>8</sup>

Calman argued that this arrangement would improve the financial accountability of the Scottish Parliament by making it responsible for raising a larger part of its revenue. It would also require it to make decision about tax, in contrast to the current situation where the Scottish Parliament’s budget is largely unaffected if it decides not to use its current power to vary the basic rate of income tax. The Calman Commission Report said:

If the Scottish Parliament is to be fully financially accountable to the Scottish people, it should be dependent for a significant proportion of its revenues on tax decisions which it is obliged to make. This revenue should be substituted for block grant from the UK Government, and UK taxes (in this case income tax) should be reduced by the corresponding amount. The Scottish Parliament would then be obliged to make a real and serious tax decision.

We have already said that it is not the responsibility of the Scottish Parliament to determine the structure of the income tax system. This in our view includes the difference between the rates applying to each band. In our view therefore the same reduction in UK income tax should be applied in relation to each band and the Scottish Parliament should be able to apply one single “Scottish” rate of income tax to each of them. So if the present UK basic and higher tax rates of 20 pence and 40 pence were each reduced by 10 pence for Scottish taxpayers to become 10 pence and 30 pence, and the Scottish Parliament chose to apply a Scottish rate of only 9 pence, the basic rate for Scottish taxpayers would be 19 pence and the higher rate 39 pence. Scottish public spending would as a result be nearly £0.5 billion lower.<sup>9</sup>

The Scottish Parliament would not be able to affect the income tax bands, allowances and thresholds which would remain the responsibility of the UK Government. Income tax on savings and distributions would not be devolved to the Scottish Parliament but half of the yield would be assigned to the Scottish Parliament with a corresponding reduction in the block grant.

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<sup>7</sup> A cut of 10 pence in the pound would mean a cut in the block grant of around £4.15 billion (Calman Commission Final Report Table 3.4)

<sup>8</sup> Calman Commission Final Report paragraph 34 of executive summary

<sup>9</sup> Calman Commission Final Report paragraphs 3.174-75

## **Other taxes**

The Commission recommended that responsibility for four other taxes be devolved to the Scottish Parliament. These taxes were:

- Stamp Duty Land Tax
- Aggregates levy
- Landfill tax
- Air Passenger Duty.

There would again be a corresponding reduction in the value of the block grant. These taxes yield much less revenue than income tax. The Calman Commission estimated the combined yield of these four taxes in Scotland as around £0.8 billion.<sup>10</sup>

## **New taxes**

The Commission also recommended that the Scottish Parliament be given a power to introduce new taxes across Scotland, with the agreement of the UK Parliament, although it did not envisage that this power would be widely used.<sup>11</sup>

## **Borrowing powers**

The Commission recommended increased borrowing powers for the Scottish Parliament. Under the Commission's proposals, there would be a risk that the Parliament's income would be less predictable than the current block grant arrangements. Tax receipts fluctuate from year to year as a result of the economic cycle. Borrowing by the Government can help to smooth fluctuating revenues to ensure that public spending is more stable. The Scottish Parliament currently has limited powers to borrow from the Treasury for cash-flow purposes. The Commission recommended that these be used and that consideration be given to increasing the limit on such borrowing if the need arises.

The Commission also recommended that the Scottish Government be allowed to borrow from the Treasury to increase capital investment in any one year. The Treasury would be able to impose conditions and a limit on the level of borrowing. The amount that could be borrowed would be limited by the indebtedness of the Scottish Government and the ability to repay debt.

## **Transitional and institutional arrangements**

The Calman Commission also made a number of recommendations on the institutional arrangements for funding the Scottish Parliament and on phasing in the recommendations discussed above. For example, given that the Scottish Parliament would be raising more tax itself, the Commission made a recommendation about the relationship between HM Revenue and Customs and Scottish Ministers. The Commission also recommended that the National Audit Office should publish a report on the funding arrangements.

Turning to transitional arrangements, the Commission's report recognised that the changes proposed are substantial. There are implementation issues, such as the need to identify

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<sup>10</sup> Calman Commission Final Report Table 3.4

<sup>11</sup> Calman Commission Final Report paragraph 3.171

Scottish taxpayers separately. In addition, while estimates of the amount of revenue raised by different taxes in Scotland have been made, there is uncertainty about their precise yield. The Commission therefore recommended:

a staged implementation process, beginning with shadow operation to improve the quality of data and develop the necessary systems of tax collection and budgetary decision making and then the stage by stage implementation of tax devolution and assignment. The new powers and devolved taxes should be introduced step by step, managing the risks. In the initial years we suggest some limits be set on the gains or losses the Scottish Budget should make from devolved taxes until the system beds down.<sup>12</sup>

### **The Barnett formula**

The Commission recommended the continuation of a block grant system as this allows levels of funding which are fair throughout the UK, through pooling taxation receipts and redistributing them between the different parts of the UK. It recommended that the Barnett formula be maintained until such time as a proper spending assessment of the UK's relative spending needs is carried out. The report said:

We are very well aware of criticisms that the present block grant is not well related to need and so the resultant spending levels are not in practice equitable. We do not however consider that our remit extends to our assessing whether the current means of calculating block grants to the devolved administrations across the UK correctly address need. This would require us to consider spending elsewhere in the UK. What constitutes need can be contested, and any assessment exercise would necessarily be resource intensive and lengthy, but supporting the social Union through pooled taxation makes it clear that need is the principle which must justify block grant funding. The present system of calculating block grant by the Barnett formula is not well related to need, but is stable and predictable and could continue as a proxy for need until a thorough assessment were done across the UK.<sup>13</sup>

### **2.3 Reaction**

The publication of the Calman Commission report was warmly welcomed by Jim Murphy, Secretary of State for Scotland. Mr Murphy said:

The UK Government agrees that financial accountability could be achieved by moving to a system where a greater proportion of the Scottish Parliament's budget comes from their own decisions. We welcome the Commission's model which provides a promising and well evidenced basis on which we can work with the Scottish Parliament and others to bring forward practical proposals.

The suggested changes are complex, and require detailed and careful consideration. Along with Her Majesty's Treasury, we will assess, and explore how to implement these proposals.

We agree with the Commission's recommendation that any change must be introduced in a phased way to manage the risks of instability in public finances and of windfall gains or shocks. We will take this into account in developing proposals.<sup>14</sup>

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<sup>12</sup> Calman Commission Final Report paragraph 3.205

<sup>13</sup> Calman Commission Final Report paragraph 3.86

<sup>14</sup> [Speech](#) by Jim Murphy MP, Commission on Devolution, at Dynamic Earth, Edinburgh, 15 June 2009

Mr Murphy also announced the formation of a Steering Group, chaired by him, to take forward the Calman proposals involving all the political parties which participated in the report.<sup>15</sup> According to a report in the Scotsman, the Government hopes to push through many of the Calman recommendations before the general election.<sup>16</sup>

The Conservatives said that they welcomed the report and would reflect on the proposals. David Mundell MP, Shadow Secretary of State for Scotland, said:

We welcome the fact that the Commission has identified the need for the Scottish Parliament to focus on both taxation and spending.<sup>17</sup>

The leader of the Scottish Liberal Democrats, Tavish Scott MSP, described the Calman Commission's report as a "remarkable achievement" and said that the challenge was to make "this blueprint a reality".<sup>18</sup>

Speaking in a debate in the Scottish Parliament on 25 June 2009, Michael Russell MSP, SNP Minister for Culture, External Affairs and the Constitution said:

Let me tell the Parliament what the Scottish Government is thinking. The Scottish Government's paper on fiscal autonomy, which was published in February, made a strong, coherent case for Scotland's having full control of its own finances. That case has been supported previously by members of the Liberal party, the Conservative party and the Labour Party. It is the only coherent way forward for responsibility for the Parliament, and the fact that Calman refused to recommend it says much more about Calman's inability to think outside the box than it does about what Scotland actually needs.<sup>19</sup>

According to an article in the Times, the SNP challenged the parties behind the Calman Commission to include their proposals in a multi-option referendum. According to the article:

Mr Salmond's aides denied that he was now prepared to engage with the Calman proposals after spending months dismissing the commission as irrelevant. A senior adviser to the First Minister said: "We would wish to do this by discussion and dialogue. The Calman parties wish to form a steering group to take things forward. We would wish to engage in a dialogue as to how constitutional progress can be made. The Calman parties will need to distil their favoured option on the basis of the report."<sup>20</sup>

### **3 Scottish Executive: Fiscal Autonomy in Scotland**

The Scottish Executive published a document, [Fiscal Autonomy in Scotland](#), in February 2009. This was part of the SNP's "National Conversation" – a debate about how Scotland should be governed in the future. The document argued that the current arrangements give Scotland very little autonomy to raise revenue or to borrow. The absence of these policy instruments weakens the ability of the Scottish Executive to boost Scotland's long-term competitiveness or stabilise the economy in the short term.

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<sup>15</sup> [HC Deb 17 June 2009 col 290](#)

<sup>16</sup> "Labour promises to deliver Calman reform in 10 months", Scotsman, 16 June 2009

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[http://www.conservatives.com/News/Blogs/Making\\_devolution\\_work\\_in\\_Scotland.aspx?currentRegion=d3f320ad-14f7-454e-87d2-6dbf1e95cc81](http://www.conservatives.com/News/Blogs/Making_devolution_work_in_Scotland.aspx?currentRegion=d3f320ad-14f7-454e-87d2-6dbf1e95cc81)

<sup>18</sup> <http://www.scotlibdems.org.uk/news/2009/06/make-calman-blue-print-reality-scott>

<sup>19</sup> [SP OR 25 June 2009 col 18842](#)

<sup>20</sup> "Salmond challenges Unionist parties to a referendum over Calman tax plans", The Times, 17 June 2009

The document examined five options:

- Maintaining the current framework
- Assigned revenues
- Enhanced devolution
- “Devolution max”
- Independence

The SNP did not regard the **current framework** as a realistic option as it did not give further fiscal responsibility to the Scottish Parliament. Furthermore, replacement of the Barnett formula with another way of determining the size of the Scottish budget (such as a needs-based approach) would be subjective and there could be political pressure to reduce the Scottish budget.

Under an **assigned revenues** system, Scotland would receive taxation revenues raised in Scotland but would not have authority to alter the tax rates or the tax base. The SNP argued that this system would not give Scotland the ability to pursue distinctive policies within the UK and would expose the Scottish budget to fluctuations in revenues as these move with the economic cycle.

Under **enhanced devolution**, the Scottish Parliament would be granted a greater degree of responsibility for raising revenue, a smaller block grant and limited borrowing powers. This could take the form of *tax devolution* where Scotland would be allowed to vary the tax rate and/or base with the UK retaining control of all other taxes. Alternatively, there could be *tax-sharing* whereby the Scottish and UK governments share the proceeds from certain taxes.

Under “**devolution max**”, Scotland would have full fiscal autonomy within the UK. Scotland would be responsible for raising all, or the vast majority of, the tax revenues in Scotland and would have responsibility for all, or nearly all, public spending in Scotland. The document argued that while this would give the Scottish Parliament a greater role in economic policy, it would still be constrained by EU rules on taxation within member states, rules or agreements with the UK government on fiscal policy, and the fact that certain important areas of economic policy, such as employment law and monetary policy, would remain the responsibility of the UK government.

Under **independence**, Scotland would have full responsibility for raising all its own revenue (including North Sea revenues, according to the document) and for all government spending. It would also be able to borrow on the international capital markets and pursue its own monetary policy.

The document concluded that independence was the best option for Scotland:

Independence would allow the maximum degree of policy discretion and accountability over fiscal and economic policy. It is the arrangement chosen by similar nations around the world. Like these countries, ensuring sustainability would be Scotland’s own responsibility, as would growing the economy and managing the national budget over the short and long-term. Incentives for efficient policy delivery would also be maximised. Crucially, it would give the Scottish Government the full range of economic levers to deliver increased sustainable economic growth.



The Scottish Government believes that independence is the only option which will enable Scotland to meet its full potential, giving this country the same range of responsibilities as other successful independent countries in Europe and across the world.<sup>21</sup>

#### **4 House of Lords *ad hoc* Committee on the Barnett formula**

A House of Lords committee to look at the Barnett formula was appointed in December 2008. The Terms of Reference for the inquiry are:

To examine the purpose, methodology and application of the Barnett Formula as a means of determining funding for the devolved administrations of the United Kingdom, to assess the effectiveness of the calculation mechanism to meet its purpose and to consider alternative mechanisms.

These orders of reference exclude consideration of three main areas:

- The overall system of funding the devolved administrations - in particular the question of whether greater tax-raising powers should be accorded to the devolved administrations;
- Other political aspects of the devolution settlements; and
- The distribution of funds within the different regions of the United Kingdom.

Details of the committee's work are available on its [website](#).

An earlier request from Lord Barnett for such a committee had been rejected by the Liaison Committee in January 2008 but following amendments to the terms of reference the committee was established.<sup>22</sup>

#### **5 House of Commons Justice Select Committee report**

In May 2009, the House of Commons Justice Select Committee published a report, [Devolution: A Decade On](#).<sup>23</sup> This examined a wide range of issues, including the Barnett formula. The report called for reform of the formula. It recommended that the Government publish its factual paper on the formula as a matter of urgency (see section 7 below) It also welcomed the separate reviews taking place in Scotland and Wales (see sections 2 and 6) but recommended that the Government undertake a UK-wide review. The Committee's recommendations were as follows:

253. The Barnett Formula is overdue for reform and lacks any basis in equity or logic. It creates controversy in all of the constituent parts of the UK. There is controversy in England that the Barnett Formula allows for higher levels of public spending in Scotland from the UK Exchequer and does not deal with different needs in different parts of England. There is concern in Wales that allocation of funds through the Barnett Formula does not adequately meet the higher structural costs of the delivery of some public services. We are concerned that the lack of adequate understanding of the Formula and how it operates has the potential to create tension and fuel disputes.

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<sup>21</sup> Scottish Executive, Fiscal Autonomy for Scotland: the case for change and options for reform, February 2009, paragraphs 6.14-15

<sup>22</sup> See House of Lords Liaison Committee, [Second Report of Session 2007-08](#), HL Paper 142, 8 July 2008

<sup>23</sup> House of Commons Justice Committee, [Devolution: A Decade On](#), Fifth Report of Session 2008-09, HC 529-I, 24 May 2009

254. We are also concerned at the lack of transparency in the process of decision making by the UK Government as to what spending is included in the calculations for the Barnett Formula and the rationale for those decisions. This lack of transparency has already caused political disputes between the UK Government and the devolved administrations. These difficulties are only likely to intensify in the current economic climate.

255. We therefore recommend a two stage approach. First, we recommend that the Government publish, as a matter of urgency, the long promised detailed factual paper about how the Formula works. This should include the criteria for the inclusion or exclusion of spending in the Statement of Funding (i.e. for inclusion in the Barnett Formula). This overdue document is essential to remove misunderstanding about the operation of the Formula and to introduce an element of transparency and oversight into the Government's spending decisions.

256. This, however, is only a first step. We welcome the reviews of the operation of the Barnett Formula currently taking place in both Scotland and Wales. However, there is an urgent need for the Government to undertake a UK wide review of the Barnett Formula, and to put forward an alternative system for the allocation of funding between the nations and the regions of the UK and a generally accepted mechanism for reviewing its operation and adjudicating disputes which arise.

257. Any new system should be robust and long term – enabling Departments and Agencies of Government to have dependable indicative figures on which to plan and budget at least three years ahead. Any new system should be introduced with care, with at least a two-year period of transition built into the system for its introduction. It should not be adjusted on an annual basis—a five-year review should be the minimum review period.

## **6 Welsh Assembly Government Commission on Funding and Finance**

The Welsh Assembly Government has established an independent commission on funding and finance. The formation of this commission was a commitment of the One Wales agreement between the Labour and Plaid Cymru groups in the National Assembly. The first phase of the Commission's work is to examine the Barnett formula. A report on this is expected by summer 2009. The second phase of the work will look at alternative funding mechanisms as well as tax-varying and borrowing powers. The Commission is chaired by Gerald Holtham.<sup>24</sup>

## **7 Treasury factual paper on Barnett formula**

In Treasury questions on 6 March 2008, the Chancellor, Alistair Darling, said that the Treasury would publish a paper on the operation of the Barnett formula over the last 30 years. This paper would probably be published in summer 2008:

Mr. George Osborne (Tatton) (Con): May I ask the Chancellor about the latest confusion at his Treasury—the future of the Barnett formula? Wendy Alexander says that the formula should be reviewed, and Lord Barnett says the same. The Prime Minister is dithering and, for once in his life, does not want a review. The Secretary of State for Justice and Lord Chancellor says that

“the Government would need to engage on this issue...and to deal with concerns in English constituencies about the fairness of the current system.”

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<sup>24</sup> <http://wales.gov.uk/news/topic/officefirstminister/2008/2364708/?lang=en>

Does the Chancellor agree with the Lord Chancellor?

Mr. Darling: I wondered when we would hear from the hon. Gentleman, who has been uncharacteristically quiet this Question Time. As the House will know, the Unionist parties in the Scottish Parliament—the Liberals, Conservatives and Labour—have agreed to review arrangements under the Scotland Act 1998. As part of that, the Government have said that they will publish the way in which the Barnett formula has operated over the past 30 years. We are not currently reviewing it, but it will inform debate. There will have to be a lot of discussion. I hope that there will be agreement among those of us who believe that the Union is important. It is important that we have that debate, and I shall publish something—probably in the summer—that will contribute to it. I hope that all parties, the Conservatives included, who have supported the Barnett formula up to now will contribute to that.

This paper has yet to be published. In a PQ answer in June 2009, the Treasury said that no date had been set for its publication:

Adam Price: To ask the Chancellor of the Exchequer whether the Government plans to publish its factual paper on the Barnett formula. [280247]

Mr. Byrne [holding answer 16 June 2009]: No decision has yet been made regarding the publication date of the factual paper on the Barnett Formula.<sup>25</sup>

## 8 Other reports

A number of think tanks have published papers on financing Scotland. For example, a [report](#) by the Institute for Public Policy Research, called for the replacement of the Barnett formula with a hybrid system under which devolved legislatures would be given greater revenue-raising powers in addition to a needs-based grant.<sup>26</sup> This, it was argued, would address concerns about the lack of fairness of the Barnett formula and its shortcomings in terms of efficiency and accountability.

A report by The Taxpayers' Alliance argued that the differences in spending levels between different areas of the UK were "impossible to justify to English taxpayers" and called for greater devolution of tax raising powers.<sup>27</sup>

Other organisations, such as Reform Scotland and the David Hume Institute have published papers on financing Scotland.<sup>28</sup>

## 9 Data on public spending by country and region

Data showing the amount of public spending per head in each country and region of the UK are published annually by the Treasury in [Public Expenditure Statistical Analyses](#). These data are in the table below. This shows that public spending per head is 22% higher than the UK average in Northern Ireland, 16% higher in Scotland and 11% higher in Wales. Of the English regions, public spending per head is 18% above the UK average in London and also above average in the North East and North West. In all the other English regions it is below the UK average.

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<sup>25</sup> [HC Deb 17 June 2009 c323W](#)

<sup>26</sup> IPPR North, *Fair Shares? Barnett and politics of public expenditure*, Iain McLean, Guy Lodge and Katie Schmuecker, July 2008

<sup>27</sup> [Taxpayers' Alliance](#), *Unequal Shares: The definitive guide to the Barnett Formula*, by Mike Denham, September 2008

In interpreting the data it is important to note that they do not cover only the spending of the devolved legislatures. They also include some spending by the UK Government, such as social security spending in Scotland and Wales.<sup>29</sup>

**Public spending per head, 2008/09**

	£	Index UK = 100
North East	8,783	107
North West	8,751	106
Yorkshire and the Humber	7,848	95
East Midlands	7,339	89
West Midlands	8,034	98
East	7,001	85
London	9,666	118
South East	6,921	84
South West	7,400	90
England	7,971	97
Scotland	9,538	116
Wales	9,162	111
Northern Ireland	10,003	122
UK identifiable expenditure	8,219	100

Source: HM Treasury, PESA 2009, Table 9.2

Notes: figures are planned identifiable expenditure on services in 2008/09

Estimates of the level of public spending and revenue raised in Scotland are published by the Scottish Executive in [Government Expenditure and Revenue Scotland 2007-08](#).

<sup>28</sup> Reform Scotland, [Fiscal Powers](#), November 2008; David Hume Institute, [Options for Scotland's Future- the Economic Dimension](#), November 2008

<sup>29</sup> For further information, see HM Treasury [Public Expenditure Statistical Analyses 2009](#) (Chapters 9 and 10)

## **10 Appendix A: Full list of Calman Commission recommendations on financial accountability**

RECOMMENDATION 3.1: Part of the Budget of the Scottish Parliament should now be found from devolved taxation under its control rather than from grant from the UK Parliament. The main means of achieving this should be by the UK and Scottish Parliaments sharing the yield of income tax.

a. Therefore the Scottish Variable Rate of income tax should be replaced by a new Scottish rate of income tax, collected by HMRC, which should apply to the basic and higher rates of income tax.

b. To make this possible, the basic and higher rates of income tax levied by the UK Government in Scotland should be reduced by 10 pence in the pound and the block grant from the UK to the Scottish Parliament should be reduced accordingly.

c. Income tax on savings and distributions should not be devolved to the Scottish Parliament, but half of the yield should be assigned to the Scottish Parliament's Budget, with a corresponding reduction in the block grant.

d. The structure of the income tax system, including the bands, allowances and thresholds should remain entirely the responsibility of the UK Parliament.

RECOMMENDATION 3.2: Stamp Duty Land Tax, Aggregates Levy, Landfill Tax and Air Passenger Duty should be devolved to the Scottish Parliament, again with a corresponding reduction in the block grant.

RECOMMENDATION 3.3: The Scottish Parliament should be given a power to legislate with the agreement of the UK Parliament to introduce specified new taxes that apply across Scotland. The new procedure we are recommending in Part 4 of our Report for the Scottish Parliament to legislate on reserved issues with the agreement of the UK Parliament could be used for this.

RECOMMENDATION 3.4: The block grant, as the means of financing most associated with equity, should continue to make up the remainder of the Scottish Parliament's Budget but it should be justified by need. Until such times as a proper assessment of relative spending need across the UK is carried out, the Barnett formula, should continue to be used as the basis for calculating the proportionately reduced block grant.

RECOMMENDATION 3.5: This system will require a strengthening of the intergovernmental arrangements to deal with finance.

a. The present Finance Ministers' Quadrilateral Meeting should become a Joint Ministerial Committee on Finance (JMC(F)), and should meet regularly on a transparent basis to discuss not just spending but taxation and macroeconomic policy issues.

b. HMRC should advise Scottish Ministers in relation to those devolved taxes it is tasked with collecting and their responsibilities in relation to income tax and should account to them for the operation of these Scottish taxes. Scottish Ministers should be consulted on the appointment of the Commissioners of HMRC.

c. All the relevant spending or grant calculations done by HMRC and HM Treasury should be audited by National Audit Office (NAO) which should publish an annual report on the operation of the funding arrangements, including reporting to the new JMC(F) and to the Scottish Parliament.

RECOMMENDATION 3.6: These changes should be introduced in a phased way, step by step, to manage the risks of instability in public finances and of windfall gains or adverse shocks to the Scottish Budget.

RECOMMENDATION 3.7: The Scottish Ministers should be given additional borrowing powers.

a. The existing power for Scottish Ministers to borrow for short term purposes should be used to manage cash flow when devolved taxes are used. Consideration should be given to using the power in the Scotland Act to increase the limit on it if need be.

b. Scottish Ministers should be given an additional power to borrow to increase capital investment in any one year. There should be an overall limit to such borrowing, similar to the Prudential regime for local authorities. The amount allowed should take account of capacity to repay debt based on future tax and other receipts. Borrowing should be from the National Loans Fund or Public Works Loans Board.

## **11 Appendix B: Sources of further information**

### **Calman Commission**

Calman Commission (“Commission on Scottish devolution”) [website](#)

Calman Commission [final report](#) (June 2009)

### **Scotland Office**

[Scotland and Oil](#), Scotland Office Background Paper, June 2009

### **Scottish Executive**

Scottish Executive, [Fiscal autonomy: the case for change and options for reform](#), February 2009

Scottish Executive, [Government Expenditure and Revenue Scotland 2007-08](#), June 2009

### **Parliamentary debates**

Westminster Hall [debate](#) on Parliamentary Representation (England) 18 June 2008

Scottish Parliament [debate](#) on the Calman Commission report 25 June 2009

### **Select Committee Reports**

House of Commons Justice Committee, [Devolution: A Decade On](#), Fifth Report of Session 2008-09, HC 529-I, 24 May 2009

House of Lords *ad hoc* Committee on the Barnett formula [website](#)

### **HM Treasury**

[Public Expenditure Statistical Analyses 2009](#) (see chapter 9 and 10)

### **Think tank reports**

IPPR North, [Fair Shares? Barnett and politics of public expenditure](#), Iain McLean, Guy Lodge and Katie Schmuecker, July 2008

IPPR Press Release, [Barnett formula is broken, says new ippr analysis](#), 19 June 2009

[Taxpayers' Alliance](#), *Unequal Shares: The definitive guide to the Barnett Formula*, by Mike Denham, September 2008

Reform Scotland, [Fiscal Powers](#), November 2008

David Hume Institute, [Options for Scotland's Future- the Economic Dimension](#) by Andrew Hughes-Hallett, Jeremy Peat, Andrew Scott, Lesley Sutton and Fabian Zuleeg (Hume Occasional Paper No.80) November 2008

### **House of Commons Library**

[The Barnett Formula](#) (Research Paper 07/91)

[The Commission on Scottish Devolution – “the Calman Commission”](#) (SN/PC/4744)