

STRAND ONE: INFORMATION PAPER (9 March 1998)

FINANCE: THE OPERATION OF THE BARNETT FORMULA

Introduction

1. Allocations to the Northern Ireland Block spending plans for the three forward years covered by the annual Public Expenditure Survey are normally determined mainly by means of the Comparability or Barnett formula. The Scottish and Welsh Block allocations in the Survey are similarly determined through the Barnett formula. The use of the formula obviates the need for direct annual negotiations between HM Treasury and the Department of Finance and Personnel on individual spending programmes.
  
2. There are two programmes within the Secretary of State's responsibility which are determined separately from the Barnett formula. These are:
  - (i) Social Security benefits - which are resourced on a basis which reflects parity of benefit conditions and rates with Great Britain and where changes in expenditure are determined largely by demand; and
  
  - (ii) National Agriculture - which is the subject of separate arrangements involving HM Treasury, MAFF, Scotland, Wales and Northern Ireland.
  
3. Special cases eg the EU Peace and Reconciliation Programme may also be settled outside Barnett.

## Calculation of the Formula

4. The formula is relatively simple in construction and operation. Essentially it applies Northern Ireland's population proportion (currently 2.87% of the Great Britain population) to changes in comparable GB spending programmes. The consequential changes to spending plans produced by applying the Barnett formula add to or subtract from the Block. The steps in calculating the changes to the NI Block are generally as follows:

- (a) At the outset of the Public Expenditure Survey, HM Treasury identifies for each English spending programme (eg Health, Education, etc), the proportion of this spending which is 'comparable' ie there is corresponding spending in the NI Block. Similar exercises are also undertaken for Scotland and Wales.
- (b) To calculate changes in comparable English spending for the purposes of the Barnett formula, the proportions calculated at (a) above are applied to the overall changes in the corresponding English programmes resulting from the Public Expenditure Survey.
- (c) Changes in comparable GB programmes are the sum of the changes in the English programmes plus the changes in the Scottish and Welsh Blocks resulting from the application of the Barnett formula to Scotland and Wales.
- (d) The NI allocations are determined by the application of the Barnett formula (2.87%) to the changes in the GB comparable programmes at (c) above.

(e) changes to NI Block provision are also adjusted for the fact that provision for VAT costs is included in GB central government figures, whereas Northern Ireland Departments can reclaim VAT.

5. The formula does not therefore determine what the overall level of the Block should be, but instead produces changes to the overall Block total which reflect changes in the rest of the UK. The changes in GB programmes do not have to be read across to the corresponding NI programmes. The Secretary of State has discretion within the framework of national policy to allocate Block resources in accordance with her own public expenditure priorities and in light of local needs and circumstances.

6. Exceptionally, and by agreement, Ministers may agree to override the arrangements for the formula. In such circumstances, Block allocations are the subject of negotiation between the Secretary of State and the Chief Secretary to the Treasury.

7. The formula will in future be updated on an annual basis for changes in relative populations.

#### **In-year changes**

8. The Barnett formula applies mostly to the spending plans covered by the Survey; it does not apply automatically in-year. The general presumption is that NI will contain in-year pressures by reallocating resources within the Block.

## Changing the formula

9. As to replacing the formula, the Government has stated that it sees no case for reviewing now the appropriateness of the Barnett formula for Scotland and Wales. The Scottish White Paper said that any substantive revision to the formula would need to be preceded by an in-depth study of relative spending requirements and would be the subject of full consultations between the Scottish executive and the UK Government. An equivalent commitment was given in the Welsh White Paper. The Government has made no statement in regard to the position on NI.