



The Barnett Squeeze in Northern Ireland:
Deploying the Wales Precedent

Executive Summary

Northern Ireland has been funded £3 below need since 1 April 2022.

It is the first part of the UK to have been deliberately funded below need since the Government adopted a UK Needs Based Formula in 2012, the Holtham Formula.

In responding to this, this paper argues that:

- I. The key has been to recognise that the arguments that Treasury finds hardest to resist are those that are based on precedents arising from previous Treasury decisions.
- II. The relevant helpful precedents for Northern Ireland are to be found in the way Treasury has dealt with Wales as it has wrestled with the Barnett Squeeze since 2009/10
- III. The first key precedent is adopting the Holtham definition of need and intervening to provide an additional injection of funding to Wales called the uplift, worth £1.17 billion between 2017-18 and 2023-24 (and likely to continue to be worth this every 6 years) for the purpose of slowing down the Barnett Squeeze and thus the arrival of funding at the level of need £115 (current Wales spending £120)
- IV. The second key precedent is the provision of the fiscal floor at need (£115). When this is reached the uplift will fall away and funding will be protected to the floor so it can never fall below it.
- V. To date, 8 years further on, the uplift has not fallen away and there are reasons to believe that it never will, meaning that Wales will benefit from approximately £1.17 billion every six years or so, underneath which lies the fiscal floor.

The Hillsborough proposals are very important in that after months of refusing to apply the Holtham definition of need to Northern Ireland, the UK Government is now effectively doing so to the extent that it is promising from 2024-25 Barnett consequentials must be to £124.

There are, however, two major problems:

First, the Hillsborough package is logically unsustainable arrangement in:

- i) Recognising the need to fund Northern Ireland to Holtham need from 2024-25 and
- ii) Recognising the need provide funding for two years to plug the gap arising from the impact of being funded £3 below need in two consecutive years from our baseline funding, so that we are effectively funded to need for 2024-25 and 2025-26

BUT:

- a) Seeking to removing the funds plugging the gap in financial years 2026-27 onwards, leaving us just with Barnett consequentials to £124 to plug the void which will take around twenty years, thus condemning Northern Ireland to be effectively funded below need for twenty years.
- b) Providing the Barnett consequentials to £124 from 2024-25 on a basis that affords Northern Ireland a Barnett ceiling rather than a Barnett floor, which means that not only will it take around twenty years to get close to an overall baseline at £124; it will also result in our never quite reaching £124, permanently condemning us to being funded just below need, even as Wales, benefiting from a Barnett floor, will experience the opposite: getting close to need but happily never quite reaching it, and thus being permanently funded just above need.

Second, while the Government has moved some way in relation to recognising need, subject to the problems set out above, it is trying to prevent us appreciating the importance of the uplift and hoping that we will settle for an arrangement that just results in just a fiscal ceiling or a fiscal floor. This is

demonstrated clearly through the extraordinary and disingenuous lengths to which the Treasury has gone to try to prevent us finding out how much the uplift is worth. They want to keep us thinking about combatting the fiscal ceiling rather than assessing the fiscal floor because it is harder to think about an uplift if you are fighting a fiscal ceiling because uplifts do not apply to fiscal ceilings.

In this context the relevant Wales precedent is that Wales was the first part of the UK to be funded below need in 2009/10 although at that time it was just their contention because has not then adopted the Holtham Formula. Wales's great achievement was to get the UK Government to adopt the Holtham Formula in 2012. As a result of this, although Wales was allowed to go below need in 2009/10, having risen above need, the UK Government has never allowed Wales to fall below need again and has given them a guarantee that this will never happen. By contrast, under its current proposals it is suggesting that we should not only suffer from being allowed to go below the UK Government definition of need after it adopted it, but that we should be subjected to this indignity twice in just over two years and for a prolonged period of just over twenty years.

Drawing on the Wales precedent, the argument of this paper is that our central contention should be that the Government should now: i) raise our baseline funding by proportionately the same amount above need as was the case in Wales when the Government intervened in 2017-18 with the uplift and ii) apply the uplift to Northern Ireland from that point, undergirded by the fiscal floor at Holtham need, £124.

In responding to arguments deployed that Northern Ireland should make a greater contribution to revenue raising, alongside the provision of proper funding from Westminster, it is vital to deploy the taxable capacity arguments to the full. In this context it is worth remembering that the Fiscal Council has argued that because we have the lowest taxable capacity anywhere in the UK, if we are to become fully stretched within our taxable capacity, that provides ground for claiming that our definition of need should increase from £124 to £127. That can be flipped the other way to say that if we are not fully stretched within our taxable capacity, we should still be funded to £124 which we are not at present.

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It would be possible for Northern Ireland to turn to the experience of Scotland which is currently funded £21 above need and to argue that Northern Ireland should be treated in the same way. The point of departure of this paper, though, is that it would not be politically credible to seek to hold the Government to an arrangement that is in many ways rather anomalous. While not seeking to cite the current experience of Scotland, however, it is the purpose of this paper to argue that the socially destructive implications of being funded below need are so serious that it is only right that as, under the Barnett Squeeze, one approaches need, the UK Government provides different parts of the UK exactly the same means and levels of protection and in that sense this paper makes the case for Northern Ireland being afforded exactly the same Barnett Squeeze protections as those afforded Wales.

This paper will begin by looking at the history of the Barnett Formula, its relationship to devolution and the development of the Barnett Squeeze. It will then explain how the Barnett Squeeze lies at the heart of the current crisis in Northern Ireland's finances which are now (January 2024) set (according to the relevant HMT definition of spend) below the UK Government's own effective definition of need. To this end the paper will then ask what lessons Northern Ireland can learn from Wales's experience of the Barnett Squeeze where it first became a major problem. Specifically, this paper will highlight how the UK Government: i) acknowledged the need to intervene to ensure that spending per head in Wales did/does not fall below the definition of need in 2012, ii) intervened to make good that commitment in 2016 and iii) has spent since the financial year 2017-18, and continues to spend, public money to make good that commitment. In so doing the paper draws out the civic, moral and political imperative arising from the Wales precedent for the UK Government to now afford the same protection to Northern Ireland as a matter of urgency, back-dating this to the beginning of the current spending review period when spend per head fell below need in April 2022. In adopting this approach, the paper is informed by advice that the Treasury finds arguments based on precedent arising from its previous actions the hardest to resist.

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Structure

This paper is divided into four sections. Section 1 will look at the history and development of the Barnett Formula and the Barnett Squeeze. Section 2 will then look at the impact of the Barnett Formula and Barnett Squeeze on Northern Ireland over time. Section 3 will then set out Wales's experience of the Barnett Squeeze and the positive precedent for Northern Ireland arising from the UK Government's response to the Barnett Squeeze in Wales. Section 4 will then apply the Wales precedent to Northern Ireland, unpacking the full policy consequences for the province.

Section 1: The Development of the Barnett Formula and the Barnett Squeeze

In turning to the Barnett Formula and the Barnett Squeeze one must be clear on two points:

First, while the Barnett Formula relates to a significant amount of UK Government spending in Wales, Scotland and Northern Ireland, it does not relate to all UK Government spending in Wales, Scotland and Northern Ireland, but rather to UK Government spending in Wales, Scotland and Northern Ireland that is allocated to Wales, Scotland and Northern Ireland through the Block Grant (also referred to as DEL, Departmental Expenditure Limits). This money constitutes a significant proportion of the monies directed from the UK Government to the devolved administrations.¹

Second, the Barnett Formula was introduced in 1979 and prior to that date there was consequently no such thing as the Barnett Squeeze. The challenge of understanding the Barnett Squeeze is greatly assisted by understanding the arrangements before Barnett and how they contrast with it. Before the introduction of the Barnett Formula, the union, (including Northern Ireland from the advent of direct rule in 1972), tended to be treated as a unit, and funding allocations were made within it on a basis that, while not subject to an explicit needs-based formula, was alive to need. The reason for considering a change in the funding formula in 1979 was devolution which the then Government hoped would be delivered by referenda that year. Initially the proposed formula was not the Barnett formula, but a new formula that had regard for need. The Treasury developed a formula that, treating England as 100, claimed that, on the basis of need, NI should be rated at 131, Scotland at 116 and Wales at 109:

*'Under this exercise, the overall need indicator for NI was estimated as 131, compared with 116 for Scotland and 109 for Wales (Chart 4.1). The Treasury compared this to actual spending in these areas in 1976-77, which it estimated at 135 for NI, 122 for Scotland and 106 for Wales. So NI had the highest relative need, compared to England, but even higher relative spending.'*²

In the event, however, for some reason a decision was made to delay the introduction of this new system and to use a simpler interim model that allocated additional monies over time to Scotland, Wales and Northern Ireland on the basis of their respective populations as a proportion of that of England, rather than on the basis of need. Although the intention was that this should only be used as a short-term measure, ahead of developing a more satisfactory needs-based approach, it still remains in place forty-four years later and notwithstanding the fact that devolution came in 1999 and has now been with us for nearly a quarter of a century. It is surely a supreme irony that a desire for devolution, which was supposed to bring about greater sensitivity to local particularity, has for forty-four years resulted in the allocation of monies to Wales, Scotland and Northern Ireland based on an understanding of need in England, rather than need in the different parts of the UK. The fact that the level of need in Wales, Scotland and Northern Ireland is greater than in England means that this arrangement has stored up problems for the future that are now having a profoundly negative effect on Northern Ireland.

¹ Funding from the UK Government to the devolved administrations falls into two broad categories: block grant (or Departmental Expenditure Limits) funding and funding in relation to Annually Managed Expenditure (AME). https://assets.publishing.service.gov.uk/media/64b8012b2059dc000d5d2600/BGT_Exploratory_Note_July_2023_TO_PUBLISH.pdf In addition central government also funds Wales, Scotland and Northern Ireland in respect to non-devolved matters through separate mechanisms. UK Government spending in Scotland, Wales and Northern Ireland is published in Public Expenditure Statistical Analyses (PESA)11.

² https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NI%20Fiscal%20Council%20-%20Sustainability%20Report%202022%20September%202022%20amended%2020.10.22-%20web%20version_0.pdf pp. 37-38.

When the Barnett Formula was first applied it was to a pre-existing level of spend that had been cognisant of need (to some degree) and thus with more money per head going to Northern Ireland, Scotland and Wales than England. For example, in 1976-77 £135 was spent per head of population in Northern Ireland for every £100 spent in England, £122 was spent per head in Scotland for every £100 spent in England and £106 was spent per head in Wales for every £100 spent in England. The challenge, however, was, and is, that all subsequent increments made from within Barnett were not on the basis of need in Wales, Scotland and Northern Ireland but simply the appropriate proportionate fair share given what had been spent in England, mindful of the population of Wales, Scotland and Northern Ireland, expressed as a proportion of the population of England. That meant, and means, that while income keeps increasing it does not increase as it would under a needs based formula with proper appreciation of the different and specific needs for public spending in Wales, Scotland and Northern Ireland. In this context, over time, and other things being equal, the spending differential between Northern Ireland, Scotland and Wales with respect to Block Grant funding, on the one hand, and England, on the other has been reduced and there will - other things being equal - ultimately come a time of convergence when there will be little or no recognition of need in Wales, Scotland and Northern Ireland. This downward pressure towards convergence is called the 'Barnett Squeeze.'

Section 2: The Barnett Squeeze in Northern Ireland

In order to gain a sense of perspective on the impact of the Barnett Squeeze on Northern Ireland, it is helpful to stand back and look at the funding of Northern Ireland going back before the advent of the Barnett Formula.

Prof David Heald claims that if we go back to 1960-61 spending per head in Northern Ireland was actually 1% below UK average spending.³ The next decade, however, witnessed something of a revolution such that by 1973-74 Northern Ireland enjoyed a premium with spending per-head 21% above the UK average. This accelerated sharply in the next five years so that it was a massive 50% higher than the UK average when the Barnett Formula was first introduced in 1978-9.⁴

If we then jump forward in time to 2017-18 we still find that spending per head in Northern Ireland was 38% greater than the UK average and, with the benefit of the Confidence and Supply Agreement, rose to 40% greater than the UK average. While the 2017-18 figures cited above don't relate exclusively to Block Grant monies, and consequently were not all subject to the Squeeze (for example the confidence and supply monies came from outside the Block Grant and Barnett), the monies were dominated by the Block Grant contribution. From that point, however, things began to change quite dramatically.

The Fiscal Council 2022 Sustainability Report demonstrates the problem.

³ In the years prior to that spending seems to have been generally below England: Hewitt in "The Northern Ireland Economy- A Comparative Study in the Economic Development of a Peripheral Region" suggests that public expenditure per head in NI was 12% lower in NI than England in 1959-60 with Scotland 5% higher than England and Wales 5% lower.

⁴ https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NI%20Fiscal%20Council%20-%20Sustainability%20Report%202022%20September%202022%20amended%2020.10.22-%20web%20version_0.pdf p. 57.

Main growth in spending was in the 1970s with NI 105% of England in 1966-67, 109% in 1968-69, 125% in 1972-73, 141% 1977-78 and 147% in 1982-8. Source: Hewitt

This revolution had a lot to do with the need to shore up NI's private sector and keep down unemployment and social distress during what was the worst period of the Troubles. The 1976 NI civil service Quigley Report was very clear there was no choice but to subsidise the public and private sectors on a massive scale.

'The operation of the Barnett formula has seen a trend decline in spending per head in NI relative to UK Government spending in the rest of the UK over most of the last four decades, but there have been fluctuations along the way reflecting changes in other funding (for example from political agreements). Because of the way in which the formula operates, the faster spending across the UK rises, the faster the NI-to-England (or UK) premium declines.

... Treasury figures show that the NI Block Grant is set to rise by 3.6 per cent a year between 2019-20 and 2024-25, compared to a 6.0 per cent annual increase in the DEL for the UK as a whole, 5.1 per cent for Wales for 4.9 per cent for Scotland. As well as the impact of the Barnett formula, the slower growth in the NI Block Grant is in part due to the withdrawal of previous time limited allocations, including from political agreements. This slower growth would see the Block Grant fall from 38 per cent above UK equivalent spending per head of population in 2017-18 to 25 per cent above in 2024-25. (Excluding non-Barnett additions to the Block Grant, the premium would be 22 per cent.)

We project that the NI Block Grant premium over equivalent spending per head would fall below 20 per cent in 2030-31, 10 per cent in the late 2040s and would end the 50-year projection slightly above 5 per cent in the early 2070s. If the 2021 Spending Review plans left NI's overall funding advantage at 38 per cent, rather than prospectively reducing it to 25 per cent, the Block Grant would be £1.5 billion higher in 2024-25 (in 2020-21 prices). This reduction in relative spending advantage is equivalent to approximately £2,000 per household and confronts the Executive with a significant near-term sustainability challenge in terms of delivering equivalent quality and quantity of services to those in England.⁵

The Barnett Squeeze and Definition of Need

The key point here is that while in the early days of the Barnett formula the Barnett increases were just in line with population, they were applied to an existing allocation that had been sensitive to need. Over time, however, as the squeeze generates pressure towards convergence, the legacy of this historic appreciation of need is drained away and, at some point, funding falls below need. In this context if we refer back to the needs-based assessment of 1979, which set need at £131, we can see that £120 is already below the Northern Ireland definition of need.

In order to make sense of the risk of the Barnett Squeeze in Northern Ireland today, though, we are now greatly assisted by the fact that a new UK Needs based formula was developed in 2010, called the Holtham Formula (the development of which is the subject of Section 3) which the UK Government adopted from 2012. Of huge importance, if we use the Holtham Formula it demonstrates that in 2022 Northern Ireland's definition of need was £120, the level that the Fiscal Council projected NI would fall below (see the above passage) in 2030-31.

'Looking at the range of estimates presented, it seems reasonable to use 20 per cent as a broad measure of the relative need for spending per head in NI versus England to deliver equivalent services.'⁶

⁵ <https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NI%20Fiscal%20Council%20-%20Sustainability%20Report%202022%20September%202022%20amended%2020.10.22-%20web%20version%200.pdf> pp. 9-10.

⁶ <https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2022-10/NI%20Fiscal%20Council%20-%20Sustainability%20Report%202022%20September%202022%20amended%2020.10.22-%20web%20version%200.pdf> p. 51

In other words, on the basis of the current spending plans and trajectories in England, 2030 was expected to be the crunch year when spending per head would effectively fall below that of England on the basis of need.

However, that critical point in time was brought forward to the present moment by the publication of the Fiscal Council for Northern Ireland's May 2023 publication: 'Updated estimate of the relative need or public spending in Northern Ireland.' The report uses the Holtam Formula to update the definition of need for Northern Ireland in light of the fact that policing and justice are now devolved. It demonstrates that: i) in order to meet need on a comparable basis to England, Northern Ireland now requires 24% more spent per head than England, rather than the previous 20% and ii) that spending per head in Northern Ireland will fall below need, not in 2030, but in the next financial year, April 2024, when it drops to £123.⁷

*'Updating the Holtham Commission analysis for the latest NI data and extending its scope to reflect the devolution of responsibility for policing and justice suggests that public spending in NI needs to be around 24 per cent higher than in England to deliver the same standard of public service – a relatively small change.'*⁸

*'Based on our updated calculation, the relative level of public spending in NI per head of population – 23 per cent above England in 2024-25 on current plans.'*⁹

Factoring in the Block Grant Transparency Perspective

In order to really understand the political seriousness of the moment, though, we must have regard to the Block Grant Transparency Document.

At the beginning of each Spending Review Period the Treasury produces the only robust, objective UK comparative measure of devolved Block Grant (DEL funding) spending per head (i.e. **the part of spending to which the Barnett Squeeze applies - isolated from all other spending**) across all four of the UK nations, making all the appropriate adjustments for differences of practice between each UK nation, the Block Grant Transparency document.¹⁰ The Block Grant Transparency document for the current spending review period, 2022-2025, was published after the SR21 final report was published (October 2021) in December 2021 and stands for the whole spending review period. It is as such the north star against which the Government must measure Block Grant spending and the attendant Barnett Squeeze during the relevant period. **Of huge importance, it shows that relative spending per head for the period in Northern Ireland is actually £121, which means that Northern Ireland is, from the perspective of the two relevant co-ordinates: i) the objective Treasury measure of spend – the**

⁷ <https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2023-05/NIFC%20Updated%20estimate%20of%20the%20relative%20need%20for%20public%20spending%20in%20NI%20-%202002.05.23%20v2.pdf> p. 3.

⁸ <https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2023-05/NIFC%20Updated%20estimate%20of%20the%20relative%20need%20for%20public%20spending%20in%20NI%20-%202002.05.23%20v2.pdf> p. 3.

⁹ Ibid.

¹⁰ The HMT annual publication, Public Expenditure Statistical Analyses (PESA) (following on from the prior Country and Regional Analysis (CRA) statistical release) provides the most robust indicator of total identifiable public spending in each of the UK regions/devolved administrations. However, it includes AME spending and spending by Whitehall departments in the devolved countries which does not reflect the spending power of the devolved administrations. The Block Grant Transparency document focuses primarily on the DEL funding by the devolved administrations and provides the best indication of the spending power of the devolved administrations and Whitehall equivalent spending.

only measure that counts, and ii) the objective Holtham definition of need, already £3 below need.¹¹ (As Section 3 will explain this HMT definition of spend is also the one to use because it is on the basis of this definition, as it applies to Wales, that Wales is helped across the entire three year spending review period. For reasons of consistency and fairness, therefore, as well as the fact that this provides the only surgically objective measure of spend in relation to which the Squeeze applies, it is imperative that this is the measure of spend that is applied to Northern Ireland.) The key table in the last Block Grant Transparency document is 4.6, Relative Funding Per Head:

Relative funding per head Average over SR21 period (22-23 to 24-25)

UK Government	£100
Scottish Government	£126
Welsh Government	£120
Northern Ireland Executive	£121

Source: Block grant transparency spreadsheet and HM Treasury calculations in line with the methodology set out in the Welsh Government’s fiscal framework¹²

In order to understand the political significance of this, however, we need to repeat the table with an additional column for need, on the basis of the definition of need provided by Holtham and the Fiscal Council NI.

Relative funding per head Average over SR21 period (22-23 to 24-25) Need

UK Government	£100	£100
Scottish Government	£126	£105* ¹³
Welsh Government	£120	£115 ¹⁴
Northern Ireland Executive	£121	£124 ¹⁵

(*This figure is too low because it does not account for policing. However, if one was to factor this in, spending per head in Scotland would still be way above need. The figure for NI which has special policy challenges is just 4%)¹⁶

¹¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/104084/6/BGT_Exploratory_note_HMT_template_.pdf p. 9

¹²https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/104084/6/BGT_Exploratory_note_HMT_template_.pdf p. 9

¹³ <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf> p. 29.

¹⁴ Ibid.

¹⁵ <https://www.nifiscalcouncil.org/files/nifiscalcouncil/documents/2023-05/NIFC%20Updated%20estimate%20of%20the%20relative%20need%20for%20public%20spending%20in%20NI%20-%202002.05.23%20v2.pdf> ‘Wales has a 5 per cent adjustment and NI’s need is higher than that in Wales’ p. 22.

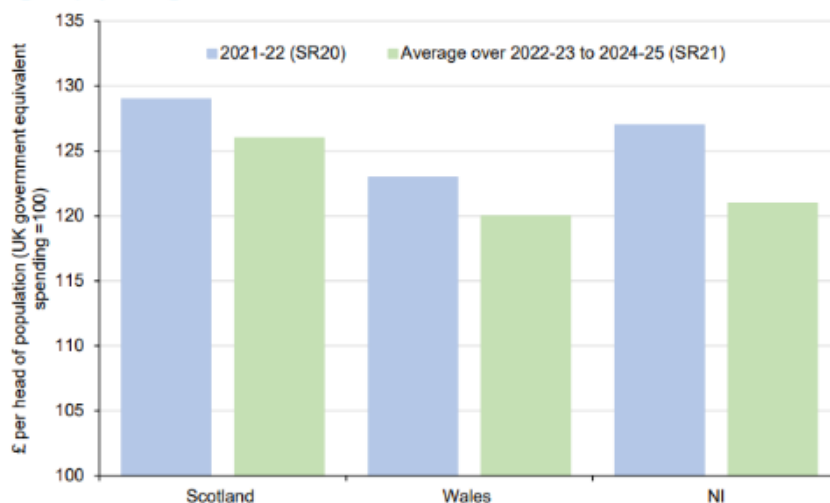
¹⁶ Holtham Commission considered this issue and concluded that incorporating policing and justice factors would not result in a significant change in the need indicator for Scotland "*The Scottish household crime rate*

The huge significance of this is that: first, Wales enjoys spending £5 above need; second, spending in Scotland is a staggering £21 above need BUT spending in Northern Ireland is already clearly below need. Northern Ireland is the only part of the UK where spending has now fallen below need and it is the only part of the UK where the UK Government has now deliberately brought forward a budget below its own definition of need.

This is hugely important because it means that the critical paragraph in the 2022 Sustainability Report, identifying the point at which NI spending is likely to fall below need is not in 2030 but rather now, and indeed (on the basis of the Block Grant Transparency Document) from April 2022. The extraordinary thing about this is that unlike in Wales, where the Barnett Squeeze was applied fairly gradually, Northern Ireland has move from the comfortable position of £138 in 2017-18, that was well above need, to a point at which it sinks below need in the space of five years.

In seeking to understand what has happened in Northern Ireland and why the reduction of funding between 2018 and today has been so precipitate, it is important to recognise that while the Barnett Squeeze has had a role to play, this change has not just been down to the Squeeze. In order to understand the dramatic nature of the fall in funding we have to understand that there was in any event a significantly greater reduction in relative funding for NI between SR20 and SR21 than in Scotland and Wales. It is the speed of the fall in relative funding more than its convergence on relative need that has resulted in the financial challenges currently being faced by NI departments. This is quite striking and begs the question as to whether there was an attempt on the part of some to effectively neutralise the gain achieved through the Confidence and Supply Agreement.

Chart 5.3 – Block Grant per head of population compared with UK Government equivalent (England) spending



Source: HM Treasury

[NI Fiscal Council - Sustainability Report 2022 September 2022 amended 20.10.22- web version 0.pdf](#)

was 2,791 per 10,000 households in 2008-09, which is similar to the rate in England and Wales over the same period (2,831 per 10,000 households). The prison population in Scotland (1.44 per 1,000 population in 2007-08) was slightly lower than the comparable England and Wales figure (1.48 per 1,000 population). While not conclusive, this suggests that the costs associated with devolved policing and justice are unlikely to result in a major upward revision of the estimated relative needs of Scotland. Source: Scottish Crime and Justice Survey, British Crime Survey and ONS Regional Trends" [fairness-and-accountability.pdf \(gov.wales\)](#)

Section 3: The Barnett Squeeze in Wales Precedent: The Holtham Formula

Of great importance, Northern Ireland is not the first part of the UK to find itself suffering as a result of the Barnett Squeeze. The part of the UK where this first became a significant problem was Wales. It is the contention of this paper that the experience of Wales is hugely important for Northern Ireland which can now cite the relevant precedents in calling on the UK Government to address the Barnett Squeeze in Northern Ireland, without any sense of special pleading or without any sense that we are making a unique nuisance of ourselves in seeking extraordinary help in respect of which we should be expected to make extraordinary sacrifices. Indeed, we must be resolute in communicating the fact that even if we were the first part of the UK to suffer from the Barnett Squeeze, the Holtham Commission is very clear that seeking to address the Barnett Squeeze does not in any event amount to special pleading.¹⁷ It is the purpose of Section 3 to set out the relevant Welsh experience and all the relevant precedents that arise from it.

In Wales the existence of the Barnett Squeeze and convergence pressures have long been recognised.

Holtham 1

The Holtham Commission was established in 2008 to examine this and reported in 2009 and 2010. It looked specifically at the impact of the Barnett Squeeze within the previous ten years, that is 1999-2009:

*'In 1999-00, when the National Assembly began, spending per head in Wales on Barnett-funded programmes was 25 per cent higher than spending per head on comparable programmes in England, or 125 in index notation, where England is set at 100. At present (in 2009-10), Barnett funded expenditure per head in Wales is 113, and is expected to decline to 112 in 2010-11. In other words, the gap in spending per head between Wales and England will have roughly halved since the introduction of devolved elected government.'*¹⁸

The Commission was very clear that monies should be allocated across the UK on the basis of need and that, notwithstanding the reluctance of the Treasury, there was no reasonable excuse why the UK should not allocate on the basis of need.

It made this case in fairly striking and strong terms that are worth quoting:

*'6.10 We are mindful that the introduction of a needs-based system would face formidable political and practical hurdles. It is likely that a conference of politicians and experts from across the UK would be required to settle those issues that are fundamentally political in nature. However, to argue that an attempt to establish a needs-based mechanism for the funding of the devolved administrations would fail because the political issues would be too difficult to resolve is a defeatist and indeed demeaning position. The UK manages to make allocations to local government on the basis of assessed needs. And a great many countries have devised formulae for the allocation of resources to different layers of government in provincial and federal systems. There is something rather shameful in suggesting that the UK political system is somehow uniquely incapable of doing the same.'*¹⁹

¹⁷ 'The Commission has been mindful at all times to make recommendations based on principles that can be applied generally and to avoid any "special pleading" for Wales.'

<https://www.gov.wales/sites/default/files/publications/2018-09/funding-devolved-government-in-Wales-barnett-and-beyond.pdf> p. 5.

¹⁸ <https://www.gov.wales/sites/default/files/publications/2018-09/funding-devolved-government-in-Wales-summary.pdf> p. 9.

¹⁹ Ibid., p. 26.

Given that they could not force the UK Government to replace the Barnett Formula in the short term, the question that they then faced was how to establish relative need in Wales in the context of the Barnett Formula. In order to rise to this challenge, the Commission imagined that England and Wales were part of the same centralised state and that monies were allocated centrally across England and Wales as one unit on the basis of how the UK Government allocates monies to England, out of regard for need. This exercise demonstrated the need to increase the amount of money allocated to Wales.

The Commissioners defined their approach as follows:

*'We do this by adopting as far as possible the UK Government's current funding criteria for England and applying them to Wales. Under the existing constitutional settlement, the Assembly Government is almost entirely funded by the UK Government, which also acts as the de facto government for England. If it could be shown that Wales would receive more public funds for devolved activities than it receives at present were it funded as part of a single England and Wales block, this would provide a compelling case that Wales at present is underfunded, using the UK Government's own current criteria for assessing needs. We emphasise that we do not necessarily regard these criteria as optimal and it may well be possible to find others that are simpler or otherwise more appropriate. However, those could be adopted only by a political decision.'*²⁰

The result of this analysis was that, on the basis of need, Wales should receive £114 per for every £100 per head spent in England:

The 114 figure is set out on Chart 4.1, page 53 of the First Holtham report. Commenting on this finding the Commission report states:

'4.43 If devolved public services in Wales were funded directly by the UK Government using the funding formulae that applies in England, we estimate that spending per head on these services in Wales would be 114, compared to an English average of 100.

*4.44 Since current spending on devolved services will be 112 at the end of the current spending review period in 2010-11, and is projected to fall to 107 over the subsequent decade if spending growth is in line with recent trends, public services in Wales will become increasingly underfunded according to the UK Government's own criteria of relative needs. If spending on comparable programmes in England increases at the same nominal rate as in recent years, cumulative under-funding of Wales over the next decade will total £8.5 billion, even allowing for a period of low growth over the next 3 year spending review period. This is equivalent to £2,900 per resident of Wales. **We conclude that there is an urgent requirement to reform the funding arrangements for Wales.**²¹ (Emphasis added)*

In other words, the Commission reported at the critical time for Wales when it was on the point at which spending per head was just beginning to fall beneath what was required in order to meet need in Wales on the same basis as need was being met in England. Specifically, actual spending in 2009 was £113 per head when it should have been £114 per head in order to address the relative need.

Holtham 2

The second Holtham report set itself the task of developing its initial analysis through the provision of what has become the Holtham formula.

²⁰ Ibid., p. 15.

²¹ <https://www.gov.wales/sites/default/files/publications/2018-09/funding-devolved-government-in-Wales-barnett-and-beyond.pdf>

They explained their actions by stating that the purpose of their ‘needs-based formula’ chapter was to:

- i) to demonstrate that a needs-based funding regime is eminently and imminently achievable given the political will;*
- ii) to show that such a formula need not be prohibitively complicated; and*
- iii) to provide a starting point for discussion about how a needs-based replacement for Barnett could be put into practice.’²²*

The resulting Holtham Formula involves two components, the first of which is mandatory, generating what is effectively a basic definition of need, the second is optional providing a fuller definition of need.

i) Basic Holtham Definition of Need

The Holtham Formula provides its basic definition of need using 7 indicators Demographics: indicator 1, Number of children, Under 16 dependency ratio;

- Demographics: indicator 2, Number of older people, Retired persons dependency ratio;
- Demographics: indicator 3, Ethnicity, Percentage of the population that is from a minority ethnic group;
- Deprivation: indicator 1, Income poverty, Percentage of the population claiming income-related benefits;
- Deprivation: indicator 2, Ill health, Percentage of the population with a long-term limiting illness;
- Cost: indicator 1, Sparsity Proportion of people living outside settlements of 10,000 people or more; in addition, our equation contains a variable to take account of the remoteness of the population of the Scottish islands
- Cost: indicator 2, London weighting A variable that identifies inner London areas,²³

The formula demonstrates how much money Wales, Scotland and Northern Ireland need spent per head of population in order for them to receive the same level of public service as England in recognition of the equal value of citizenship across the whole United Kingdom. It is as such an inherently unionist formula in the sense that it operates on the basis of a commitment to attributing equal importance to everyone within the union. As such the Holtham Formula is not and never has been a Wales formula. The basic definition demonstrates that:

- In order for Wales to receive the same standard of service as England, £115 must be spent per head of population for every £100 spent per head of population in England; that
- In order for Scotland to receive the same standard of service as England, £105 must be spent per head of population for every £100 spent per head of population in England;
- In order for Northern Ireland to receive the same standard of service as England, £121 must be spent per head of population for every £100 spent per head of population in England;²⁴

The result of assessing need across the UK on the basis of this formula was thus to increase the definition of need in Wales from £114 to £115.

²² <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf> p. 17.

²³ <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf> p. 20.

²⁴ <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf> chapter 3.

*'If applied to Wales, the formula produces an overall estimate of Welsh relative need of some 115 per capita, where the value for England is 100. This suggests, based on the relative needs of Wales and the importance attached to those needs by the UK Government and the devolved administrations, that Wales should receive £115 per person to spend on devolved activities for every £100 per person spent on comparable activities in England.'*²⁵

The report then reflects on how this differs by £1 from their previous assessment:

*'In our first report, we calculated the funding that Wales would receive from the UK Government were it treated as a region of England. We concluded that Wales would receive at least £114 per person for every £100 of comparable English spending. The fact that both of the approaches we have adopted have arrived at very similar estimates of Welsh relative need provides confidence in the robustness of our methods. In producing the estimate in our first report, we deliberately adopted methods that were "certain to produce a conservative overall estimate, and likely to generate an underestimate of Welsh relative needs". It is therefore unsurprising that the estimate of Welsh relative needs generated by our formula is a little higher than the estimate that was provided in our first report.'*²⁶

ii) Fuller Holtham Formula Definition of Need

Holtham 2 argued that in assessing the need of any jurisdiction within the UK, while it is essential to deploy the generic, basic formula, it is also important to consider local unique need. This involves looking on a case, by case basis at the unique and specific needs of each part of the UK and complementing the general assessment of need using the basic formula with assessment of local unique need. While it was impossible to work out the basic definition of need in Wales apart from working out the basic definition of need across the rest of the UK, see above, the task of assessing local and unique need is, by definition, local and unique and so, as the Holtham Commission was working for the Welsh Government, this task was only performed in relation to Wales. However, the Holtham Commission's work in this regard is very useful for Northern Ireland, and indeed the rest of the UK, in that it provides a demonstration of how to assess local and unique need which can be applied to Northern Ireland.

Having looked at local issues Holtham identified two additional measures that should be taken into consideration: first, what they call 'taxable capacity'²⁷ and, second, the cost of servicing a bilingual society, mindful of the Welsh Language Act. When having regard for these additional factors the Commission argued that the Welsh need should be set at £117, rather than £115. However, they separated off these two additional considerations and, acknowledging that they depend on more subjective considerations and thus political judgement, stepped back as unelected experts to defend without any qualification the £115 figure as general, basic and uncontroversial.

They expressed their position thus:

'3.31 Adjusting the grant for parity of tax effort and to meet the requirements of bilingualism seems perfectly reasonable so it may well be that Wales should receive 117 per cent of average English expenditure per head. Those are matters for political decision, however, on which we express no final

²⁵ Ibid., p. 21.

²⁶ Ibid., p. 22.

²⁷ This could become relevant in an NI context if the current Finance Department consultation results in NI having to pay more tax. See separate Note on additional taxes.

view and in the remainder of the Chapter we continue to use 115 in illustrations of how the revised system would operate.²⁸

It is striking that when speaking of taxable capacity, the report goes on to observe how this consideration alone could justify increasing the NI definition of need by £3:

*'...for Wales relative needs increase from 115 using unadjusted data to 116 when the adjustment is included, while for Scotland and Northern Ireland the figures move from 105 to 106 and from 121 to 124 respectively. In our view, a strong case could be made that such an adjustment gives a purer estimate of relative need than is obtained by basing the analysis on unadjusted expenditure data. However, on the grounds of simplicity, and to avoid any suspicion of special pleading, we focus on the results derived from the unadjusted data.'*²⁹

In this context, it is interesting, and perhaps not surprising, that when the Welsh Government pressed the UK Government for a Barnett floor, they were offered £115, not £117. Had stronger political arguments been deployed in relation to taxable capacity and bilingualism then perhaps those points might have been admitted. In any event this means that neither £115, for Wales, nor the current comparable NI definition of need, £124 (on account of the recalculations with justice and policing in May 2023, not taxable capacity as in the previous paragraph), can necessarily be considered the end of the matter, especially when one has regard for the uplift, of which more in Section 4.

This second component of Holtham is particularly important for Northern Ireland because of the unique experiences of Northern Ireland arising from the Troubles which continue to have far-reaching implications on Northern Ireland today.

The Resulting Proposals

This analysis had two immediate policy consequences:

In the first instance, it laid the foundation for the Commission and others to call on the Government to do what UK Governments have intended since 1979, to develop a needs-based formula for allocating monies across the UK to completely replace the Barnett Formula and use the Holtham Formula in the meantime.

In the second instance, it resulted in the Commission proposing a short-term solution in the form of the Barnett Floor. The idea was simply that for so long as Barnett remained in place, a mechanism should be introduced to boost the Barnett Formula to ensure that the relevant spending per head figure should not fall below £115.

UK Government Response to Holtham

Holtham 2 was of huge policy consequence for Wales. As of 2009/10, Wales was being underfunded by the Barnett Formula on the basis of need by £2.

The newly elected UK Government was initially resistant to Holtham because of its focus on public spending cuts to address the deficit it had inherited. However, by the 2011 Budget, the UK Government stated that it was "committed to fair and accountable funding for Wales, including taking forward discussions on all aspects of the final Holtham report."³⁰ Of far greater importance, though, in 2012 the UK Government and Welsh Government issued the following Joint Statement:

²⁸ Ibid., p. 25.

²⁹ <https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf> p. 137.

³⁰ HM Treasury, Budget 2011, March 2011

*'The Welsh Government strongly believes that there is no case for further convergence in Welsh relative funding. The UK Government recognises that there has been convergence in Welsh relative funding since the start of devolution, and that this is a significant concern in Wales. Both Governments accept that, on the basis of present UK Government spending plans, there is unlikely to be further convergence over the current budgetary planning horizon. A small amount of divergence is likely to occur over the remainder of this spending review period, but the overall trend of convergence is very likely to reassert itself once spending starts to increase. In future, in advance of each spending review there will be a joint review of the pattern of convergence by the two Governments. If convergence is forecast to occur over the course of the spending review period, both Governments will then enter into discussions on options to address the issue, based on a shared understanding of all the evidence available at that time. Both Governments commit to negotiating to achieve a sustainable arrangement for Welsh devolved funding and the UK public finances, that each can accept as being fair and affordable.'*³¹

The Barnett Squeeze difficulty was assisted in the short term by two developments. First, there is no Barnett Squeeze if spending in England is being cut. After years of growth in English spending, resulting in a sustained squeeze, the advent of the Coalition Government and cuts meant that from 2010 the squeeze was actually reversed such that the pressures to converge were not to converge with England but with Wales's earlier higher baseline. Second, the pressure on the squeeze was further alleviated as the result of the population of Wales falling relative to England.

By the 2015 Spending Review, however, the Barnett Squeeze was such that, in line with the 2012 statement above, it was addressed through the following:

*'Wales 1.233 The government is introducing a floor in the level of relative funding provided to the Welsh Government at 115% of comparable spending per head in England. Funding arrangements in the next Parliament will need to take full account of the Welsh Government's new powers and responsibilities, given the significant impact that tax devolution could have on its funding. The funding floor will therefore be reset at the next Spending Review. The government will legislate to remove the requirement for the Welsh Assembly to hold a referendum in order to implement the Welsh Rates of Income Tax, to reflect the change in the debate in Wales.'*³²

December 2016, meanwhile, saw the publication of the seminal 'Agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework'. This crucial document both defines the nature of the intervention that the UK Government would take in order to prevent Block Grant funding to Wales falling below need and commits itself to taking those steps in to coming financial year. The intervention involved two steps:

First, the provision of the 'uplift', an injection of additional monies whose purpose it is to slow down the effect of the Barnett Squeeze and thus slow down the process whereby Block Grant funding to Wales is squeezed down to need at £115.

Second, a Barnett floor at the level of need, £115, so that if uplift does not prevent funding reaching £115 (the proposal below suggests the uplift is transitional but, as Section 4 points out, that is now in doubt) , at which point the uplift falls away, Block Grant funding can never fall below need.

³¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/214844/2012-10-23-Joint-statement-on-funding-reform-ENGLISH1.pdf

³²

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/5229_Blue_Book_PU1865_Web_Accessible.pdf#page=63

The Agreement includes the following text:

'21. The governments have agreed this needs-based factor will be set at 115%, based on the range recommended by the Holtham Commission and the funding floor implemented at the SR15. However, for a transitional period, while relative Welsh Government block grant funding per head remains above 115% of equivalent England funding per head, the factor will be set at 105%. From 2018-19 and for the remainder of the current spending review period, all uplifts to Welsh Government DEL above the level in 2017-18 will attract the 105% factor, while any reductions below the 2017-18 Level will be applied without the additional factor.

22. Relative Welsh Government block grant funding is expected to converge slowly from around 120% into the range recommended as fair by the Holtham Commission (114% o 117%).

23. At the point that relative block grant funding reaches 115%, the transition period will end and the multiplier will be set at 115%.

24. The two governments have agreed a methodology for assessing relative funding and this will be used to determine when the multiplier needs to change from 105% to 115%. The two governments have further agreed that input and/or assurance can be sought from independent bodies. Further details on the process for moving to the longer-term post-transition arrangements are outlined in Annex A.³³

The Definition of the Floor

To put the matter beyond doubt it is worth noting that the Treasury expressly acknowledges in its Block Grant Transparency document that the Barnett floor was set, and is set, at £115 because of the Holtham Formula definition of need.

'2.11 In the Welsh Government's fiscal framework it was agreed that the Welsh Government's block grant would be uplifted by adding a new needs-based factor into the Barnett formula. This needs-based factor will ultimately be set at 115%, as recommended by the Holtham Commission⁷.³⁴

The Definition of the Uplift

A House of Lords Library Briefing on the Barnett Formula from March 2023 summarises the position in relation to the uplift (105%) and its relationship to the Barnett floor: (115%) in the following terms.

'Currently the needs-based factor is set at 105% of comparable funding per head in England, but the UK and Welsh governments have agreed that it will rise to 115% in the long term. The factor is currently lower (105%) as Wales's relative block grant per head is greater than 115% at around 120% of England's. Once Wales's relative block grant funding reaches 115% of England's the multiplier will be set at 115%.³⁵

33

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578836/Wales_Fiscal_Framework_Agreement_Dec_2016_2.pdf

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https://assets.publishing.service.gov.uk/media/64b8012b2059dc000d5d2600/BGT_Explanatory_Note_July_2023_TO_PUBLISH.pdf

³⁵ <https://lordslibrary.parliament.uk/the-barnett-formula-how-it-operates-and-proposals-for-change/>

Attempts have been made to find out from the Government how much money Wales has received on account of the uplift since 2017-18. Three Written Parliamentary Questions have been submitted.³⁶ In response to the first and second questions the Government declined to answer on account of the fact that the information would be presented in the July 2023 Block Grant Transparency document. This was odd given that it could have provided the answer without prejudging the Block Grant Transparency document. When the said document was published, though, the spread sheet contained a footnote, footnote 2, in tiny font, saying that the Block Grant Transparency document, notwithstanding its pledge to ‘transparency’, would not deal with the value of the uplift.³⁷ This was a simple assertion with no explanation. In this context a similar Written Parliamentary Question was tabled, given that it was now obviously impossible for the Government to respond to the question by directing people to the Block Grant Transparency document given that it now transparently – thanks to footnote 2 – does not deal with the uplift. The Written Parliamentary Question, however, elicited exactly the same answer before, as if footnote 2 did not exist. In this context it was fairly clear that the Government did not want people in Northern Ireland to know the value of the uplift. Happily, however, there is no need to depend on the Government to publish the value of the uplift because enough information is in the public domain for anyone to work this out. The uplift constitutes a 5% increase in the value of Barnett consequential to Wales. In this context all one needs to establish the value of the uplift is knowledge of the value of Barnett consequential to Wales from 2017-18 to 2023-24, and work out the value of 5% of them which is what Wales will have received in addition to 100% of the Barnett consequential. We have been advised that the figure works out at £1.17 billion for the period.

Section 4: Applying the Wales Precedent to the UK Government’s Position

The position of the UK Government to NI funding can be divided into two periods of time, first, the period up until 12 December 2023 when they refused to recognise that Northern Ireland is funded below need and then, second, the current context from 12 December 2023 onwards in which they have exhibited a greater willingness to engage with need.

- Pre 12 December 2023

Prior to 12 December 2023 the Secretary of State for Northern Ireland, and the Under Secretary of State, sought to deal with the Holtham Formula by: i) refusing to use the term ‘Holtham Formula’ and in the case of the Secretary of State, he even denied the existence of the formula³⁸ and by: ii)

³⁶ <https://members.parliament.uk/member/4360/writtenquestions#expand-1625655>
<https://members.parliament.uk/member/4360/writtenquestions#expand-1669452>

³⁷ ‘2These figures do not include the 5% uplift for the Welsh Government as agreed in Welsh Government’s fiscal framework which applied to new funding from 2017-18’ Footnote 2 from the Excel Spread Sheet accessed from Block Grant Transparency Page: <https://www.gov.uk/government/publications/block-grant-transparency-july-2023>

³⁸ Q509 **Carla Lockhart:** The Fiscal Council made it very clear that Northern Ireland is being underfunded, and there is already an on-the-shelf mechanism for a needs-based formula. Can the Government not just get on with it and do it? **Chris Heaton-Harris:** Forgive me, but there is not an on-the-shelf formula.

Carla Lockhart: There is. **Chris Heaton-Harris:** I have a sneaking suspicion that Wales and Scotland are very different places from Northern Ireland. I think they have very different histories and backgrounds. They have very different communities and very different needs. That is why you need politicians who represent those needs and those people to be involved in the conversation with the Treasury to make sure that if you went down the road of having a needs-based “Barnett-isation”, as it were, for want of a better phrase, that it is the correct one for the future of Northern Ireland. It is not an off-the-shelf method of doing this.’

<https://committees.parliament.uk/oralevidence/13725/html/>

suggesting that what Wales instead benefited from was a seven year negotiation process with the Treasury.

It is easy to see where the basis for the latter assertion has come from. The NIO has correctly identified that the Holtham Formula was presented in 2010 but that it was not until 2017 that the UK Government started to intervene to provide additional monies to prevent funding to Wales falling below need. In this context the NIO is suggesting that the seven years represents a period of prolonged negotiation and that once the negotiation was concluded, and an agreement reached, the intervention began. In reality, of course, nothing could be further from the truth. First, and as noted in Section 3, the commitment to intervene on the basis of the Holtham definition of need came in 2012, not in 2017. The only reason why the intervention did not come in until 2017 was because there was no need to intervene until then. Second, whatever discussions between 2010 and 2012 were about, they did not change the formula which was adopted as the Holtham Commission defined it in 2010, as the Government itself clearly acknowledges in the Block Grant Transparency Document.

- **12 December 2023 Onwards**

On 12th December 2023, however, after months of trying to defend the indefensible, the Treasury and NIO were forced to U-turn, promising to fund Northern Ireland to Holtham need from the next financial year onwards, £124, and offering to make good the recurring deficit in our baseline funding resulting from being funded £3 below need in 2022-23 and in 2023-24, through one-off non-recurring payments for the financial years 2024-2025 and 2025-2026.

Going forward there are three challenges to address, arising from the Wales precedent:

1) Funding Below Need from 2026-27

The deal proposed by the Government on 12th December 2023 is logically completely unsustainable. It is not possible to concede the need to fund to Holtham need, £124, from 2024-25 without plugging the whole in baseline funding resulting from having been underfunded for two consecutive years at a cost of £322 million in 2022-23 and £431 million in 2023-2024, because doing so involves making contradictory statements. On the one hand the Government is recognising that in order to be funded to need we must be funded to £124 and yet, on the other, in refusing to plug the deficit in the baseline, it is condemning us to being funded below need, substantially for the next twenty years, and actually for ever.

The UK Government's position is made even more unsustainable by their decision to plug the baseline deficit for two years so that we are properly funded to £124 for those two years, which only serves to: i) validate the importance of properly funding NI to £124 and ii) make plunging Northern Ireland uniquely below need for a second time in one decade in 2026-27 that much more problematic.

In order to appreciate just how indefensible this proposition is, though, we must look again to Wales. As demonstrated by Section 3, Block Grant funding to Wales fell £2 below need in 2009-10, in the year of the Second Holtham report, but then subsequently rose above need from which place the UK Government then undertook not to allow it to ever fall below need again. In this context the UK Government cannot then allow Northern Ireland to fall below need a second time, without effectively discriminating against Northern Ireland, departing from the relevant precedent.

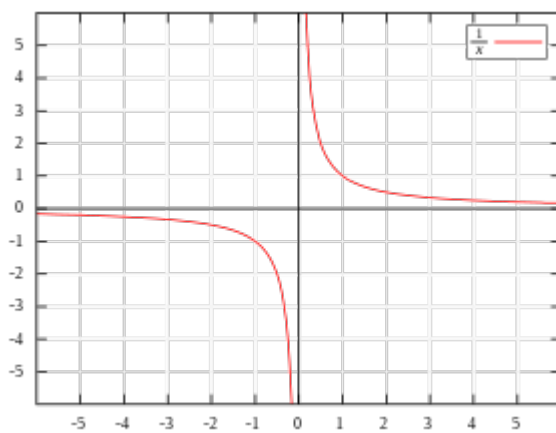
In response to this the point might be made: but at least the Barnett consequentials going forward from 2024-25, and thus from 2026-27, will be to need. There are three difficulties with this justification:

First, this is discriminatory, for the reasons just mentioned, because Welsh funding was not allowed to fall below need a second time in any sense.

Second, if we go below need again in 2026-7, when the two years of one-off stabilisation payments end, it will take the best part of twenty years of receiving new Barnett consequentials to £124, against the backdrop of the recurring baseline deficit, in order to get near £124 once again.

Third, if we use Barnett consequentials set to £124 in this way going forward, what we actually have is a Barnett ceiling rather than a Barnett floor. Increments discharged on this basis from beneath need, up to need, give effect to a something called an asymptote. The increase through consequentials to £124 take us up towards £124 but because the process is asymptotic, we will never actually reach need at £124.

This is expressed diagrammatically below:



Because in Wales the process was applied when they were above need (to prevent their falling below need) their situation is reflected in the top right to the extent you see a red line above the x axis – the definition of need - which never converges with it.

This means that, barring changes in population, their funding will always remain above need.

Our situation, in confronting a fiscal ceiling at the Holtham definition of need, rather than a fiscal floor, is represented by the bottom left-hand box by the red line never converging with the x axis, always funded below need.

In other words, even if it was said to be acceptable for Northern Ireland to be funded below need for a period if funding was moving in the right direction, the fiscal ceiling would still be completely unacceptable because it would mean that while Wales was afforded a fiscal floor, preventing its funding ever falling below need, thus guaranteeing it just above need funding in perpetuity, Northern Ireland, in being offered a fiscal ceiling, would be discriminated against in being offered below need funding in perpetuity.

2) The Uplift and the Floor

It would be possible for the DUP to argue that because Scotland is funded £21 above need that Northern Ireland should similarly be funded £21 above need. This, however, would be petty and be politically unsustainable. Having said that, however, because the consequences of being funded below need are so dislocating and so disruptive it is entirely credible to argue that when a jurisdiction's funding gets close to need, it is only right that different parts of the UK insist that they are treated in

exactly the same way and that, to this end, Northern Ireland should be afforded exactly the same protections as Wales. In this context, while we need the provision of the fiscal floor to need, we cannot afford to forget about the uplift.

It can be tempting to forget about the uplift because it is talked of as if it is only a temporary measure. As noted in Section 3, however, according to the Treasury's Block Grant Transparency document, Wales's average projected receipt of monies through the Block Grant over the period 2022-23-2024-25 is a full £5 above need. In other words, eight years on from the moment when the UK Government began to intervene with the floor and uplift, funding in Wales is significantly above need, it will still be well above need. This has two implications: First, it means that Wales has so far received £1.17 billion of public monies through the uplift, monies that are entirely additional to the task of meeting the basic Holtham definition of need. Second, because uplift payments continue unless or until the floor is reached, Wales is likely to continue to benefit from a lot of additional public monies above need in the coming years, even as Northern Ireland is condemned to be funded permanently below need.

In order to really appreciate the significance of this arrangement, however, one has to recognise that because Wales benefits from protections to Barnett consequentials in the form of a fiscal floor and because they behave in an asymptotic manner, there must be questions about whether, even without the uplift, Wales could ever reach the floor. In this context, with the uplift factored into the equation, it seems likely that the uplift will become a permanent rather than a transitional payment because it only falls away if funding actually reaches the floor. In this context it is plainly imperative that Northern Ireland insists on being afforded exactly the same protections as Wales and thus accessing the uplift and the fiscal floor.

3) Full Holtham Definition of Need

Going forward, it is also critically important never to lose sight of the fact that the Holtham Formula is comprised of two elements (see Section 3), namely the basic generic needs-based formula, together with the opportunity to complement its findings with an appreciation of local and distinct need. Of all parts of the UK, Northern Ireland has the strongest claims to distinctive local need, because of ongoing costs associated with the Troubles. They may have largely ended thirty years ago but the scars-remaining, and the costs associated with them, are far reaching and ongoing. It would be worth doing some work to properly assess the costs of Troubles, but the following are immediately obvious:

First, the cost of having a thirty-year period in which the scope for strategic infrastructure investment was undermined because rather than being able to build strategically on what we had for the future, Northern Ireland was constantly having to rebuild things to stand still because of the impact of bombings and shootings.

Second, the ongoing impact of the Troubles on mental health. Psychiatric morbidity in Northern Ireland is 25% higher than in the UK, a legacy of more than 30 years of conflict, in which 3500 people died and 47 000 were seriously injured. In 2008, 39% of the population in Northern Ireland reported experiencing a traumatic event relating to the Troubles.³⁹ In her 2015 analysis, the mental health champion found that both childhood adversities and trauma relating to the Northern Ireland conflict have a major role in the development of psychopathology. The proportion of the health budget in Northern Ireland devoted to mental health is around 6%, which is half that of England.⁴⁰

³⁹ [Mental health in Northern Ireland: an urgent situation \(thelancet.com\)](https://www.thelancet.com)

⁴⁰ [Mental health in Northern Ireland: an urgent situation - The Lancet Psychiatry](https://www.thelancet.com)

Third, the distinctive costs, post Troubles, of being a divided society.

It is clear that if a proper piece of work was done on this that a case could be made to increase, possibly quite significantly, funding above £124. Obviously, there is a sense in which if we press for funding to the full rather than the basic Holtham definition of need, we will depart from the existing precedent which is our strongest argument. (In seeking the provisions set out by Section 4 up until this point, we have remained firmly within the existing precedent as provided by Wales.) There are two potential responses to this logic:

First, while it might seem like pressing for a funding settlement that recognises the full Holtham definition of need rather than just the basic Holtham definition of need steps beyond the Wales precedent, there are reasons for arguing that this is not so.

Second, even if one accepted that arguing for the full Holtham definition of need involved departing from precedent, this should not stop Northern Ireland making the case for the application of the full Holtham definition of need.

In what follows, we will consider both:

i) There is an effective precedent for the full Holtham definition of need

The uplift was not mentioned by the Holtham report. It first made its presence felt in the December 2016 announcement from the UK and Welsh Governments. To the extent that it involves spending money above the basic Holtham definition of need, possibly on a permanent rather than a temporary basis (for the reasons set out earlier), it effectively involves ensuring that Block Grant monies going to Wales meet a definition of need that is more than basic. It takes us into the territory of meeting the additional needs that Holtham provides as examples, lower taxable capacity, worth £1, and the costs of servicing a bilingual economy, worth another pound, in his full definition of need, and whatever other additional costs that a full assessment of local unique need might unearth. The significance of this perspective is that it enables one to argue that as a matter of practice, because of the role played by the uplift, the Welsh precedent supports funding not to the basic Holtham definition of need but to something more like the full Holtham definition of need which is cognisant of local and distinct need. The point can also be made, moreover, that in a context where because of the Troubles, and the highly developed and unique local need that is our experience, the imperative for the provision of the uplift in Northern Ireland is certainly as great, and if we are honest, much greater in Northern Ireland.

ii) While we can and do invoke effective precedent in terms of full Holtham Need, we will not constrain ourselves by precedent

The point must be remembered that if Wales had constrained itself with precedent, then it would not have established the Holtham Formula or persuaded the UK Government to adopt it because there was no precedent for that when it made these arguments. On this basis, while we should deploy precedent where we can, we need not constrain ourselves to precedent where it does not exist. In our situation we have a very unique situation because of the legacy of the Troubles which means that there is arguably a sense in which precedent is not relevant because happily no other part of the UK has had to go through the experience that Northern Ireland has been through.

The Way Ahead

Mindful of the above argument, there are five key precedents Northern Ireland must assert vigorously:

- In the first instance, the precedent arising from the UK Government's acceptance of the Holtham needs based formula on the basis of which the £115 definition of need for Wales was

developed. Given that the NI definition of need at £124 is based on exactly the same measure, the Treasury cannot reject this having accepted it for Wales.

- In the second instance, the precedent arising from the UK Government's acceptance of the fact that spend per head in Wales should not fall below need, £115, as set out in 'The Agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework'.
- In the third instance, the precedent arising from the UK Government's provision of the 5% uplift for Wales as an additional provision to ensure that funding does not fall below the Holtham definition of need.
- In the fourth instance, the precedent arising from the fact that as a consequence of its commitments that spending should not fall below need in Wales, it has since intervened, and does so on an ongoing basis, mindful of the terms of the 'The Agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework'.
- In the fifth instance, the precedent arising from the fact that the calculations determining how Wales benefits from the uplift and the floor are set across the three years of the spending review period by the spend per head figure for each UK nation determined by the HMT Block Grant Transparency document which is published shortly before the spending review period, and applies to the whole three years. The figure is not updated until the new HMT Block Grant Transparency document prepared for the new spending review period to which its figures relate. This means that the spend per head figure that is used to calculate the uplift/needs adjustment in Wales for the full 3 years is £120 and so, in order to be treated fairly, NI must be treated on the basis of the equivalent NI figure for the 3 years, £121, £3 below need. (This is very important because the Fiscal Council spend per head figure (which cannot isolate block grant spending as effectively as the Block Grant Transparency document) for this year (2023-24) is £125, i.e. £1 above need, and £123, i.e. £1 below need from next year (2024-25). If the Govt argued for that it would be important to point out that fairness requires working on the basis of both the same framework for measuring of spend as applies to Wales – (The Treasury Block Grant Transparency document, which provides the only robust means of isolating Block Grant spend from other spend) and the same framework for measuring need as applies to Wales (Holtham).

Conclusion

The UK Government should intervene to increase baselined Block Grant spending in Northern Ireland to proportionately the same level above the basic Holtham definition of need, as was the case in Wales when it intervened in the financial year 2017-18 with the uplift to slow down the Barnett Squeeze, and at that specific level it should then apply the uplift to Northern Ireland. At the same time the fiscal floor at the basic Holtham definition of need should be applied. This will mean that Northern Ireland is afforded the same respect as Wales in being given a fiscal floor rather than a fiscal ceiling. If there is resistance to the idea of the uplift then the point can be made that it effectively helps to prevent Welsh funding falling below the full Holtham definition of need, which is more important in Northern Ireland because of the significant and extensive nature of local need arising from the Troubles.

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Appendix

Wider Political Support for a Needs Based Formula

In 2009 a Special Lords Committee was convened to review the Barnett Formula including the likes of the former Chancellor of the Exchequer, Lord Lawson and Lord Trimble. It concluded:

*'We find the argument that devolution funding should be based on relative need to be a compelling one. Public spending per head of population should be allocated across the United Kingdom on the basis of relative need, so that those parts of the United Kingdom which have a greater need receive more public funds to help them pay for the additional levels of public services they require as a result. Those levels of need—and those parts of the United Kingdom which require them—may well change over time. Historically, they have certainly done so.'*⁴¹

It made a concrete proposal:

'The role of the Commonwealth Grants Commission (CGC) in Australia offers a useful institutional model of an independent body that has responsibility for making recommendations about the allocation of finance (para 72).

An independent body, similar to the CGC, should be established in the United Kingdom. It should be the role of such a body to recommend the allocation of public monies based on population and through a new needs-based formula. Within the new framework the Treasury will need to retain its authority over the overall level of the block grant but not the proportionate allocation of the grant between the devolved administrations. This independent body might perhaps be called the United Kingdom Funding Commission. This Commission would carry out an assessment of relative need, undertake periodic reviews, and collect and publish information on an annual basis about the allocation of finance to the devolved administrations (para 73).

*The Commission should be advisory in nature rather than have the power to make substantive allocations of funds on its own account. Its advice should, however, be published (para 74).'*⁴²

In 2016 the Constitution Committee in the Lords returned to the subject in more detail in their report on the Union, *'Intergovernmental Relations in the United Kingdom*. Their Executive summary stated:

*'In our view, to perpetuate the use of the Barnett Formula, which takes no account of relative need, makes a mockery of the Government's duty to ensure a fair distribution of resources across the UK. We recommend that the UK Government reconsider its use of the inadequate Barnett formula and establish a mechanism that takes into account the relative needs of different nations and regions in allocating funds.'*⁴³

The body of the report goes into more detail and is particularly interesting from a unionist point of view, talking in terms of the 'social union':

'116. We support the principle of fiscal responsibility. However, increasing the fiscal powers of the devolved institutions will present risks to the redistributive role of the Union. The greater the amount

⁴¹ <https://publications.parliament.uk/pa/ld200809/ldselect/ldbarnett/139/139.pdf> p. 36

⁴² Ibid.

⁴³ <https://publications.parliament.uk/pa/ld201516/ldselect/ldconst/149/149.pdf> p. 4

of revenue raised and spent locally, the less scope for the allocation of resources on the basis of need by central government. This allocation is vitally important to ensure that the social union is supported by a pooling and sharing of resources across the whole UK. In that context, it is our view that to perpetuate the use of the Barnett Formula, which takes no account of relative need, makes a mockery of the Government's duty to ensure a fair distribution of resources across the UK.

117. We recommend that the UK Government reconsider its use of the inadequate Barnett formula and establish a mechanism that takes into account the relative needs of different nations and regions in allocating funds.⁴⁴

Their 2022 report, *Respect and Co-operation: Building a Stronger Union for the 21st century* is also worth reflecting on as it returns to the proposal made in 2009 Committee to the Commonwealth Grants Commission.

'We continue to believe the Barnett Formula requires reform to introduce a fairer allocation of funding between the four nations. As fiscal devolution develops and the funding of the devolved administrations become less reliant on the block grants, we recommend the Government examine how funding arrangements could more effectively address relative needs across the United Kingdom.⁴⁵

'Following a recommendation by the Holtham Commission, a Welsh 'adjustment' was made to the Barnett Formula in 2016 which guarantees that Welsh devolved spending will not fall below 115% of spending on similar public services in England. Mark Drakeford welcomed this change, but the Welsh Government has still proposed replacing the formula with a "new relative needs-based system" overseen by "a public agency accountable to all four governments jointly." Professor McLean told us about the Australian Commonwealth Grants Commission, which he suggested provided a model of how such a body could operate in practice.'

'Witnesses told us the formula should be reformed to make it more efficient, fairer, needs based and transparent. Professor Denham said the formula is "widely seen as unfair" because it provides "an over generous settlement" to Scotland, underfunds Wales and does not guarantee a fair share of national funding to English localities. In 'The Union and devolution' we said the public must feel that the distribution of common resources is fair compared with other parts of the UK if support and consent for the Union is to be maintained. Mark Drakeford and Professor McAllister both said the unfairness of the formula risked undermining one of the strongest cases for the Union: as a "vehicle for redistribution".⁴⁶

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⁴⁴ Ibid.

⁴⁵ <https://publications.parliament.uk/pa/ld5802/ldselect/ldconst/142/142.pdf> p. 7

⁴⁶ Ibid. pp. 87-88.