

## House of Lords Select Committee on the Barnett Formula

### Evidence Submission from the Federal Trust for Education and Research

Please find below our response to the Call for Evidence House from the Lords Select Committee on the Barnett Formula. We are grateful for the opportunity to put our views forward, even though the formal deadline has passed.

The Federal Trust is a think tank that studies the interactions between regional, national, European and global levels of government. At present we are engaged in a project considering the applicability of federal structures and principles to the UK constitution. We were pleased to learn that this committee is addressing an issue central to any such investigation: mechanisms for the central redistribution of funds, as at present determined to a considerable extent by the so-called ‘Barnett Formula’.

We note that subjects specifically ruled out of the terms of reference of this inquiry include ‘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’ and ‘Other political aspects of the devolution settlements’.

However, the inquiry also proposes ‘to consider alternative mechanisms’ to the Barnett Formula. We seek to address this issue, dealt with by **Question 4** from the Call for Evidence – ‘**Need for reform/ Alternatives to the existing Formula**’; and the first two sub-questions within it.

We believe that the Formula, as presently constituted, is a natural consequence of the present constitutional structure of the UK. The UK is a multinational, asymmetrical and highly centralised country. As a trade-off for their continued participation in a Union within which England is the dominant partner, a number of specific beneficial arrangements are afforded to the smaller nations, such as overrepresentation in terms of parliamentary seats relative to England. The Formula, which has in practice tended to preserve higher levels of per capita spending in the non-English UK nations, amounts to another such arrangement. While the UK remains a unitary state with centralised fiscal policy, the central redistribution of funds is always likely to be conceived primarily in terms of political concessions to particular nations within the UK.

The alternative, and in our view preferable, approach would be based on a clear distinction between the taxes raised in particular nations or regions; and the funds that were allocated to them from central resources according to some kind of needs-based formula. The ultimate outcome in terms of central redistribution of funds might not differ radically from present arrangements, but it is to be hoped it would be more possible to achieve a degree of public understanding and acceptance around it. However, within the current unitary UK constitution, such an approach is not possible. Within this system, however it is modified, the Formula is likely to bring with it similar problems such as resentment within England that it is subsidising other parts of the UK.

#### **Do the advantages of the Formula as presently constituted outweigh its disadvantages?**

The primary political goal of the Formula is to satisfy those nations within the UK that are in practice its beneficiaries that membership of the Union is advantageous to them; while not causing excessive resentment amongst the other nations (or rather, nation). So long as both these conditions are fulfilled by the formula, its advantages could be said to be outweighing its disadvantages. Inevitably, there will be those in both the smaller nations of the UK and in England who will be unhappy with the precise balance established by the Formula. Until now, both these

minorities have been politically marginal, but there can be no guarantee that their marginality will continue indefinitely.

**Should the Barnett Formula be (a) retained in its current form, (b) amended or (c) replaced entirely?**

We believe that, while the status of the UK as a highly centralised, unitary state remains intact, there would little purpose in amending the Formula. Problems associated with the Formula are likely to remain roughly similar in nature while the current framework persists. For it to be 'replaced entirely' in a meaningful way would involve alterations to the structural make-up of the UK.

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