

Appendix. Effects of using an alternative correction to the Barnett formula in the 2010 Spending Review

Table A1 shows the change in funding between 2010–11 and 2014–15 as a result of the 2010 Spending Review using the existing and two ‘corrected’ versions of the Barnett formula. Version A is that used in the main paper. Version B is the alternative correction that is recognised as having conceptual advantages over A, but has the drawback of being more complicated to calculate and explain.

The two versions of the ‘corrected’ formula generate remarkably similar spending allocations for both Scotland and Northern Ireland.

For instance, under version A, the cuts to Scotland’s budget total £2,059 million, £400 million more than the £1,658 million required under the existing Barnett

Table A1. 2010 Spending Review allocations under existing and two versions (A and B) of a ‘corrected’ Barnett formula

	Change in funding (£ million) 2010–11 to 2014–15		
	Existing formula	Corrected formula, version A	Corrected formula, version B
Scotland			
Current DEL	–904	–1,402	–1,410
Capital DEL	–1,192	–1,095	–1,096
Business rates	+437	+437	+437
Total resources	–1,658	–2,059	–2,068
Northern Ireland			
Current DEL	–434	–601	–604
Capital DEL	–448	–416	–416
Business rates	+13	+13	+13
Total resources	–869	–1,003	–1,007

Notes:

(a) The figures reported here for ‘Existing formula’ will not match published Spending Review allocations for Scotland. This is because the Scottish government deferred the in-year cuts made by the UK government in 2010–11 until 2011–12, and this was accounted for in published figures. These deferred cuts are stripped out from the figures reported here as they relate to policy decisions made before Spending Review 2010.

(b) We have been unable to obtain forecasts of Northern Irish business rates revenues for 2014–15 and beyond. Figures for Northern Irish business rates revenue changes reported in this table, the text and the main paper take actual growth in business rates revenues in Northern Ireland between 2010–11 and 2013–14, and assume that growth after 2013–14 matches the average growth rate in business rates revenues for the UK as a whole.

Source: Author’s calculations using HM Treasury spreadsheets used for calculating Barnett consequential; business rates revenues are obtained from the Scottish Budget and directly from Northern Irish finance personnel. Note that figures for business rates revenues for Scotland refer to the ‘distributable amount’, which can differ from actual revenues obtained in a given year due to forecasting errors. All figures are in real terms, 2014–15 prices.

formula. Under version B, the cuts total £2,068 million, £410 million more than required under the existing formula. In the case of Northern Ireland, cuts under version A of the corrected formula would be £134 million more than under the existing formula; cuts would be £138 million higher under version B. Differences between version A and version B therefore represent less than 0.5% of the overall cuts required under either of these versions of the formula. This suggests that there is little loss in accuracy from using the simpler version A utilised in the paper compared with the conceptually better but more complex version B.

If anything, version B of the corrected formula suggests the gains to Scotland and Northern Ireland from the flaw we have identified are slightly *larger* than when estimated under version A (the results reported in the main paper). This is because version B reduces comparability factors for departments with high comparability factors (such as Health and Education) by slightly more in *percentage-point* terms than version A does, and reduces comparability factors for departments with lower comparability factors (such as Business, Innovation and Skills) by slightly less. This means version B gives Scotland and Northern Ireland slightly smaller consequential gains than version A from the cash *increases* in the Health and Education budgets, and slightly bigger consequential gains than version A from the cash *cuts* in the Business, Innovation and Skills budgets.

The Health and Education budgets have increased by more than most others in all Spending Reviews since 2000. This suggests that, if anything, version B of the corrected formula would result in estimated gains from the flaw in the Barnett formula being slightly larger than those presented in the paper (based on version A) in all Spending Reviews since 2000. This means we can be confident that the approach presented in the paper does not overstate the gains to Scotland and Northern Ireland from the flaw in the Barnett formula – if anything, it is likely to slightly understate them.¹

¹ A third alternative has also been suggested to us, which treats English business rates as part-funding England-and-Wales spending (rather than England-only spending), on the basis that English and Welsh business rates are effectively (although not formally) pooled under Wales's system of partial devolution. We are not convinced that this would be a good idea. (It begs further tricky questions, such as: should Welsh business rates revenues also be assumed to part-fund England-and-Wales spending? Doing so could mean block grants to Northern Ireland and Scotland would depend not only on UK government spending allocations, but also on Welsh government decisions). Adopting such an approach would make little difference though. For instance, Scotland would have faced cuts of £2,046 million in Spending Review 2010 under such an approach, compared with £2,059 million under version A and £2,068 million under version B of the corrected formula (and £1,658 million under the actual formula).