

Working paper: Replacing Barnett with a needs-based formula

Summary

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Independent Commission on Funding and Finance for Wales
Room 2-017
Crown Buildings
Cathays Park
Cardiff CF10 3NQ
Email: Holtham.Commission@wales.gsi.gov.uk
Website: www.walesfundingreview.org

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1. In our First Report, we recommended that Barnett should be replaced by a needs-based formula. In this working paper, we set out how this could be done, and employ a methodology for developing a needs-based formula that is derived from funding decisions of the UK Government and the devolved administrations.
2. An ideal needs-based formula would be simple both to operate and understand as well as being complete, i.e. it would capture most relevant aspects of need. Our analysis has demonstrated that it is possible to replicate to a surprisingly high degree of accuracy the funding allocations of very complicated needs-based formulae using only a few key needs proxies.
3. A formula for calculating relative needs across the devolved administrations that combines simplicity with a high degree of completeness and is based on real world funding allocations by the UK Government and the devolved administrations finds that Wales should receive some £115 for every £100 of funding spent on comparable activities in England. At present, Wales receives only £112 for such activities. For Scotland and Northern Ireland, the figures generated by the formula are £105 and £121 respectively, although these estimates would need refinement to take account of different devolved responsibilities.
4. We propose a straightforward way of aligning relative funding with relative need in the devolved administrations over time. An assessment of the relative needs of each devolved administration would be undertaken at the beginning of each spending review period, using the simple formula. Changes to the block grant would be calculated as at present, with two key amendments.
 - Firstly, a multiplicative needs adjustment term would be added to the current funding formula that would align changes in relative funding with relative need.
 - In addition, a transition mechanism would be applied to close the funding gap between current relative funding and current relative need in a phased manner. We set out a straightforward mechanism that would achieve this objective.