

MEETING WITH THE CHANCELLOR OF THE EXCHEQUER

SR2000 SETTLEMENT AND BARNETT

MAIN POINTS TO MAKE

We managed to get the Assembly to approve the Budget allocations for next year but not without considerable difficulties.

These difficulties relate to the fact that our settlement in SR2000 was the worst in the UK and leaves us with potentially serious problems in the next few years.

Our Budget contains a range of important deficiencies compared to the progress that is being promised and which is being forwarded in England. The health settlement is inferior – despite significant diversion of Barnett consequential from other services into health, we are still £27 million short in 2001-02 of the amount required to match the uplift in England, and this continues a trend from recent years. The pattern in relation to education is very similar and on transport we have no hope of getting close to the vast levels of investment which are materialising for railways and roads in England.

Our conclusion is that Barnett is increasingly untenable. Our understanding is that the application of Barnett to Resource Accounting and Budgeting is likely to prove extremely difficult: clearly it is essential that some form of acceptable way forward is found.

We want to impress on you that the position is increasingly unacceptable. The Barnett formula, and the Treasury's whole approach to public spending for Northern Ireland, seems to be based on the crude per capita comparisons on relative spending levels in Northern Ireland. This is far too simplistic and has no

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basis when need indicators are considered. We sought to draw this out clearly in the summertime before the end of the SR2000, but saw no sign that there was any recognition of the realities we faces, and the fact that Barnett is increasingly unreasonable.

The discussion last year with Andrew Smith on this issue was not entirely unhelpful. We think there are grounds to engage more fully to explore possible modifications of, or alternatives to, the Barnett formula. We appreciate how complex and difficult this is, and the implications for England, Scotland and Wales – but that does not mean we can continue to tolerate what is an increasingly difficulty position in our own terms. The political pressures in the Assembly to address the inadequacies in the Barnett formula continue to grow in Northern Ireland.

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