

**Andrew Selous (South West Bedfordshire) (Con):** I am grateful to Mr Speaker for allocating me this important debate. It is a particular pleasure to serve under you, Mr Dobbin.

I have wanted to make this speech for a considerable time. As a member of a governing party with a bold and reforming agenda across large parts of Government, I hope that that spirit of boldness will also be applied to this issue and that it will be allied to a keen sense of fairness and justice so that we do the right thing by every part of the United Kingdom.

I speak as a committed Unionist and I want every part of the United Kingdom to be treated absolutely fairly as far as central Government funding is concerned. However, the formula that currently allocates funding between England, Wales, Scotland and Northern Ireland for large parts of public expenditure is broken. Even the man after whom it is named, Lord Barnett, wants to get rid of it and speaks against it. It really is time for us to look at it, as I shall try to show in my remarks.

The formula dates back to 1976. It was decided, across certain parts of Government spending, to allocate 85p in every pound to England, 10p in every pound to Scotland and 5p in every pound to Wales. That was done on the basis of population figures from the mid-1970s. Those figures have never been changed; all that has been changed over the years are the annual increments. We are therefore working on a population baseline from the mid-1970s that bears no relation to the significantly increased population in England or the increased population in Wales. At the same time, the population in Scotland has remained broadly static. In the excellent debate on the Barnett formula in the House of Lords, Lord Sewel, a Labour peer, referred to

"a series of fantasy populations"-[*Official Report, House of Lords*, 11 March 2010; Vol. 718, c. 381.]

**Mark Lazarowicz (Edinburgh North and Leith) (Lab/Co-op):** I am grateful to the hon. Gentleman for bringing this important subject for debate, but his comments about the starting point for the Barnett formula give the impression that the 85%, 10% and 5% figures reflected the populations of the different parts of the UK at the time. Surely, that was not the case. Even at that stage, the formula reflected the different needs in the different parts of the UK by giving Scotland and Wales a slightly higher allocation per head. Population did not define the breakdown in different parts of the UK at the start.

**Andrew Selous:** The formula was fundamentally on a population basis. If the hon. Gentleman reads the excellent report by the House of Lords Committee on the Barnett formula, which came out in July 2009, he will see the significance of the population issue. I propose that we move to a needs-based formula, and that was the Committee's unanimous, cross-party conclusion, which was supported by its Conservative, Liberal Democrat, Labour and Cross-Bench members. I think I can assure the hon. Gentleman that I absolutely want to reflect the higher need that is clearly evident in Wales and parts of Scotland so that we are totally fair. The evidence is that we are not doing that now. The situation has become unfair, and that is a danger to the Union.

Let us see what the man after whom the formula is named has said. Speaking of the formula's creation in 1976, he said:

"I just wanted to get through every day without too much trouble."

He also said:

"I do not consider it is successful. I do not think it is fair."

He added:

"I thought it might last a year or two before a government would decide to change it. It never occurred to me for one moment that it would last this long",

or more than 30 years. Those who pray in aid the Barnett formula should be well aware that its author thinks that it is time we moved on to something that is fairer and that is built on a needs basis.

**Hywel Williams (Arfon) (PC):** Will the hon. Gentleman refer to the Holtham commission, which looked at the nature of the funding for Wales? It identified that Wales has been underfunded historically to the tune of about £300 million per annum.

**Andrew Selous:** I will most certainly refer to the Holtham commission. What the hon. Gentleman says is quite correct. He should have no fear about what I propose. The Holtham commission came to the same conclusion as the House of Commons Justice Committee report in July 2009 and the excellent House of Lords Committee report, on which there was a good debate on 11 March 2010. The commission really said the same thing as those reports: we need to move to a needs-based formula.

The money given to Wales and Scotland is distributed on a needs basis across the Principality and Scotland. It should not, therefore, be too difficult to put together a needs-based formula to allocate the money. That is difficult to argue against, and as I said, leading members of the Conservative, Labour and Liberal parties came to the unanimous conclusion in the House of Lords Committee report that we should move to such a formula.

I want to spend a little time explaining why the situation is unfair for England. We sometimes look at the Barnett formula as if it is just about Scotland, Wales and Northern Ireland. As a committed Unionist, however, I think we also have to remember the English. I do not, in any sense, say that apologetically; I just think we need to be fair to everyone, because poor people in England have similar rights and should also be treated fairly.

Council tax in Scotland has been frozen for a considerable number of years. Many of my constituents have worked hard all their lives to buy the home they love, but some are forced to sell their homes because they cannot afford the council tax, which goes up year after year. Is that fair?

I also think of business rates. I represent a town called Dunstable, which recently had 56 empty shops in its high street. Many shopkeepers told me time and time again that business rates were

driving them out of business. Hon. Members might therefore be interested to know that business rates in Scotland were reduced by 80% for businesses with rateable values of up to £8,000 in 2008-09 and scrapped entirely in 2009 and 2010. Business rates were cut by half for businesses with a rateable value of up to £10,000 and by up to 25% for those with a rateable value of up to £15,000. Of course, I commend the Minister for recognising that unfairness as far as England is concerned and for bringing some relief, although it is not as much or as generous as elsewhere. I thank her and her Treasury colleagues very much for what they have done, but there are businesses that would still be operating in my constituency and paying tax revenue to the Treasury had we applied that relief earlier and more fairly across the United Kingdom.

Since 2002, personal care in Scotland has been given without reference to need, whereas it is time limited and not available in the same way in England. Prescription charges are much lower in Scotland and will be abolished completely by April. They do not exist in Wales. Why should people in the same circumstances in England have to pay prescription charges? On hospital car parking charges, it costs £2.50 per visit to park at my local hospital. If someone on a low income has a family member in hospital for a long period, those charges will be significant. Again, such charges are not paid in Scotland.

This year, the situation with tuition fees and education maintenance allowance really was the straw that broke the camel's back for a lot of people in England. English Members have been receiving lots of letters about education maintenance allowance and the fact that it is to be replaced by a discretionary grant; but of course it is being kept in Wales, Scotland and Northern Ireland. There will continue to be no tuition fees for Scottish students and there will be no increase in the fees for Welsh students, while those of English students will double. Therefore, in a few years' time a Scots graduate, a Welsh graduate and an English graduate, working in the same company and the same office, perhaps having done similar courses, and earning the same salary under the same taxation system, will be paying back hugely different amounts of debt. How are we supposed to explain to our constituents that that is fair? My children are already giving me considerable grief on the subject, as they look to the university fees that they will no doubt pay in a few years. It is frankly not fair, and I defy any Scottish or, indeed, Welsh Member to say that the system is fair to the English.

**Owen Smith (Pontypridd) (Lab):** I am pleased that the hon. Gentleman got this important debate, and pleased to be able to contribute a little. There is a one-word answer to the question that he has raised: devolution. In the spirit of fairness in which he has framed his remarks I entirely agree that we need to move to a needs-based formula, and the Holtham report and all the other empirical data we have about Barnett point in the same direction. We need to move in that direction. I am encouraged to hear a Parliamentary Private Secretary thinking in such ways. However, is it not invidious to cherry-pick ways in which citizens in Wales may be better off, when they are less well off in other respects? The hon. Gentleman mentioned the relative deprivation in Wales and Scotland. That is reflected in the empirical evidence, which shows that a needs-based, deprivation-based formula would afford more money to Wales than we currently enjoy.

**Andrew Selous:** I am glad that the hon. Gentleman is with me in wanting a needs-based formula. He is right that the evidence of the Holtham commission, and the evidence that the

House of Lords took, suggests that Wales would benefit from such a formula and that if it is to be applied fairly there should be some reduction in what Scotland currently receives.

I agree with the hon. Gentleman that it is up to the Welsh Assembly Government and the Scottish Government to spend their money as they see fit. What is not fair and right is the allocation of money in a block grant on a bust formula from 1976, whose author no longer thinks that it is fair, when there is clearly in many cases such an imbalance between what the English and the Scottish can be offered. That is an entirely reasonable case.

**Mark Lazarowicz:** Will the hon. Gentleman give way?

**Andrew Selous:** I will, but I want to finish my list-I have not got to the end of it yet-of what we do not get in England. It is really worth listing, because even the Library did not have a comprehensive list. I was adding to it as I went along.

Certain cancer drugs were available earlier in Scotland than in England-we are just catching up. Concessionary bus travel is more generous in Scotland. People can go on long-distance journeys there and take a companion, if they are disabled, which they could not do in England. I think that hon. Members who are fair and who consider the issue dispassionately and want to do the right thing by every part of the United Kingdom will agree that we cannot allow the situation to continue if we are committed Unionists.

**Several hon. Members** *rose-*

**Andrew Selous:** I cannot remember who wanted to intervene earlier; I give way to the hon. Member for Edinburgh North and Leith (Mark Lazarowicz).

**Mark Lazarowicz:** I am grateful to the hon. Gentleman for giving way again, but it is an important debate. I welcome the tone in which he presents his case, even if I disagree with some of the conclusions. Would it not be better if he were to mention not only the areas where residents of Scotland and Wales appear to get a better deal, but those where, because of a choice made under devolution, spending is less? There is now a debate in Scotland and Wales about university funding and the effects of different tuition fee levels on university fee income. In some areas of health and transport, provision is less than in England. It is not right, as my hon. Friend the Member for Pontypridd (Owen Smith) said, just to cherry-pick the areas where Scotland and Wales seem to be doing well, without referring to choices that have resulted in different consequences, which can be easily pointed out as examples of relatively lower levels of service than in England.

**Andrew Selous:** I will now move on to what I think we should do about the situation. I am proposing a needs-based way of allocating the block grant, reflecting current populations and needs, which are worse in England in some cases than in Scotland, and significantly worse in Wales than in some parts of England. That should be recognised because there is a fair, open and transparent way of proceeding, but at the moment much of what the Treasury does is not transparent. Crossrail, for example, was at one moment a UK project, designated by the Treasury. The next minute it was designated an English project so that there could be a Barnett

consequential, and Scotland could get an extra £500 million. That may or may not have been right, but what was the process? Was it open to transparent scrutiny so that people in Wales and England could see that it was fair? In one year the Treasury suddenly said that there was a £900 million underspend for 2007; that was allocated to the Scottish budget. That may have been correct, but at the moment everything is done deep in the bowels of the Treasury. I do not say that there has not been fair play, but there is a need for the process to be more open and transparent. The Treasury is judge and jury in its own court, in a process that is not open to scrutiny. I do not think that that is right.

**Hywel Williams:** I agree largely with what the hon. Gentleman has been saying. I want to point out the value of considering not only differences between Scotland, Wales and England but the interesting regional differences in England. It would be very useful for hon. Members from the north-east, for example, to look at those. Perhaps the hon. Gentleman will refer to them later.

**Andrew Selous:** The hon. Gentleman is right. There are significant differences. I am an east of England MP, and that region has the lowest spending of any region in England. Perhaps that is why I get increasingly angry communications from my constituents on the matter.

Having outlined the problem and some of the unfairness, I want to talk more about what we can do. I direct my hon. Friend the Minister to the excellent conclusions of the House of Lords report of 2009 on the Barnett formula. The report looked across the world to Australia-I declare an interest in that my mother was Australian, but that does not affect whether I think the Australians have a fair and good solution, from which we could learn. In Australia, the Commonwealth Grants Commission is an independent body charged with the responsibility of dividing the cake between the Australian states and territories. It is an advisory body to the federal Government and its impartiality is completely accepted by the states and territories of Australia. I understand, and agree with Government colleagues, that we are not looking to set up extra quangos. If my hon. Friend does not want an extra quango my proposal is that we should add the specific responsibilities in question to the remit of the Office for Budget Responsibility. However, if she says that that is too much for the OBR, it is not fair to tell me that we should not have an extra quango. I would be happy to go either way, with whichever option seemed most sensible and would cost the Government less. We could add the responsibilities to those of the OBR, but if we wanted a separate body we could have one. Given the figures involved-the sums of public spending-it would be a serious body.

What the Committee in the House of Lords proposed was only illustrative. If the Government have other or better ideas, or if colleagues from either side of the House want to contribute ideas about what the needs-based formula should include, let us start the debate now. Let us get ideas rolling into the Treasury, so that we can proceed with total fairness.

**Mr Mark Williams (Ceredigion) (LD):** I too congratulate the hon. Gentleman on obtaining the debate. I welcome the direction of travel that he has outlined, but I want to ask about timing. He has alluded to the impatience in England, whereas I and colleagues from Wales and Scotland would allude to the shortfall, such as that in education; there is £500 less per child in Wales than in England. There is impatience about that. The coalition Government have said that in a Welsh

context a Calman-style commission will be set up after the referendum. What are the hon. Gentleman's views on that? Do they reflect that impatience, or is he more on the go-slow track?

**Andrew Selous:** I am naturally quite an impatient person, and I want to get things done when I see something that I think is not right. However, we are in difficult times financially, and it will be incredibly difficult to move from one formula to another in these challenging times.

A sensible time scale would be for the Government to start doing the work now, setting out how we are to allocate money fairly between England, Scotland, Wales and Northern Ireland on a needs basis. Once we agreed on it, there would need to be a transitional period. We cannot get away from that, because we have to do such things fairly and in a way that does not cause undue difficulties in any part of the United Kingdom.

I would be a happy person at the end of this debate if I had a sense that the Government would move toward setting up a system that allotted funding on a needs basis, and that they would agree to create some sort of body to do that, and consider a transitional period. The beauty of that is that by then we would have got through these difficult financial times, and more money would be available as we started to implement such a system. It would also make the transition easier for the parts of the United Kingdom that did not benefit.

**David Mowat (Warrington South) (Con)** *rose-*

**Andrew Selous:** I shall give way for the last time; I have been generous in giving way, but I need to move on in order to let others speak.

**David Mowat:** I thank my hon. Friend for giving way. What he says about the time scale is important, particularly vis-à-vis Scotland. Next week the Scotland Bill is coming before the House. In my opinion, it will enshrine the current level of the Barnett settlement for ever, as it will link the Barnett amount that Scotland receives directly to the level of income tax paid in Scotland. As a consequence, future reforms will be difficult. I am not sure that time is on our side.

**Andrew Selous:** I hear what my hon. Friend says. He refers in part to the Calman commission and the fact that the block grant in Scotland will be reduced to 65% and that Scotland is to raise 35% of its income through tax-raising powers given under the Bill. What I am talking about will still apply, however, as 65% of Scotland's public spending will be allocated. Everything mentioned in this debate is relevant, although we can argue about the time scale. I shall listen carefully to what the Minister has to say. I have outlined a possible way to proceed.

I touch again on the different needs that the House of Lords Committee found. They are four: we should move to an assessment method that takes account of the age and structure of the population, as a significant number of older people require extra spending; we need to consider low incomes; we should take account of ill health and disability; and we should consider economic weakness. All of us would probably have some sympathy with those four indicators. There would be value in setting up an independent commission, as it would allow people to

make representations, and extra factors could be taken into account to deal with the particular situation in Wales or Scotland. Indeed, it has been done successfully in Scotland.

The House of Lords debated the Barnett formula report on 11 March 2010. Lord Moser, a former head government statistician who was appointed by a previous Labour Government, said:

"We emphasised repeatedly that, especially in the hands of an independent body, backed by thorough and on-going research, this was an eminently practical task. It is just not true to say that it is difficult or too time-consuming or too complex-that is not so."

He was talking about the task of setting up a new needs-based commission.

Baroness Hollis, a distinguished Labour peer, spoke of the differences in funding for personal care:

"What could be more unfair...than an elderly, frail person in East Anglia receiving perhaps only two-thirds, in public expenditure terms, of what an equally elderly, frail person in Scotland receives, even though the person in East Anglia is poorer, because we are hanging on to an unfair population basis of estimating subsidy?"

Lord Newby, a Liberal Democrat from Scotland, said:

"In terms of gaining public acceptance for a conclusion which will inevitably mean funds being taken away from Scotland, it is interesting to note that within the Lib Dems we had quite a spirited discussion with our colleagues in Scotland when we first proposed this, as you can imagine. In the end, the argument that fairness is the only long-term sustainable basis for allocating expenditure won the day, as I am sure it will in future as this case is made more widely."

I note that Lord Davies of Oldham, then a Labour Treasury Minister, wound up the debate by saying of the report's authors:

"They have created a framework within which the disadvantages of the Barnett formula are such that a reforming Government would need to look at them."

That brings me back to my opening remarks. I am proud to be part of a reforming Government, and I hope that we will not be dilatory in this matter.

Baroness Noakes, then our shadow Treasury Minister, said in response to the debate:

"In principle, this is something which my party supports. We also support the transparency advocated by my noble friend Lord Trimble."

She also spoke of

"an inevitable conclusion that change is necessary."-[*Official Report, House of Lords*, 11 March 2010; Vol. 718, c. 371-404.]

I thank all Members who wish to contribute to the debate, and I shall listen with interest to what my hon. Friend the Minister has to say in response.