



HM Treasury

# Block Grant Transparency: December 2018 publication

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# Chapter 1

## Introduction

- 1.1 This is the second publication of a breakdown of changes in the devolved administrations' block grant funding since the 2015 Spending Review. This edition includes changes from Budget 2018. The breakdown is updated and published on an annual basis.
- 1.2 The Treasury currently publishes the total amount of block grant funding available to the devolved administrations at each Spending Review and fiscal event. In addition, data is published in the financial annexes to the Territorial Offices' Annual Reports and Accounts.
- 1.3 The purpose of this breakdown is to clearly set out how the block grants for the Scottish Government, Welsh Government and Northern Ireland Executive are calculated. It is intended to increase transparency of the block grant calculation process. The principles underpinning the UK Government's funding for the devolved administrations are set out in the Statement of Funding Policy.<sup>1</sup>
- 1.4 The block grants are the element of the devolved administrations' funding which comes directly from the UK Government. Once the block grant has been determined, the devolved administrations have freedom to make their own spending decisions in areas of devolved responsibilities within the overall totals. This publication does not give a breakdown of the devolved administrations' spending decisions.
- 1.5 Spending by the devolved administrations is not funded exclusively by the block grant. The devolved administrations are also funded by local and devolved tax revenues, other revenue-raising powers (including fees and charges, and sales of goods, services and assets), grants from European institutions, and borrowing.
- 1.6 As a result of tax devolution, the devolved administrations have greater autonomy and accountability for the level of their funding. This publication shows how their block grants are adjusted to reflect their revenue-raising power but does not show how each of the devolved administrations choose to raise revenue.

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479717/statement\\_of\\_funding\\_2015\\_print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf)

# Chapter 2

## Changes in block grant funding

### Composition of the block grant

- 2.1 Within the Treasury's budgeting framework, the block grant is presented as each devolved administration's Total Departmental Expenditure Limit (DEL). Total DEL is the amount that government departments have been allocated to spend and is divided into Resource DEL and Capital DEL. Within Capital DEL there is a Financial Transactions ringfence.
- 2.2 A brief description of DEL categories is set out below. More detail on the Treasury budgeting framework can be found in the Consolidated Budgeting Guidance 2018 to 2019.<sup>1</sup>
- 2.3 Resource spending is money that is spent on day-to-day resources and administration costs. Capital spending is money that is spent on investment and things that will create growth in the future. Capital DEL – Financial Transactions are sometimes called 'net lending' or 'policy lending'. They include loans or equity investment by the government into the private sector.

### Calculation of the block grant and the Barnett Formula

- 2.4 Changes in planned spending by UK Government departments in devolved areas are linked to changes in UK Government block grant funding for the devolved administrations. This linkage is achieved through the Barnett Formula which provides a mechanical approach to funding.

### Barnett Formula

- 2.5 The Barnett Formula determines changes to the block grant funding allocated to the devolved administrations by the UK Government in relation to departmental spending within Departmental Expenditure Limits (DEL). Under the Barnett Formula the Scottish Government, Welsh Government and Northern Ireland Executive receive a population-based proportion of changes in planned UK Government spending on comparable services in England, England and Wales or Great Britain as appropriate.
- 2.6 The Barnett Formula therefore determines changes to each devolved administration's funding with reference to changes in DEL funding for UK Government departments.

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<sup>1</sup> <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2018-to-2019>

- 2.7 There are three factors that determine changes to each devolved administration’s block grant under the Barnett Formula:
- the change in planned spending in UK Government departments
  - the extent to which the relevant UK Government department’s spending is comparable with the services carried out by each devolved administration
  - each country’s population as a proportion of England, England and Wales or Great Britain as appropriate

**Table 2.A: Barnett Formula calculation**

Change to planned UK Government spending	×	Comparability percentage	×	Appropriate population proportion
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- 2.8 The population proportions used reflect the annual mid-year estimates of population published by the Office for National Statistics in the summer.

## Spending Reviews

- 2.9 At Spending Reviews, this calculation is undertaken using changes to each UK Government department’s overall DEL budget, the population proportion and the departmental comparability percentage. The product of these changes represents the aggregate net change to the funding for each of the devolved administrations. Separate calculations are performed in respect of resource and capital DEL.

## Fiscal Events

- 2.10 At each fiscal event, for example Budget 2018, the calculation is undertaken at programme level where policy announcements change the overall DEL allocations for a UK Government department. The calculation uses the change in the planned spending on each relevant programme, the population proportion and the comparability percentage, which is set to either 0% or 100% dependent on whether the relevant UK Government programme is devolved. The product of these changes represents the aggregate net change to the funding through the Barnett Formula for each of the devolved administrations, calculated separately for resource and capital DEL.
- 2.11 The comparability factor for all figures in the transparency publication is 100%.

## Non-Barnett additions

- 2.12 The UK Government on occasion provides additional funding to the devolved administrations outside of Barnett consequentials. These are set out as “non-Barnett additions” in the publication, as they go into the devolved administrations’ block grants but are not calculated through the Barnett Formula. Examples include the distribution of funding for charities in

Scotland, Wales and Northern Ireland from UK-wide schemes such as LIBOR and “Tampon Tax Fund”, or for City Deals in Scotland and Wales.

## Welsh Government Barnett uplift

2.13 In the Welsh Government’s Fiscal Framework<sup>2</sup> it was set out that the Welsh Government’s block grant will be uplifted by adding a new needs-based factor into the Barnett Formula. This needs-based factor will ultimately be set at 115%, as recommended by the Holtham Commission. However, while relative funding in Wales remains above the level identified by the Holtham Commission, changes in the Welsh Government’s funding above 2017-18 levels through the Barnett formula will be multiplied by a transitional factor of 105%.

## Northern Ireland VAT abatement

2.14 Changes to a Northern Ireland Executive’s budget determined through the Barnett Formula are abated to reflect the fact that under Section 99 of the Value Added Tax Act 1994, a Northern Ireland Executive, unlike departments in the rest of the United Kingdom and the Scottish and Welsh Governments, do not require provision to meet Value Added Tax expenditure, since any Value Added Tax paid by the Executive is refunded by HM Revenue and Customs. Barnett Formula changes for Northern Ireland are abated by 2.5 per cent. In the publication, this is shown by multiplying Barnett consequentials by 0.975.

## Scottish Government spending reclassification

2.15 As of 2018-19, the Scottish Government’s spending has been reclassified from the Departmental Expenditure Limit (DEL) budgeting framework to Annually Managed Expenditure (AME). This reflects the Scottish Government’s borrowing powers, Reserve facility and the fact that around a third of Scottish Government expenditure is financed by locally raised revenue, including all Stamp Duty, Landfill Tax and non-savings non-dividends income tax receipts. This new budgeting treatment only affects the way Scottish Government spending is reported. All previous spending controls, including through the block grant/Barnett Formula, and borrowing and reserve limits, remain unchanged, and the spending power of the Scottish Government is not affected.

## In-year changes to the block grant

2.16 The Treasury lays Supply Estimates before the UK Parliament twice a year. Main Estimates are laid at the beginning of each financial year and Supplementary Estimates are laid towards the end of each financial year. The Estimates are a request for Parliamentary permission to spend funds. While the Estimates do not give authority to spending by the devolved administrations, the Estimates of the Territorial Offices allow for the payment of cash grants to the devolved Consolidated Funds.

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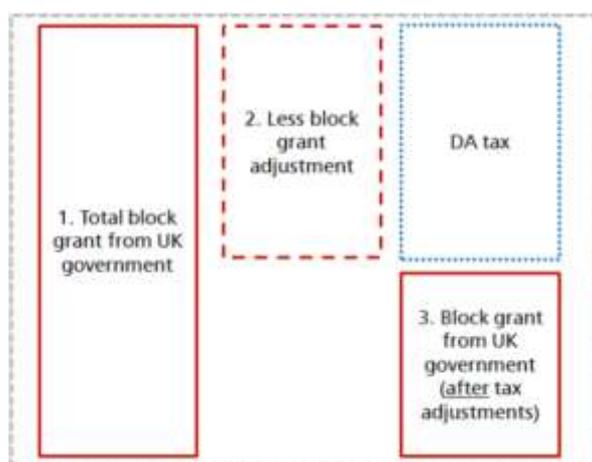
<sup>2</sup> <https://www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework>

2.17 The Estimates rounds are used to formally put into effect in-year changes to the devolved administrations' block grants. These changes may include Budget Cover Transfers with UK Government departments, the underspends within the devolved administrations' budget exchange scheme and reserve claims. The prevailing block grant data are shown in the Estimates publications on a 'for information' basis.

## Block grant adjustments

2.18 The block grants for the Scottish and Welsh Governments are adjusted to reflect the devolution of taxes as agreed in their respective fiscal frameworks<sup>3</sup>. A Northern Ireland Executive's block grant is adjusted each year, according to an agreed mechanism. The Scottish and Welsh Governments and Northern Ireland Executive's total budget is therefore the sum of the adjusted block grant plus the devolved administrations' receipts from devolved taxes, as shown in the illustrative diagram below:

Table 2.B: Block grant adjustments



2.19 The block grant adjustments are made up of two elements:

- An initial adjustment to reflect tax receipts foregone by the UK Government at the point of devolution
- Changes in this adjustment over time, linked to changes in corresponding UK Government tax revenues and relative population levels

2.20 Alongside these adjustments, the devolved administrations retain all revenues from devolved taxes, and as such have levers to raise more or less funding through tax receipts. Figures for the devolved administrations' block grant before adjustments for devolved taxes and after adjustment are included in this publication.

2.21 For the Scottish Government, a block grant adjustment is calculated for:

- Stamp Duty Land Tax (devolved since 2015-16)

<sup>3</sup> Wales: <https://www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework>

Scotland: <https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

- Landfill Tax (devolved since 2015-16)
- Income Tax rates and bands (devolved since 2017-18)
- Fines, Forfeitures and Fixed Penalties, and Proceeds of Crime (devolved since 2017-18)

2.22 For the Welsh Government, a block grant adjustment is calculated for:

- Stamp Duty Land Tax (devolved from 2018-19)
- Landfill Tax (devolved from 2018-19)
- Welsh Rates of Income Tax (devolved from 2019-20)

2.23 For a Northern Ireland Executive, a block grant adjustment is calculated for:

- Long haul Air Passenger Duty (devolved from January 2013)

# Chapter 3

## Publication Summary

3.1 A summary of each devolved administration's block grant is set out below, following decisions made at Budget 2018.

**Table 3.A: Total Scottish Government block grant**

£m	2016-17	2017-18	2018-19	2019-20
Block grant before tax/welfare adjustments	29,342.0	30,347.3	30,906.2	32,138.9
Total block grant adjustment	-5,500.0	-12,539.4	-12,272.8	-11,903.5
<i>Of which tax deductions</i>	<i>-5,500.0</i>	<i>-12,539.4</i>	<i>-12,430.0</i>	<i>-12,193.1</i>
<i>Of which welfare additions</i>	<i>0.0</i>	<i>0.0</i>	<i>157.3</i>	<i>289.6</i>
Total block grant after adjustment	23,842.0	17,807.9	18,633.5	20,235.4

Source: Block grant transparency spreadsheet

**Table 3.B: Total Welsh Government block grant**

£m	2016-17	2017-18	2018-19	2019-20
Block grant before tax adjustment	14,519.9	15,113.9	15,548.6	16,130.0
Block grant tax adjustment	0.0	0.0	-268.4	-2,334.3
Total block grant after adjustment	14,519.9	15,113.9	15,280.2	13,795.7

Source: Block grant transparency spreadsheet

**Table 3.C: Total Northern Ireland Executive block grant**

£m	2016-17	2017-18	2018-19	2019-20
Total block grant	10,895.4	11,226.7	11,881.8	11,764.7

Source: Block grant transparency spreadsheet

# Annex A

## Frequently Asked Questions

### Q: What is the block grant?

A: Funding from the UK Government to the devolved administrations falls into two broad categories: block grant (or Departmental Expenditure Limits) funding and funding in relation to Annually Managed Expenditure (AME). This publication only refers to the block grant funding which comes directly from the UK Government.

### Q: What is the Barnett Formula and why is it used?

A: The Barnett Formula determines changes to the block grant funding allocated to the devolved administrations by the UK Government in relation to departmental spending within Departmental Expenditure Limits. Under the Formula, the Scottish Government, Welsh Government and Northern Ireland Executive receive a population-based proportion of changes in planned UK Government spending on comparable services in England, England and Wales or Great Britain as appropriate. Successive UK Governments have committed to the continued use of the Barnett Formula.

### Q: Why is the data split between Resource DEL, Capital DEL and Capital DEL Financial Transactions?

A: The publication differentiates between these areas as within the block grant funding, the devolved administrations have separate expenditure limits for Resource and Capital DEL (and Capital DEL Financial Transactions within the Capital DEL total).

### Q: Why are there totals 'before adjustment' and 'after adjustment'?

A: The block grants for the Scottish and Welsh Governments are adjusted to reflect the devolution of taxes as agreed in their respective fiscal frameworks. The block grant adjustments are a deduction from the Scottish and Welsh Government's total block grant to reflect tax receipts foregone by the UK Government and also an addition for the Scottish Government where responsibility for welfare schemes funded through AME has been devolved. The publication presents the total block grant both before and after the adjustment is applied.

### Q: Does this show all sources of funding for the Scottish Government, Welsh Government and Northern Ireland Executive?

A: No. The publication does not show AME funding to the devolved administrations, for example welfare payments determined at UK level and public sector pensions. It also does not show the revenue raised by the devolved administrations through devolved taxes and other revenue raising powers (including fees, charges and sales of goods, services and assets), grants from European institutions, and borrowing.

**Q: Why doesn't the data show UK Government spending in areas such as defence and welfare?**

A: In non-devolved or reserved policy areas, public expenditure is the responsibility of the UK Government. The Barnett Formula does not apply to this spending as it is UK-wide.

**Q: Is there more detailed guidance on how we fund the devolved administrations?**

A: The seventh edition of the Statement of Funding Policy published in 2015 sets out how UK Government funding for the devolved administrations is determined in the 2015 Spending Review period and highlights the other sources of funding available to them when they set spending plans.<sup>1</sup> The Statement of Funding Policy will be updated at the next Spending Review.

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479717/statement\\_of\\_funding\\_2015\\_print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf)

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