

Block Grant Transparency:

July 2020 publication

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Chapter 1

Introduction

1.1 This publication provides a detailed breakdown of the devolved administrations' block grant funding and is intended to increase transparency of the block grant calculation process.

1.2 This third edition provides information for the years covered by the 2015 Spending Review and the Spending Round 2019, including changes in funding up to and including Main Estimates 2020-21. The breakdown is generally updated and published on an annual basis each December, although this edition was delayed to account for the timing of the UK Budget in March 2020.

1.3 The principles underpinning the UK Government's funding for the devolved administrations are set out in the Statement of Funding Policy¹. The block grants are essentially the element of the devolved administrations' funding that come directly from the UK Government.

1.4 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.

1.7 Information on compliance with the Code of Practice for Statistics can be found in Annex B.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf with an addendum published at Spending Round 2019 at <https://www.gov.uk/government/publications/spending-round-2019-document/spending-round-2019#statement-of-funding-policy-addendum>

Chapter 2

Background to block grant funding

Composition of the block grant

2.1 The devolved administrations' block grant funding is presented as Total Departmental Expenditure Limit (DEL) within the Treasury's budgeting framework. It is split between resource DEL (excluding depreciation) and capital DEL, with a financial transactions ringfence within capital DEL.

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 2020 to 2021¹.

2.3 Resource spending is money that is spent on day-to-day costs (like wages, purchasing goods and services, and grants and subsidies). Capital spending is money that is spent on longer-term investment (like hospitals, roads, and research and development). Financial transactions capital is sometimes called 'net lending' or 'policy lending' and includes loans or equity investment by the government into the private sector.

Calculation of the block grant via the Barnett formula

2.4 Changes in UK Government block grant funding for the devolved administrations are linked to changes in planned spending by UK Government departments. This link is achieved through the Barnett formula.

Barnett formula

2.5 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 There are three factors that determine changes to each devolved administration's block grant under the Barnett formula:

- (A) the change in planned spending by UK Government departments
- (B) the extent to which the relevant UK Government department's spending is comparable with the services carried out by each devolved administration
- (C) each country's population as a proportion of England, England and Wales or Great Britain as appropriate

¹ <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2020-to-2021>

Table 2.A: Barnett formula calculation

(A) Change to planned UK Government spending	X	(B) Comparability percentage	X	(C) Appropriate population proportion
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2.7 The population proportions used reflect the annual mid-year estimates of population published by the Office for National Statistics in the summer.

Applying the Barnett formula at Spending Reviews

2.8 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. Resource and capital DEL changes are calculated separately.

Applying the Barnett formula at Fiscal Events and Estimates

2.9 At each fiscal event, for example Budget 2020, and Parliamentary Estimates round the calculation is undertaken at programme level. 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 reserved (0%) or devolved (100%). 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.

Welsh Government Barnett uplift

2.10 In the Welsh Government's fiscal framework² it was agreed that the Welsh Government's block grant would 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 Commission³. However, while relative funding in Wales remains above the level identified by the Holtham Commission, changes in the Welsh Government's funding will use a transitional factor of 105%.

Northern Ireland Barnett VAT abatement

2.11 Changes to the Northern Ireland Executive's block grant through the Barnett formula are abated (i.e. reduced) in relation to VAT. This reflects the fact that the Northern Ireland Executive, unlike departments and the Scottish and Welsh governments, has many of the responsibilities of local authorities in the rest of the UK so has its VAT refunded by HM Revenue and Customs. Barnett formula changes for the Northern Ireland Executive are therefore abated by 2.5 per cent. In the publication, this is shown by multiplying Barnett consequentials by 0.975.

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

3 <https://commonslibrary.parliament.uk/research-briefings/sn06288/>

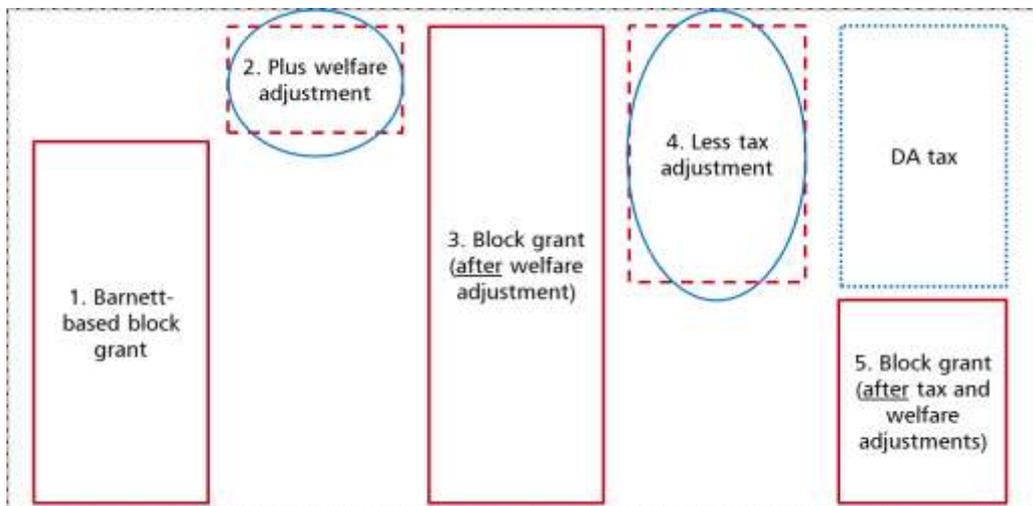
Other funding

2.12 The UK Government can also provide additional funding to the devolved administrations outside the Barnett formula. These are classified as “Other funding” in the publication. Examples include UK-wide funding for charities schemes (such as the Tampon Tax Fund) or funding for City and Growth Deals.

Adjustments for tax and welfare devolution

2.13 To reflect tax and welfare devolution in Scotland and Wales, the block grants are adjusted using the mechanisms agreed in the respective fiscal frameworks⁴. An agreed adjustment is also applied to the Northern Ireland Executive’s block grant in relation to long haul air passenger duty. The UK government funding provided to the devolved administrations is the Barnett-based block grant after adjustments for welfare and tax devolution. This is shown in the illustrative diagrams below:

Chart 2.A: Scottish Government block grant

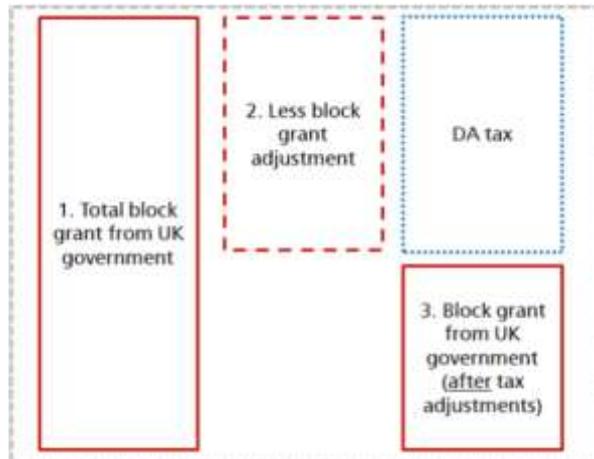


The Scottish Government can use their tax powers to alter the “DA tax” component.

⁴ 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>

Chart 2.B: Welsh Government & Northern Ireland Executive block grant



The Welsh Government and Northern Ireland Executive can use their tax powers to alter the "DA tax" component.

2.14 The block grant adjustments are initially equal to UK government tax receipts or welfare expenditure in the relevant nation at the point of devolution. Changes in the adjustments over time are linked to changes in corresponding UK Government tax revenues or welfare spending.

2.15 Alongside these adjustments, the devolved administrations retain revenues from devolved taxes and are responsible for devolved welfare spending. Figures for the devolved administrations' block grant before and after these block grant adjustments are included in this publication.

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

- Stamp Duty Land Tax (from 2015-16)
- Landfill Tax (from 2015-16)
- Income Tax rates and bands (from 2017-18)
- Fines, Forfeitures and Fixed Penalties (from 2017-18)
- Proceeds of Crime (from 2017-18)
- Carer's Allowance (from September 2018)
- Personal Independence Payments (from 2020-21)
- Disability Living Allowance (from 2020-21)
- Attendance Allowance (from 2020-21)
- Industrial Injuries Disablement Allowance (from 2020-21)
- Severe Disablement Allowance (from 2020-21)

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

- Stamp Duty Land Tax (from 2018-19)
- Landfill Tax (from 2018-19)

- Welsh Rates of Income Tax (from 2019-20)

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

- Long haul Air Passenger Duty (from January 2013)

Chapter 3

Publication Summary

Changes in Barnett-based block grant funding by event

3.1 A summary of the main changes to each of the devolved administrations' block grant funding for 2020-21 is set out below.

Main Estimates 2020-21

3.2 At Main Estimates 2020-21, the UK government included an initial £6.0 billion of additional funding for the devolved administrations to support the people, businesses and public services in Scotland, Wales and Northern Ireland through Covid-19. This comprised:

- £3.1 billion for the Scottish Government
- £1.9 billion for the Welsh Government
- £1.0 billion for the Northern Ireland Executive

3.3 In addition to this funding, people and businesses in Scotland, Wales and Northern Ireland will benefit from the UK government's UK-wide schemes, including the Job Retention Scheme, Self-Employment Income Support Scheme and Business Interruption Loan Schemes.

Budget 2020

3.4 As a result of UK Government decisions at Budget 2020, the devolved administrations received additional Barnett-based funding for 2020-21 (before adjustments for tax and welfare devolution) as below:

- The Scottish Government's Barnett-based block grant increased by over £600 million
- The Welsh Government's Barnett-based block grant increased by £340 million
- The Northern Ireland Executive's Barnett-based block grant increased by over £200 million

Spending Round 2019

3.5 Following decisions taken by the UK government at Spending Round 2019, the devolved administrations' block grant funding for 2020-21 increased as follows:

- The Scottish Government's Barnett-based block grant increased by £1.2 billion.

- The Welsh Government’s Barnett-based block grant increased by over £600 million.
- The Northern Ireland Executive’s Barnett-based block grant increased by over £400 million.

Other main changes in funding

3.6 A summary of the other main non-Barnett changes to each of the devolved administrations’ funding for 2020-21 is set out below.

Farm support funding

3.7 The UK Government has committed to match the current budget available to farmers in every year of this Parliament. For 2020:

- The Scottish Government will receive £472 million to continue Direct Payments to farmers in Scotland.
- The Welsh Government will receive £243 million to continue Direct Payments to farmers in Wales.
- The Northern Ireland Executive will receive £293 million to continue Direct Payments to farmers in Northern Ireland.

Scottish Government: Welfare devolution

3.8 Welfare devolution is a significant milestone in fully implementing the Scotland Act 2016 and the associated fiscal framework. The Scottish Government’s block grant funding increased by c.£3 billion in April 2020 to reflect the devolution of some welfare benefits. This included Personal Independence Payments, Disability Living Allowance, Attendance Allowance, Industrial Injuries Disablement Allowance, and Severe Disablement Allowance.

Scottish Government: Income Tax Reconciliation

3.9 As agreed in the Scottish Government’s fiscal framework, the outcome of the 2017-18 outturn reconciliation exercise is being applied to the Scottish Government’s 2020-21 funding. The Scottish Government’s block grant is therefore increasing by £737million in and their tax revenues are reducing by £941million.

Northern Ireland Executive: New Decade, New Approach

3.10 The Northern Ireland Executive was restored in January 2020 after agreeing a New Decade, New Approach deal with UK Government. The UK Government is providing £523 million under this agreement in 2020-21.

Summary of all budget changes:

3.11 A summary of each devolved administration's block grant is set out below.

Table 3.A: Total Scottish Government block grant

£m	2017-18	2018-19	2019-20	2020-21
Block grant before tax/welfare adjustments	30,340.8	31,126.6	33,202.2	38,933.6
Total block grant adjustment	-12,539.4	-12,272.8	-11,903.5	-9,024.2
<i>Of which tax deductions</i>	-12,539.4	-12,430.0	-12,193.1	-12,223.0
<i>Of which welfare additions</i>	0	157.3	289.6	3,198.8
Total block grant after adjustment	17,801.4	18,853.8	21,298.7	29,909.4

Source: Block grant transparency spreadsheet

Table 3.B: Total Welsh Government block grant

£m	2017-18	2018-19	2019-20	2020-21
Block grant before tax adjustment	15,114.8	15,612.3	16,687.7	19,560.3
Block grant tax adjustment	0	-268.4	-2,319.1	-2,441.9
Total block grant after adjustment	15,114.8	15,343.9	14,368.7	17,118.4

Source: Block grant transparency spreadsheet

Table 3.C: Total Northern Ireland Executive block grant

£m	2017-18	2018-19	2019-20	2020-21
Total block grant	11,226.4	11,778.1	12,746.9	14,762.7

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 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 the devolved administrations are provided with separate amounts of funding to spend on each area.

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

A: The block grants for the Scottish and Welsh governments are adjusted to reflect tax and welfare devolution as agreed in their respective fiscal frameworks. Tax block grant adjustments are a deduction from the Scottish and Welsh government's block grant while an addition is applied to the Scottish Government's block grant where responsibility for welfare 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 certain public service 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 rather than being funded via the devolved administrations.

Q: Is there more detailed guidance on how the devolved administrations are funded?

A: The Statement of Funding Policy sets out how the devolved administrations are funded.¹ The last Statement of Funding Policy was published in 2015 and amended at Spending Round 2019. It will be updated again at the Comprehensive Spending Review 2020.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf with an addendum published at Spending Round 2019 at <https://www.gov.uk/government/publications/spending-round-2019-document/spending-round-2019#statement-of-funding-policy-addendum>

Annex B

The Code of Practice for Statistics

A.1 Although this publication is not treated as Official Statistics because of the nature of the data (for example policy forecasts and funding allocations) it has been produced as far as possible in line with the Code of Practice for Statistics². The Code is built around three main concepts, or pillars: trustworthiness, which is about having confidence in the people and organizations' that publish statistics; quality, which is about using data and methods that produce assured statistics; and value, which is about publishing statistics that support society's needs for information. The below explains how we have applied the pillars of the Code in a proportionate way for this publication.

Trustworthiness

- A.2 The provenance of all the data used in the publication is comprehensively explained in it.
- A.3 Any external data used in the publication, including any Official and National Statistics, are clearly linked, while the relationships to the data including ONS, HMRC and HM Treasury Official Statistics are explained transparently.
- A.4 The timing of the publication is clearly signposted, and the publication dates are pre-announced.
- A.5 There is a separation between this publication on funding data and funding policy itself although the implications of the policy for the data are clearly explained.
- A.6 The publication is produced by members of the analytical professions within the Treasury and the Treasury's Head of Profession for Statistics is consulted on the production and publication process.

Quality

- A.7 The calculations used to produce the data in the publication use sound, albeit simple, methodologies and are comprehensively and clearly explained in it.
- A.8 The data are thoroughly quality assured by the production team in HM Treasury before publication including by comparison against records of funding decisions and other administrative records.
- A.9 The data are provided to the contacts in the devolved administration for further quality assurance.
- A.10 The publication gives an incomplete picture of the funding for devolved administrations, excluding for example AME funding, revenue from devolved taxes and other sources, grants from European Institutions and borrowing. It

² <https://code.statisticsauthority.gov.uk/>

also does not have information on how the funding is spent by devolved administrations.

Value

- A.11 The publication aims to support the information needs of society, parliamentarians and stakeholders across the UK and devolved administrations.
- A.12 The publication is part of a family of releases described by the Office for Statistics Regulation as “vital to Parliaments, Assemblies, and people to hold governments to account for the money they spend and services they deliver.”³
- A.13 Complex data and the context in which it exists, are clearly explained in the publication for the benefit of users including via summary section and tables, and a comprehensive FAQ section.
- A.14 The information in the publication is accessible to users via pivot tables (which allow granular and summarised views of the data) and underlying data tables that allow easy extraction for analysis.

³ <https://osr.statisticsauthority.gov.uk/wp-content/uploads/2019/05/Public-Finance-Presentation-Part-1.pdf>