



HM Treasury

Block Grant Transparency: June 2021 publication

June 2021

Block Grant Transparency: June 2021 publication



© Crown copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN: 978-1-911680-99-4

PU: 3135

Contents

Chapter 1	Introduction	2
Chapter 2	Background to block grant funding	3
Chapter 3	Adjustments for tax and welfare devolution	6
Chapter 4	Publication Summary	8
Annex A	Frequently Asked Questions	12
Annex B	The Code of Practice for Statistics	14

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 fourth edition provides information for the years covered by the 2015 Spending Review, the Spending Round 2019 and the Spending Review 2020, including changes in funding up to and including Main Estimates 2021-22. The breakdown is generally updated and published on an annual basis after the UK Government Budget.
- 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), 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.

¹www.assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf

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 2021 to 2022¹.
- 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:
 - the change in planned spending² by 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

¹ <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2021-to-2022>

² Changes in planned spending are defined as changes to UK government Departmental Expenditure Limits (DEL budgets) that are voted by parliament

- each country’s population as a proportion of England, England and Wales or Great Britain as appropriate

Table 2.A: Barnett formula calculation

(A) Change to planned UK Government spending	X	(B) Comparability percentage	X	(C) Appropriate population proportion
--	---	------------------------------------	---	--

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.

2.9 At Spending Review 2020, given the exceptional circumstances in relation to Covid-19 and the end of the EU transition period, programme level comparability was applied to Covid-19 and replacement EU funding to ensure the devolved administrations received comparable funding. Further details are set out in the Statement of Funding Policy 2020³.

Applying the Barnett formula at Fiscal Events and Estimates

2.10 At each fiscal event, for example Budget 2021, and Parliamentary Estimates rounds 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/UK-wide (0%) or devolved/England-only (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

2.11 In the Welsh Government’s fiscal framework⁴ 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 Commission⁵. However, while relative funding in Wales remains above the level identified by the Holtham

³ www.assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf

⁴ www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework

⁵ <https://commonslibrary.parliament.uk/research-briefings/sn06288/>

Commission, changes in the Welsh Government's funding will use a transitional factor of 105%.

Northern Ireland Barnett VAT abatement

- 2.12 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.

Other funding

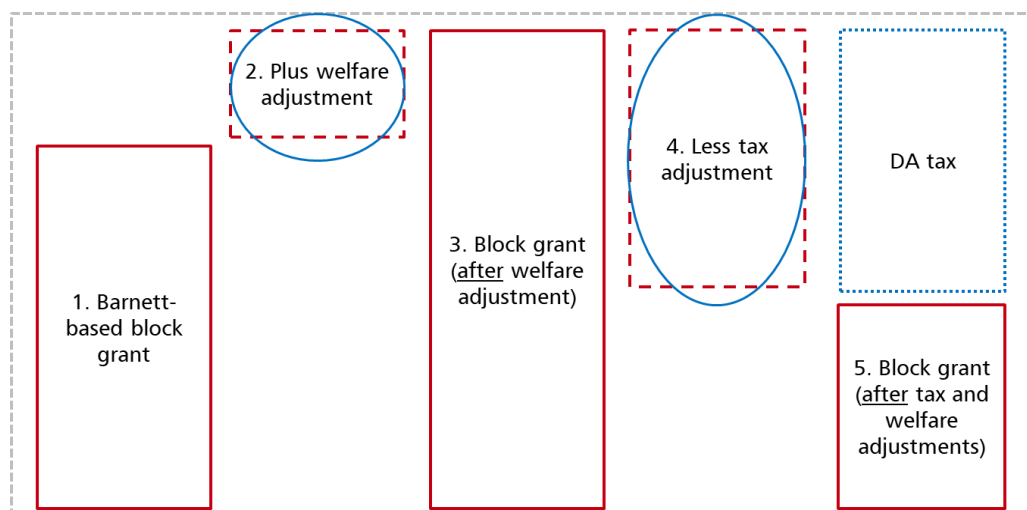
- 2.13 The UK Government can also provide additional funding to the devolved administrations outside the Barnett formula. These are classified as "Other funding" in the publication. Examples include UK-wide funding for charities schemes (such as the Tampon Tax Fund) or funding for City and Growth Deals.

Chapter 3

Adjustments for tax and welfare devolution

- 3.1 To reflect tax and welfare devolution in Scotland and Wales, the block grants are adjusted using the mechanisms agreed in the respective fiscal frameworks¹. An agreed adjustment is also applied to the Northern Ireland Executive's block grant in relation to long haul air passenger duty.
- 3.2 The UK Government funding provided to the devolved administrations is therefore the Barnett-based block grant after adjustments for welfare and tax devolution.

Chart 3.A: Scottish Government block grant

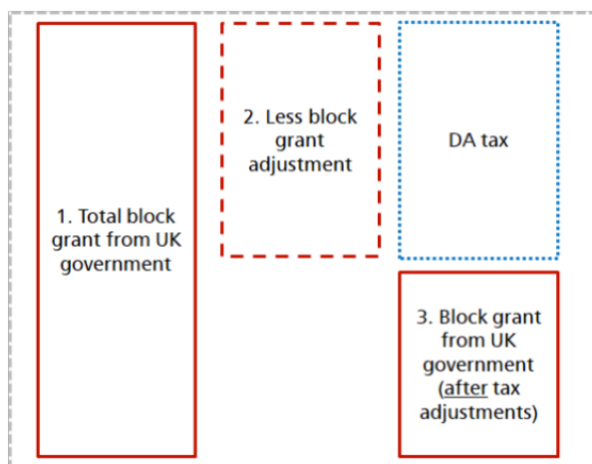


The Scottish Government can use their tax powers to alter the "DA tax" component.

¹ Wales: www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework

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

Chart 3.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.

- 3.3 The Block Grant Adjustments are initially equal to UK Government tax receipts or welfare expenditure in the relevant part of the UK at the point of devolution. Changes in the adjustments over time are linked to changes in corresponding UK Government tax revenues² or welfare spending, similar to how the Barnett formula uses changes in UK Government departmental spending.
- 3.4 The agreed arrangements essentially mean that the devolved administrations feel the impact of place-specific financial effects through their tax revenues (or welfare spending) due to policy choices or wider effects but are shielded from the impact of UK-wide effects. For example, the Scottish Government has higher funding if Scottish Income Tax revenues grow more quickly per head than corresponding UK Government Income Tax revenues.
- 3.5 A full breakdown of the devolved taxes the devolved administrations retain revenues for and the devolved areas of welfare spending can be found in chapter 4 of the Statement of Funding Policy 2020³.
- 3.6 Since the Block Grant Transparency 2020 publication the definition of Scottish Government Resource DEL excluding ring-fenced depreciation (RDEL ex) has been changed to additionally exclude tax and welfare Block Grant Adjustments. The reclassification is fiscally neutral and does not impact Scottish Government spending power, but improves comparability to other departmental and devolved administration RDEL ex funding.

² The adjustment to NIE's block grant funding for long-haul Air Passenger Duty is an exception to this and is based on passenger numbers rather than tax revenues.

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf

Chapter 4

Publication Summary

4.1 This chapter outlines the main changes since the publication in 2020. The Block Grant Transparency 2020 publication covered all funding provided to the devolved administrations up to and including Main Estimates 2020-21. The following sections summarises key changes from Main Estimates 2020-21 up to and including Main Estimates 2021-22.

4.2 As outlined below, the devolved administrations have received an additional £28.1 billion in additional funding through the Barnett formula since the start of the Covid-19 pandemic¹ (£16.8 billion in 2020-21 and £11.3 billion in 2021-22). This is on top of their combined c£60 billion annual baseline block grants.

2020-21 changes in Barnett-based block grant funding

4.3 To provide the devolved administrations with sufficient certainty to plan their response to Covid-19, the UK Government announced an upfront guarantee of an additional £12.7 billion on 24 July on top of their Spring Budget 2020 funding². The guarantee was uplifted three times to reflect the changing situation:

- 9 October - £14.0 billion
- 5 November - £16.0 billion
- 24 December - £16.8 billion

4.4 At Supplementary Estimates 2020-21, in addition to the above £16.8 billion being formally allocated, the devolved administrations received £2.1 billion in additional funding through the Barnett formula (before adjustments for tax and welfare devolution).

4.5 Alongside their usual block grant flexibilities, the devolved administrations were able to choose whether to spend the additional £2.1 billion in 2020-21 or 2021-22. All three chose to spend all this funding in 2021-22. The devolved administrations therefore just received the additional £16.8 billion in 2020-21 as follows:

- The Scottish Government's Barnett-based block grant increased by £8.6 billion
- The Welsh Government's Barnett-based block grant increased by £5.2 billion
- The Northern Ireland Executive's Barnett-based block grant increased by £3.0 billion

¹ Since Spring Budget 2020

² <https://www.gov.uk/government/publications/barnett-consequential-and-the-barnett-guarantee/barnett-consequential-and-the-barnett-guarantee>

2021-22 changes in Barnett-based block grant funding

4.6 In 2021-22 the devolved administrations have received £11.3 billion in additional funding through the Barnett formula (before adjustments for tax and welfare devolution) as set out below³.

Event	Scottish Government	Welsh Government	Northern Ireland Executive
Spending Review 2020	£2.4 billion	£1.3 billion	£920 million
Budget 2021	£1.2 billion	£740 million	£410 million
Carry forward from 2020-21 ⁴	£1.2 billion	£660 million	£330 million
Main Estimates 2021-22	£1.1 billion	£710 million	£360 million
Total	£5.9 billion	£3.4 billion	£2.0 billion

Relative funding

4.7 The calculation of relative funding levels is designed to compare devolved administrations' block grant funding per head against equivalent UK government funding per head in England/E&W/Great Britain as appropriate (i.e. UK government funding on areas that are devolved in Wales, Scotland and Northern Ireland).

4.8 The relative funding levels have been calculated in line with the methodology set out in the Welsh Government's fiscal framework⁵.

4.9 The relative funding levels at Spending Review 2020 is set out below.

Relative funding per head 2021-22 (SR20)	UK Government spending = £100
Scottish Government	£129
Welsh Government	£123
Northern Ireland Executive	£127

³ Before any adjustments for tax and welfare devolution

⁴ As outlined in 4.5, the devolved administrations were provided flexibility to transfer funding between financial years. All of the devolved administrations decided to spend the maximum amount possible in 2021-22, this additional funding was formally provided at Main Estimates 2021-22

⁵ <https://www.gov.uk/government/publications/the-agreement-between-the-welsh-government-and-the-united-kingdom-government-on-the-welsh-governments-fiscal-framework>

Other main changes in funding

4.10 As set out in Chapter 5 in the Statement of Funding Policy, the UK Government can also provide funding to the devolved administrations outside the Barnett-based arrangements. A summary of the other main non-Barnett changes to each of the devolved administrations' funding for 2021-22 is set out below.

Farm and Fish support funding

4.11 The UK Government has committed to match the current budget available to farmers in every year of this Parliament. For 2021-22:

- The Scottish Government have received £570 million
- The Welsh Government have received £242 million
- The Northern Ireland Executive have received £316 million

4.12 The UK Government has committed to maintain fisheries funding across the UK in every year of this Parliament. For 2021-22:

- The Scottish Government have received £14.0 million
- The Welsh Government have received £2.1 million
- The Northern Ireland Executive have received £3.1 million

Scottish Government: Income Tax Reconciliation

4.13 As agreed in the Scottish Government's fiscal framework, the Scottish Government's income tax funding is fixed for the year ahead using forecasts (to provide in-year funding certainty) and then reconciled to outturn using data published in HMRC's Annual Report and Accounts (to ensure they ultimately receive the correct amount of funding). The outturn reconciliations, which can be additions or deductions, are then applied in the following financial year. A summary of these income tax reconciliations is set out below.

Table 4.A: Scottish Government Income Tax Reconciliation

£m	2017-18	2018-19
Block Grant Adjustment (forecast)	-11,750	-11,749
Block Grant Adjustment (outturn)	-11,013	-11,437
Reconciliation effect	+737	+312
Scottish Income tax (forecast)	11,857	12,177
Scottish Income tax (outturn)	10,916	11,556
Reconciliation effect	-941	-621
Net reconciliation effect	-204	-309
Year reconciliation effect applied to Scottish Government funding	2020-21	2021-22

Northern Ireland Executive: New Decade, New Approach

4.14 The Northern Ireland Executive was restored in January 2020 after agreeing a New Decade, New Approach deal with UK Government. The UK Government has provided £162 million under this agreement in 2021-22 at Main Estimates, with further such payments expected to be made at Supplementary Estimates 21-22.

Summary of all funding changes:

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

Table 4.B: Total Scottish Government block grant

£m	2017-18	2018-19	2019-20	2020-21	2021-22
Block grant before tax/welfare adjustments	30,340.8	31,126.5	32,881.3	44,659.0	41,883.3
Total Block Grant Adjustments	-12,539.4	-12,272.8	-11,903.5	-8,875.0	-8,818.0
<i>Of which tax deductions</i>	-12,539.4	-12,430.0	-12,193.1	-12,124.3	-12,056.6
<i>Of which welfare additions</i>	0	157.3	289.6	3,181.6	3,181.6
Total block grant after adjustment	17,801.8	18,858.2	20,997.9	35,784.0	33,065.3

Source: Block grant transparency spreadsheet

Table 4.C: Total Welsh Government block grant

£m	2017-18	2018-19	2019-20	2020-21	2021-22
Block grant before tax adjustment	15,114.2	15,612.3	16,540.4	23,428.6	21,203.1
Block grant tax adjustment	0.0	-268.4	-2,319.1	-2,353.4	-2,355.8
Total block grant after adjustment	15,114.2	15,343.9	14,221.4	21,075.2	18,847.2

Source: Block grant transparency spreadsheet

Table 4.D: Total Northern Ireland Executive block grant

£m	2017-18	2018-19	2019-20	2020-21	2021-22
Total block grant	11,226.4	11,778.1	12,706.9	16,781.2	15,638.8

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.

Further information is set out in Chapter 7 of the Statement of Funding Policy.

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 2020 alongside the 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

4.16 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

- 4.17 The provenance of all the data used in the publication is comprehensively explained in it.
- 4.18 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.
- 4.19 The timing of the publication is clearly signposted, and the publication dates are pre-announced.
- 4.20 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.
- 4.21 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

- 4.22 The calculations used to produce the data in the publication use sound, albeit simple, methodologies and are comprehensively and clearly explained in it.
- 4.23 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.
- 4.24 The data are provided to the contacts in the devolved administration for further quality assurance.
- 4.25 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

- 4.26 The publication aims to support the information needs of society, parliamentarians and stakeholders across the UK and devolved administrations.
- 4.27 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
- 4.28 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.
- 4.29 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>