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The Barnett formula

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Summary

The devolved administrations in Scotland, Wales and Northern Ireland receive grants from the UK Government that fund most of their spending. The largest such grant is the 'block grant'.

The Barnett formula calculates the annual change in the block grant. The formula doesn't determine the total size of the block grant just the yearly change. For devolved services, the Barnett formula aims to give each country the same pounds-per-person change in funding.

The Barnett formula takes the annual change in a UK Government department's budget and applies two figures that take into account the relative population of the devolved administration (population proportion) and the extent to which the UK department's services are devolved (comparability percentage). The calculation is carried out for each UK department and the amount reached is added to the devolved administrations' block grant.

Change to the UK Government department's budget	x	Comparability percentage	x	Appropriate population proportion
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The UK Government provides other grants outside of the block grant. These grants are often for less predictable demand driven spending. The UK Government and devolved administrations negotiate these grants. The Barnett formula does not determine their change.

There have been frequent calls for a review of the Barnett formula and the wider funding system for devolved administrations. The funding system has changed in recent years with the devolution of more tax and spending powers, particularly to Scotland. This has meant some adjustments to block grants but the Barnett formula itself has been largely unchanged. An exception is that Wales' Barnett formula now includes a floor to prevent its block grant funding falling below a needs-related level.

Details of how the devolved administrations are funded, including the Barnett formula, are laid out in HM Treasury's [Statement of Funding Policy](#). This was last updated for the 2015 Spending Review.

1. The formula

1.1 Introduction

The devolved administrations in Scotland, Wales and Northern Ireland receive grants from the UK Government, which fund the majority of their spending. The Barnett formula determines how the largest of these grants – the block grants – change from one year to the next.

The Barnett formula aims to give each country the same pounds-per-person change in funding as the change in funding for comparable government services in England.¹ For instance if the funding for education in England increases by the equivalent of £100 per person, the devolved administrations' block grants will increase by £100 per person. In general, if a service is devolved it is considered to be comparable.

The devolved administrations can spend the Barnett-formula-determined block grant as they wish. If block grants increase because education spending has increased in England, the devolved administrations do not have to spend the additional money on education.

The Barnett formulas main use comes at a spending review, where UK Government departments' budgets are set. The formula uses the change in UK Government departments' budgets to calculate the annual change in the devolved administrations' budgets.

The UK Government may change departments' budgets outside of the spending review, perhaps at other fiscal events such as the Budget. If this happens the Barnett formula is again used to calculate changes to the block grant, but the formula is applied to the individual spending programme rather than at the department level.

The Barnett formula determines how devolved administrations' block grants change from one year to the next. The formula does not determine the absolute level of the grants.

Spending Reviews divide total Government spending between departments. Generally they cover a number of forthcoming years.

Box 1: UK spending system and the devolved administrations

DEL and AME: definitions

UK public spending is divided between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

DELs are the amounts that Government departments have been allocated to spend, determined usually in spending reviews. They are firm spending limits set for up to four years. Things that DELs can be spent on include the running of services and the everyday costs of resources such as staff.

AME is more difficult to control as it is spent on demand-led areas such as welfare, tax credit or public sector pensions. As these items are unpredictable or not easily controlled it is not appropriate for departments to be set strict budgets for them.

DEL and AME: the devolved administrations

The Barnett-formula-determined-block-grant makes up the majority of the devolved administrations' DEL; AME allocations are provided in separately negotiated grants.

The devolved administrations' block grants make up the majority of their DELs – which are spent on the day-to-day running of services. The majority of changes in the devolved administrations' DELs are determined by the Barnett formula. However, there are some items in DEL for which the population-based Barnett formula is not appropriate. DEL items outside of Barnett, often known as non-assigned

¹ Or England and Wales, or Great Britain depending on the population served by the UK Government department.

items, are ring-fenced and specific to their particular spending priority. Such items, including depreciation, are determined separately between the devolved administration and UK Government. The population-based approach of the Barnett formula is not appropriate for determining changes in AME grants, because of their demand-led nature, so these are determined periodically between the devolved administration and UK Government.

Each of the devolved administrations' AME includes spending on public sector pensions and student loans.² Other items of AME spend include housing support grant for the Scottish Government and housing revenue account subsidy for the Welsh Government. The Northern Ireland Assembly's AME spending is most significant as it includes social security benefits. The Northern Ireland Assembly is responsible for spending on benefits, whereas in Scotland and Wales this role is performed by the UK Government's Department for Work and Pensions.

1.2 How does the formula work?

The Barnett formula takes the change in a UK Government department's budget, specifically their DEL, and applies two figures that take into account the relative population of the devolved administration (population proportion) and the extent to which the UK department's services are devolved (comparability percentage). The calculation is carried out for each UK department and the amount reached is added to the devolved administrations' block grant.

Change to the UK Government department's budget (DEL) x **Comparability percentage** x **Appropriate population proportion**

Changes to UK Government departments' budgets are generally announced at spending reviews but can be announced at other fiscal events such as the Budget. The two remaining factors of the Barnett formula are discussed below.

Comparability percentage

Comparability percentages capture the extent to which spending by a UK Government department corresponds to services provided by devolved administrations. It measures the extent to which the UK department's services have been devolved.

Comparability percentages range from 0% to 100%. Broadly speaking, a department's comparability percentage is 0% if none of its services have been devolved to the devolved administration. A department's comparability percentage is 100% if all of its services have been devolved.

For example, all of the Department for Education's spending is in England. Education is an area which is fully devolved. Education therefore has a comparability factor of 100%.

In practice most UK departments are responsible for a range of devolved and reserved services. The comparability percentage allows for such

Changes to Northern Ireland's budget determined by the Barnett formula are reduced by 2.5%. This is because the Northern Ireland executive does not require provision to meet VAT expenditure as any VAT paid is refunded by HMRC. This is not the case in the rest of the UK.

Wales' Barnett formula includes a needs-based factor to ensure its relative block grant funding per head doesn't fall below 115% of England's. See [section 1.3](#) for more.

² Specifically the issue and repayment of principle of student loans.

differences as it reflects the proportion of a department's budget spent on services which have been devolved.³ Appendix 1 provides an example of how the Home Office's comparability percentage was calculated for the 2015 Spending Review.

The UK Government published a one-year spending round in September 2019. The [2019 Spending Round](#) set out UK Government Department's DELs for 2020/21. The comparability percentages used in the 2019 Spending Round were largely rolled over from the 2015 Spending Review. Changes related to the creation of the Department for Business, Energy and Industrial Strategy (BEIS) and reclassification of Network Rail's spending.

Comparability percentages used in Spending Round 2019			
	Scotland	Wales	Northern Ireland
Business, Energy and Industrial Strategy	10.7%	10.5%	15.5%
Business Rates	100.0%	100.0%	100.0%
Cabinet Office and SIA	6.5%	6.5%	10.3%
Chancellor's Departments	0.4%	0.0%	0.3%
Digital, Culture, Media & Sport	76.9%	76.9%	77.6%
Education	100.0%	100.0%	100.0%
Environment, Food & Rural Affairs	99.8%	99.0%	99.8%
MHCLG: Communities	99.7%	99.7%	99.7%
MHCLG: Local Government	100.0%	100.0%	100.0%
Health and Social Care	99.4%	99.4%	99.4%
Home Office	91.7%	0.0%	91.7%
Justice	100.0%	0.0%	99.9%
Law Officers' Departments	100.0%	0.0%	91.6%
Network Rail	n/a	0.0%	100.0%
Transport (excluding Network Rail)	91.0%	80.9%	91.3%
Work & Pensions	1.4%	1.4%	100.0%

source: HM Treasury. Spending Round. [Table C.1](#)

Population proportions

So that each administration receives the same pounds-per-person change in funding the Barnett formula also incorporates population proportions. The populations used are the latest mid-year estimates from the Office for National Statistics (ONS).

The population proportions used in the formula depend on the coverage of the UK Government department concerned. In most cases this is England only, so the proportion of the English population is used. The table below shows the population proportions used in the 2019 Spending Round.

³ Each programme area, or service, is given a comparability of either 100% or 0%. A service is 0% comparable if: other arrangements are in place to determine each devolved administration's share of a budget; expenditure is incurred on behalf of the UK as a whole by the UK department; or, the service is deemed unique at a UK level, such as the Channel Tunnel Rail link.

Population proportions used in 2019 Spending Round	
Scotland as a proportion of England	9.71%
Scotland as a proportion of England & Wales	9.20%
Wales as a proportion of England	5.61%
Northern Ireland as a proportion of England	3.36%
Northern Ireland as a proportion of England & Wales	3.18%
Northern Ireland as a proportion of Great Britain	2.91%

source: HM Treasury. Spending Round. [Table C.2](#)

Examples

If planned spending on health in England had increased by £100 million in Spending Review 2019 the increase for Scotland would be:

$\text{£100 million} \times 99.4\% \text{ [health comparability \% for Scotland]} \times 9.71\% \text{ [Scotland's population proportion]} = \text{£9.7 million}$

The outcome from the calculation is often known as the Barnett consequential.

At the spending review the calculation is carried out for each department; these 'Barnett consequentials' are then summed to come up with changes in the block grants.

Appendix 2 shows how the Scotland's 2018/19 block grant changes were calculated in the 2015 Spending Review.

1.3 UK Government spending announced outside of a spending review

A spending review sets out the departments' medium term spending. These are fairly concrete plans, but the government may wish to make some changes to them over time, announcing spending on a new programme, or increasing (or decreasing) spending on an already existing spending programme.

If the announced change increases (or decreases) a department's total budget then the Barnett formula will be applied to the change. In such cases the formula is applied to the spending of the individual programme, rather than at the department level.

For example, Autumn Statement 2016 announced £2.5 million for Hull City of Culture in 2016/17 and 2017/18. This was new spending – it increased the Department for Culture, Media and Sport's DEL – and as the programme was deemed to have 100% comparability and applied to England only, all devolved authorities received a Barnett consequential from it.

1.4 A block grant floor for Wales

The Holtham Commission, which considered funding for devolved government in Wales, recommended the introduction of a floor to prevent underfunding of public service in Wales. The Commission had identified a potential gap in the funding provided to the Welsh

Government for services, relative to what it would receive if its services were funded on the same basis as in England. The Commission recommended a floor be introduced to prevent this gap widening,⁴ a recommendation which was supported across the political spectrum.⁵

The UK Government first introduced a block grant floor for Wales in Spending Review 2015.⁶ In December 2016, the UK and Welsh governments agreed to implement a funding floor that would apply from 2018/19.⁷ The new floor – which replaced the original floor introduced in Spending Review 2015 – will ensure that Wales’ funding will converge to a level in line with Wales’ needs. The Holtham Commission estimated that Wales’ additional needs mean that its relative block grant funding per head needs to be around 114% to 117% of equivalent funding per head in England. The funding floor adds a needs-based factor to Wales’ Barnett formula:

$$\begin{array}{cccc}
 \text{Change to} & & \text{Comparability} & & \text{Appropriate} & & \text{Needs-based} \\
 \text{the UK} & & \text{percentage} & & \text{population} & & \text{factor} \\
 \text{Government} & & & & \text{proportion} & & \\
 \text{department's} & \times & & & & \times & \\
 \text{budget (DEL)} & & & & & &
 \end{array}$$

Currently, the needs-based factor has been set at 105%, but in the long term the UK and Welsh governments agreed that the factor will be set at 115%. The factor is currently lower (105%) as Wales’ relative block grant per head is greater than 115% at around 120% of England’s. Once Wales’ relative block grant funding reaches 115% of England’s the multiplier will be set at 115%.

1.5 A non-statutory formula

The Barnett formula is non-statutory – it is not set out in legislation. It is Treasury policy and is laid out in the [Statement of Funding Policy](#) (the Statement) which is usually updated and published alongside the spending review.⁸ More frequent updates of the Statement are expected from 2015 to reflect further devolution of spending and taxation powers to the devolved administrations (see [section 3](#)).

The terms of the Statement are agreed between the Chief Secretary to the Treasury and the Secretaries of State for Scotland, Wales and

⁴ Welsh Assembly Research Service, [Barnett reform: Future funding for Wales](#); National Assembly for Wales, [Explore the Assembly: St David’s Day announcement](#), 2015

⁵ Cardiff University. Wales Governance Centre, [Barnett squeezed? Options for a funding floor after tax devolution](#), December 2016

⁶ HM Treasury, Spending Review and Autumn Statement 2015, November 2015, [para 1.233](#)

⁷ HM Treasury. [The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government’s fiscal framework](#), December 2016

⁸ HM Treasury, [Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy](#), November 2015

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Northern Ireland, following consultation with the devolved administrations.

In practice the Treasury dictates how the formula works and how it should be applied, although there is a policy for dealing with disputes.⁹ In theory the formula can be used or changed by the UK Government as it wishes.

Box 2: Spending on the Olympics

In 2007 all spending for the Olympics was deemed by the Treasury to be UK-wide and therefore not within the scope of the Barnett formula. The devolved administrations felt that the Barnett formula should have applied to regeneration and transport elements of Olympic funding. They argued that this spending, focused on East London, would have resulted in Barnett consequentials if carried out outside of the Olympic banner. Each of the devolved administrations raised the issue as a formal dispute.

[An agreement](#) was reached in June 2011 through the [Joint Ministerial Committee](#), the body responsible for co-ordination between the UK Government and the devolved administrations. The agreement provided the devolved administrations with Barnett consequentials for changes to Olympics funding after the Coalition Government took office in May 2010 – spending on the Olympics prior to this was not included. The agreement saw Scottish Government receive £16 million, the Welsh Government £8.9 million and the Northern Ireland Executive £5.4 million.¹⁰

1.6 Government transparency

Following a recommendation from the House of Commons Procedure Committee¹¹ for greater block grant transparency, HM Treasury has published information on devolved administrations' block grants. [The Block Grant transparency release](#) (which will be published annually) includes:

- [a paper](#) that sets out how changes in the block grants are calculated and the impact of newly devolved taxes on the block grants
- [a spreadsheet](#) showing a breakdown of changes in the devolved administrations' block grant funding from the 2015 Spending Review

The level of detail in the spreadsheet is significantly more than has previously been published.

1.7 Formula bypass

Although the Barnett formula represents normal procedure, changes to the block grant can be made outside it - a process often referred to as 'formula bypass'. Recent examples include funding provided to Scotland to meet policing costs associated with a visit from President Trump and funding provided to Northern Ireland as part of a [Confidence and Supply agreement](#) between the Conservative Party and the Democratic

⁹ *ibid*, [section 11](#)

¹⁰ This issue is discussed further, from a Northern Ireland perspective, in [box 1](#) of a briefing from Northern Ireland Assembly's Research and Information Service on Barnett Consequentials.

¹¹ Procedure Committee, *Authorising Government expenditure: steps to more effective scrutiny*, 19 April 2017, HC190, [para 119](#)

Unionist Party.¹² Funding for City Deals has also been allocated directly to the devolved administrations.¹³

If the Barnett formula is applied strictly it should lead to convergence in spending per head across the UK's countries (see [section 2.3](#)). Formula bypass is thought to be one factor working against convergence.

1.8 Origins

The Barnett formula was first used for Scotland in 1978 and is named after Joel (latterly Lord) Barnett, the then Chief Secretary to the Treasury. The formula was extended to Northern Ireland in 1979 and Wales in 1980. It was supposed to be a temporary measure, to avoid the annual negotiations that took place during the 1960s and early 1970s, but it has been used with some modification ever since.¹⁴

A similar formula was introduced in 1888 by the then Chancellor, George Goschen. This formula allocated probate duties to local authorities in England & Wales (80%), Scotland (11%) and Ireland (9%). A variation of this formula continued to be used to distribute support to Scotland over a range of expenditure until 1959 – it even entered into statute for certain education expenditure from 1918 to 1959.¹⁵

¹² Further details are available in the Library Insight [Confidence and Supply: Northern Ireland's £1 billion](#)

¹³ Committee of Public Accounts, *Funding for Scotland, Wales and Northern Ireland*, 17 July 2019, HC 1751, [paras 10-12](#)

¹⁴ For further information on Barnett's origins see: [The Barnett formula](#), Commons Library Research Paper 07/91, 14 December 2007; Treasury Committee, [The Barnett Formula](#), 22 December 1997, HC 341 1997-98; HM Treasury, evidence to the Treasury Committee, The Barnett Formula, 22 December 1997, HC 341 1997-98, Ev12; David Heald, Stair Encyclopaedia chapter on UK and Scottish public expenditure, 2002, [para 535](#)

¹⁵ Institute for Fiscal Studies, [Business as usual? The Barnett formula, business rates and further tax devolution](#), November 2014, Box 1

2. Issues

2.1 A needs-based formula

For Scotland and Northern Ireland population is the only consideration of 'need' in the Barnett formula. The introduction of a needs-based factor into Wales' Barnett formula ensures its funding won't fall below a relative needs-based floor (see section 1.3).

There have been frequent calls for the Barnett formula to take greater account of need, or to be replaced with a needs-based formula. Those arguing for such a change say the cost of providing public services is influenced by a range of factors other than just relative population size including, but not limited to, characteristics of the population, deprivation and population density.

In 2010 the Holtham Commission, which considered funding for devolved government in Wales, recommended that a need-based formula should determine the block grant.¹⁶ The grant floor that has been introduced for Wales is considered an 'appropriate minimal solution' by the Commission as it simply prevents 'Wales falling further below the lowest of all the estimates of relative needs'.¹⁷

After considering devolution in Scotland, the Calman Commission recommended in 2009 that the block grant should be justified by an assessment of need.¹⁸

Lords Committees in 2009¹⁹ and 2015²⁰ recommended replacing the Barnett formula with a needs-based formula. Similar recommendations were put forward by the House of Commons Justice Committee in 2009²¹ and by other Parliamentary committees in the past.²²

¹⁶ The Holtham Commission, Final Report., July 2010, [para A1.2](#)

¹⁷ *ibid*, [para 9.7](#)

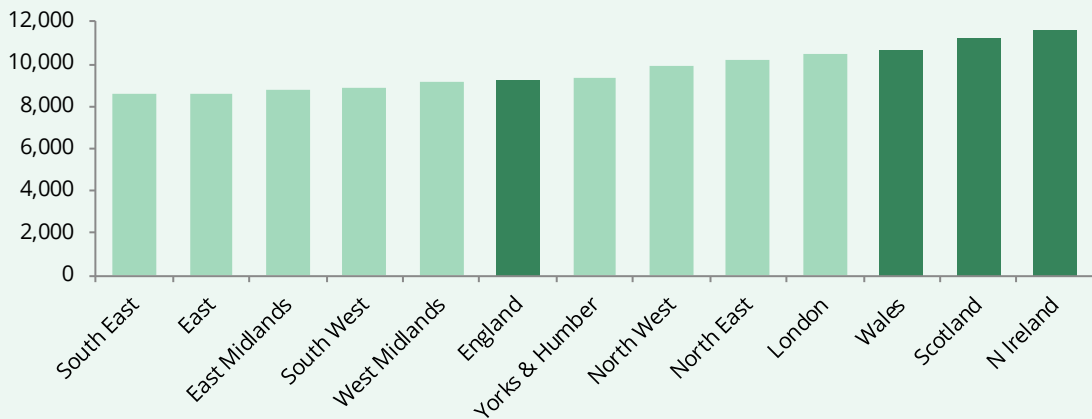
¹⁸ The Calman Commission, Final Report. Serving Scotland Better: Scotland and the United Kingdom in the 21st Century, June 2009, [para 3.206](#)

¹⁹ HL Committee on the Barnett Formula, *The Barnett Formula*, 17 July 2009, HL Paper 139, [conclusions and recommendations](#)

²⁰ HL Economic Affairs Committee, *A Fracturing Union? The Implications of Financial Devolution to Scotland*, 20 November 2015 9, HL Paper 55

²¹ Justice Committee, *Devolution: a decade on*, 24 May 2009, HC 529-I 2008-09, [pp 4](#)

²² HL Select Committee on The Constitution, [Devolution: Inter-Institutional Relations In The United Kingdom](#), 17 December 2002, HL Paper 28

Box 3: Why is public expenditure higher in Scotland, Wales and Northern Ireland?**Public spending per head in countries and regions of the UK, £s, 2018/19**

source: HM Treasury. [Country and regional analysis: 2019](#), 19 November 2019

Various arguments have been put forward as to why Scotland, Wales and Northern Ireland need higher levels of public spending per head:²³

- Populations are sparser, making the cost of providing the same level of public services higher
- The size of the public sector differs between UK countries. For instance, in Scotland the water industry is publicly owned while in England the water industry is in the private sector.
- In some areas there are higher levels of demand and need for public services

2.2 Equity

The distribution of public spending across the UK (see Box 3) has been criticised by some for not being equitable.²⁴ Since devolution such criticisms have increased as devolved administrations have pursued policies different to those of the UK Government. Amongst some there is a perception that devolved administrations have been able to afford better public services, such as free prescriptions and university tuition, as a result of a “subsidy” from England.²⁵

Some argue that there are good reasons as to why devolved administrations require per head funding above the English average (see Box 4). For example populations are more sparsely populated so providing the same level of service is more expensive. On the other hand, others point out that Scotland’s per capita income is greater than a number of English regions that receive less public money.

It has been argued that introducing a transparent assessment of needs into the funding of devolved administrations would give legitimacy to differing spending levels, perhaps defusing arguments about equity.²⁶

²³ Scottish Government, GERS 2013-2014, March 2015, [page 58](#)

²⁴ For instance see: [HC Deb 12 June 2007:c636](#); [HC Deb 21 November 2007 c:154 WH](#); IPPR. [Fair shares? Barnett and the politics of public expenditure](#), July 2008

²⁵ For instance see: “Scotland freezes council tax – with English subsidy”, *Daily Telegraph*, 15 November 2007

²⁶ For instance see: [HC Deb 21 November 2007: c156WH](#); The Holtham Commission, Final Report. Fairness and accountability: a new funding settlement for Wales, July 2010, [para 2.19](#); The Calman Commission, Final Report. Serving Scotland Better: Scotland and the United Kingdom in the 21st Century, June 2009, [paras 36-37](#)

Box 4: What role does Barnett play in differences in spending per head?

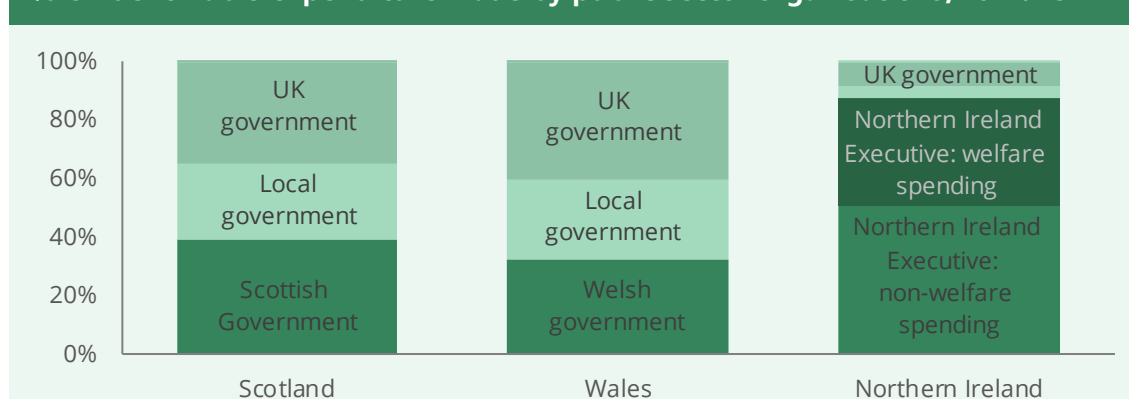
The Barnett formula plays a relatively small role in determining total spending per head in the devolved administrations:

- as the chart below shows, public spending in the devolved countries includes spending by the UK Government which is clearly outside of Barnett.
- the Barnett formula only determines the change in the block grant, not its absolute level. The Barnett formula has no role in determining welfare spending in Northern Ireland.

Further, if applied properly the formula should in fact lead to convergence in public spending across the UK (see [section 2.3](#))

For Scotland it has been argued that the relatively high levels of public spending precede the Barnett formula's introduction. The Goschen formula (see [section 1.5](#)) did not update population proportions after 1888; however, Scotland's population fell substantially relative to England & Wales and by 1959 Scotland received more than its population-based share of UK Government spending.²⁷

% of identifiable expenditure made by public sector organisations, 2017/18



source: HM Treasury. [Public expenditure statistical analysis 2019](#), Table 9.21 and

2.3 Barnett squeeze

Under certain assumptions the Barnett formula would lead to convergence of public spending per head in the four nations of the UK: this is commonly known as the Barnett squeeze.²⁸

If the Barnett formula is followed strictly, the increase in public spending per head is the same in all countries of the UK. Over time, as each country receives the same increase, the higher public spending per head of Scotland, Wales and Northern Ireland should progressively erode away. Looking at this another way, the percentage increase in spending per head in Scotland, Wales and Northern Ireland is lower than in England as the base from which they start is higher.

It is hard to verify the extent to which Barnett squeeze is happening, largely due to a lack of comparable data. However the Holtham Commission, which reported on funding and finance for Wales, found some evidence of Barnett squeeze in Wales by considering functions that are funded by the Welsh Assembly's DEL.²⁹ The Commission reported that the gap in spending per head on such Barnett related

²⁷ IFS, [Business as usual? The Barnett formula, business rates and further tax devolution](#), November 2014, Box 1

²⁸ Treasury Committee, The Barnett Formula, 22 December 1997, HC 341 1997-98, [para 6](#)

²⁹ The Holtham Commission, First Report. Funding devolved government in Wales: Barnett & beyond, July 2009, [paras 2.22 – 2.24](#)

functions had roughly halved between Wales and England, since the introduction of the Welsh Assembly. To address this issue the Government introduced a funding floor for Wales' block grant in the 2015 Spending Review (see [section 1.3](#)).

There are some factors which may slow or prevent Barnett squeeze.

Formula bypass

For Barnett squeeze to happen the formula must be applied strictly – there must be no formula bypass (see [section 1.4](#)). Payments made outside of the formula may slow the speed of convergence.

Population levels

Firstly, if population proportions are not regularly updated convergence can be affected. For instance until 1992, the 1976 population estimates were used for the Barnett formula. During this time Scotland's population was falling relative to England's, which would have worked against the Barnett squeeze.

Secondly, even if up-to-date populations are used, changes in population may work against the Barnett squeeze. If a country's population is falling in absolute terms, this will push up its spending per head. This is because the lower population is only reflected in the change in spending determined by the Barnett formula – the inherited spending, established over previous years, will be divided among a smaller population. Such a scenario would work against convergence.

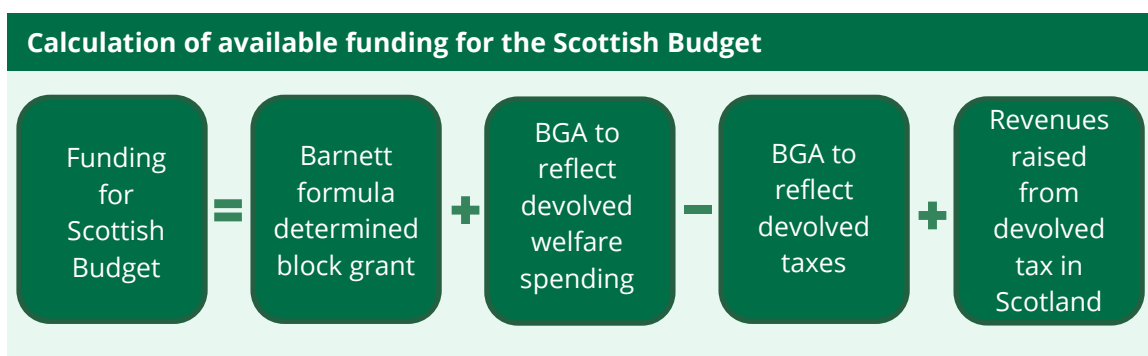
3. Recent devolution

The Barnett formula has not been little changed by the recent devolution of tax and spending powers to Scotland,³⁰ Wales³¹ and Northern Ireland.³² Wales' block grant floor (see [section 1.4](#)) is the most significant recent change.

The UK Government and major parties of the UK have generally advocated Barnett's continued use and rejected any calls for substantial reform.³³ However, block grants have been or will be reduced in recognition of the greater revenue raising powers of the devolved administrations or increased for new spending powers.

3.1 Block grant adjustment

Block grants are being adjusted to reflect the devolution of new tax powers or welfare responsibilities. The block grant adjustment (BGA) ensures that neither the UK Government nor the devolved administration is left worse off simply from the transfer of power. The BGA reflects the fact that devolving power will either generate tax revenues or welfare spending for the devolved administration.



Broadly speaking, the block grant adjustment (BGA) can be split into two parts. First, in the case of a newly devolved tax, the baseline BGA is equal to the UK Government's tax receipts raised in the devolved country in the year prior to devolution. For welfare, the baseline BGA is equal to the UK Government's spending in the devolved country in the year prior to devolution.³⁴ Second, in subsequent years the BGA is

³⁰ [Scotland Act 2012](#). Discussion of the preceding Bill is available in the Library Paper [Scotland Bill](#), RP11/06, 18 January 2011; [Scotland Act 2016](#). Discussion of the preceding Bill is available in the Library Paper [Scotland Bill 2015-16 \(Bill 3\)](#), 4 June 2015

³¹ [Wales Act 2014](#). Discussion of the preceding Bill is available in the Library Paper [Wales Bill 2013-14](#), RP14/19, 27 March 2014

³² [Corporation Tax \(Northern Ireland\) Act 2015](#). Discussion of the preceding Bill is available in the Library Paper [Devolution of corporation tax to Northern Ireland](#), SN07078, 12 February 2015

³³ See for instance: HM Government. [Wales Bill: Financial Empowerment and Accountability](#). Cm8838, March 2014

³⁴ For Wales, initial baseline block grant adjustments are set out in [Annex B](#) of Wales's fiscal framework (December 2016). For Scotland, initial baseline block grant adjustments for tax and welfare are set out in [para C.8](#) and [para C.10](#), respectively, of Annex C of [Scotland's fiscal framework](#).

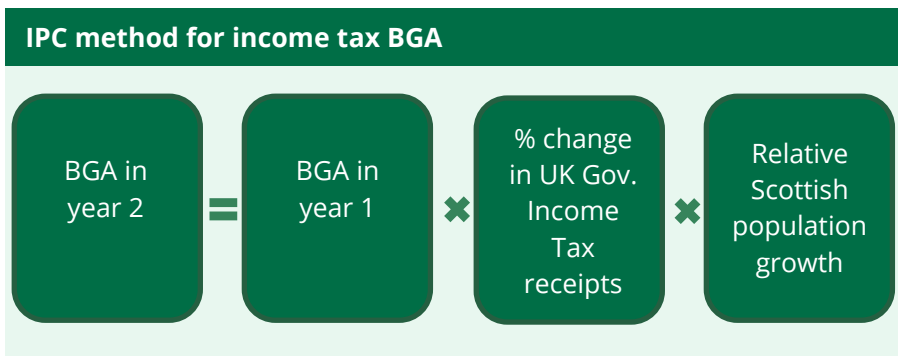
indexed (increased or, potentially, decreased) following an agreed method, linked to growth in related UK Government tax revenues (or spending). The initial BGA cannot simply be applied in subsequent years because economic growth and inflation typically lead to tax revenues and welfare spending growing over time.

A BGA indexation mechanism needs to be used that: leaves neither Government worse off simply from the power being devolved; and, allows for the devolved administrations to face the consequences of the policies they adopt using the devolved powers.

Indexing BGAs in Scotland

Scotland's BGA indexation is set out in the [fiscal framework](#) agreed by the UK and Scottish Governments.

For a transition period, until and including 2021/22, BGAs in Scotland will be indexed using the Indexed Per Capita (IPC) approach. This means that the baseline BGAs are indexed by the percentage change in comparable revenues or welfare spending per capita by the UK Government, and the rate of population growth in Scotland.



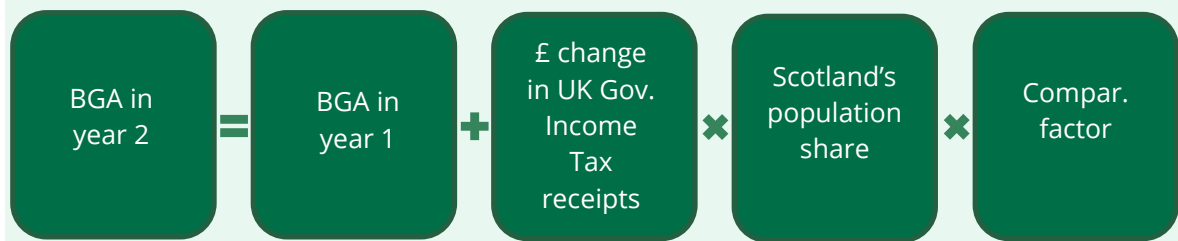
Another indexation method is also being calculated during the transition period, but it has no impact on Scotland's actual BGA. This is known as the 'Comparable Model' (see Box 5) and when the BGA was being negotiated it was the UK Government's preferred indexation method. The Scottish Government preferred the IPC method and the compromise reached means that the IPC is being used during the transition period, but indexation will be reviewed following the 2021 Scottish Parliament elections. An independent report will present recommendations to both the UK and Scottish governments to inform the review. The Scottish and UK government will jointly agree the group producing the review and their remit.

Box 5: The Comparable Model of indexation

For devolved taxes the Comparable Model is like the Barnett formula. For welfare spending it is the Barnett formula.

Like the Barnett formula, the Comparable Model includes Scotland's population share and a comparability factor. In the case of a devolved tax the comparability factor reflects tax per head in Scotland as a proportion of the corresponding UK government tax per head at the point of devolution. Comparability factors for taxes are in effect a measure of Scotland's relative tax capacity. For each devolved welfare power the comparability factor is 100%.

Comparable Model method for income tax BGA

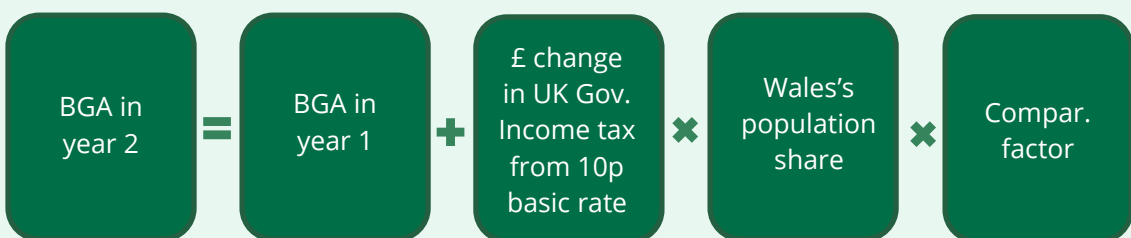


Indexing BGAs in Wales

Wales's BGA indexation is set out in the [fiscal framework](#) agreed by the UK and Welsh Governments.

In Wales, the Comparable Model will be used to index devolved taxes (stamp duty land tax and landfill tax) and each band of income tax. As discussed in Box 5, the Comparable Model is like the Barnett formula. Like the Barnett formula, the Comparable Model includes Wales's population share and a comparability factor. The comparability factor reflects tax per head in Wales as a proportion of the corresponding UK government tax per head at the point of devolution.

Comparable model block grant adjustment for basic rate of income tax in Wales



BGA in Northern Ireland

Currently, the only BGA on Northern Ireland's block grant is for air passenger duty (APD). In July 2012 the Northern Ireland Assembly was given powers to set APD rates on direct long-haul flights, and subsequently the Northern Ireland Executive introduced provisions to set these rates to zero from 1 January 2013. To comply with EU rules on

State Aid,³⁵ the Executive had to bear the full fiscal consequences of this tax cut, so consequential reductions have been made in each subsequent year to its block grant.

Further information about fiscal devolution

There is more to the devolution of tax and spending powers than just providing the powers and adjusting the block grant. Devolved administrations have also had their borrowing powers expanded. For Scotland and Wales the borrowing powers are set out in fiscal frameworks that also include processes for reconciling forecasts with outturns, costs, dispute resolution etc. As these items aren't directly relevant to the Barnett formula they are not discussed here. The issues are fully covered in the documents set out below.

Scotland

Government documents

- Scottish Government and UK Government, [The Scottish Government's fiscal framework](#), 25 February 2016
- Scottish Government, [Fiscal framework outturn report: 2019](#), 26 September 2019
- Scottish Government, [Implementation of the Scotland Act 2016: third report](#), 24 April 2019

Summary/analysis

- Scottish Parliament Information Centre (SPICe), [The Fiscal Framework](#), 7 November 2016
- Audit Scotland, [Scotland's new financial powers: Operation of the Fiscal Framework 2018/19](#), October 2019
- SPICe, [The \(budgetary\) times they are a changin': 20 years of devolved budgets](#), 5 April 2019
- IFS, [Scotland's fiscal framework: assessing the agreement](#), 22 March 2016
- SPICe, [Scotland's fiscal outlook: possible large reconciliations ahead](#), 31 May 2019
- Fraser of Allander Institute, [The Fiscal Framework: 2021 Review](#), 27 June 2019
- Institute for Government, [Devolution at 20: Public spending and taxation](#) [accessed on 6 January 2020]

Wales

Government documents

- Welsh Government and UK Government, [The Welsh Government's fiscal framework](#), 19 December 2016
- Welsh Government, [The fifth annual report by Welsh Ministers about the implementation and operation of Part 2 \(Finance\) of the Wales Act 2014](#), 11 December 2019

Summary/analysis

- Wales Audit Office, [Guide to Welsh Public Finances](#), 16 July 2018

³⁵ For details see, HMG, [Review of the Balance of Competences between the United Kingdom and the European Union: Competition and Consumer Policy Report](#), July 2014 pp25-28

- Wales Audit Office, [Fiscal Devolution in Wales: devolved taxes and Welsh rates of income tax](#), December 2018
- Wales Governance Centre & IFS, [Fair Funding for Taxing Times? Assessing the Fiscal Framework Agreement](#), February 2017

Northern Ireland

Government documents

- HM Treasury, Statement of funding policy: funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly, November 2015, [Chapter 10](#)

Summary/analysis

- Institute for Government, [Devolution at 20: Public spending and taxation](#) [accessed on 6 January 2020]
- National Audit Office, [Investigation into devolved funding](#), 13 March 2019

3.2 Recent legislation and Barnett

Scotland Act 2012

The Scotland Act gave the Scottish Parliament greater responsibility for raising its own revenue. Power to deviate income tax from the UK rate was devolved, as were taxes on land transactions and disposals to landfill.

Scotland's block grant was adjusted in recognition that the Scottish Parliament will have more locally raised tax revenues at their disposal. No change was made to the Barnett formula.

The UK Government ruled out any changes to the Barnett formula, whilst leaving the door open to possible change in the future, when the preceding Bill was published. In *Strengthening Scotland's Future* the Government recognised concerns expressed about the Barnett formula block grant system, but ruled out any changes before the public finances returned to normal.³⁶

Scotland Act 2016

The Scotland Act 2016 devolved further tax raising powers, giving the Scottish Parliament control over income tax, air passenger duty and aggregates levy, whilst also assigning an element of VAT receipts. It also devolves further spending powers, including elements of welfare.

As with the Scotland Act 2012, whilst the block grant has been adjusted to recognise the increase in locally raised tax revenues and increased spending, the Barnett formula has not changed.

Prior to the Bill's publication the Smith Commission, brought together to make recommendations on devolution to Scotland, reached agreement that the Barnett formula should continue to determine changes in the block grant.³⁷

³⁶ HM Government, [Strengthening Scotland's Future](#), cm 7979, November 2010, pages 22-23

³⁷ The Smith Commission, Report of the Smith Commission for further devolution powers to the Scottish Parliament, 27 November 2014, [para 95 \(1\)](#)

Progress

Not all the devolved powers have been introduced yet.³⁸

During 2019/20 assigned VAT is being forecast and calculated, but with no impact on the Scottish Government's Budget. The UK and Scottish Government are discussing possible implementation in April 2020.

The introduction of a replacement for air passenger duty in Scotland has been delayed pending EU state aid approval. The approval is required to allow an exemption for passengers who fly from the Highlands and Islands to continue. A state aid issue was also holding up devolution of aggregates levy. The issue has been resolved and the timetable for devolving the tax now depends on the outcome of a [UK Government review of the UK levy](#).

The Scottish Government will become responsible for the following benefits during 2020/21: attendance allowance; cold weather payments; disability living allowance; industrial injuries disablement benefit; personal independence payment; severe disablement allowance; winter fuel payments.

Wales Act 2014

Tax raising powers over business rates, land transaction tax and landfill tax were all devolved to the National Assembly of Wales in the Wales Act 2014. Subject to a referendum, the Act also introduced a Welsh rate of income tax. However, the Wales Act 2017 removed the referendum requirement and from April 2019 the Welsh Assembly will be able to set income tax rates in Wales.³⁹

Wales' block grant has been adjusted to reflect the new powers. The fiscal framework that sets out the block grant adjustment method also sets out the calculation for the block grant floor (discussed in section 1.3) which adds a needs-based factor to Wales' Barnett formula.

The UK Government published [Wales Bill: Financial Empowerment and Accountability](#) alongside the Bill. In the Command Paper the Government discussed why it wishes to keep the Barnett formula. Much the same arguments were made in the context of the Scottish legislation discussed above:

While the UK Government recognises some of the concerns expressed about the Barnett formula, the system has many strengths. Resources and risks are shared across the UK, which ensures that the Assembly is provided with stable levels of funding to deliver devolved public services. The system is also simple, transparent and efficient; key requirements for any funding system. The UK Government's priority is to reduce the deficit and it does not have any plans to reform the Barnett formula before the stabilisation of the public finances.⁴⁰

³⁸ Scottish Government. Fiscal Framework Outturn Report, September 2019

³⁹ Welsh Government. [Income tax](#) [accessed on 15 January 2018]

⁴⁰ HM Government, Wales Bill: Financial Empowerment and Accountability, March 2014, [para 6](#)

Northern Ireland Corporation Tax (Northern Ireland) Act 2015

The Act devolves corporation tax rates to Northern Ireland, subject to commencement regulations.⁴¹

The Northern Ireland Executive collapsed in January 2017 and there has been no Executive since. The UK Government remains committed to corporation tax devolution once the Executive has been restored and has demonstrated that its finances are on a sustainable footing.

Northern Ireland's block grant will be adjusted once the tax is devolved and there will be no change to the Barnett formula.⁴²

⁴¹ Parliament Bill page [Corporation Tax \(Northern Ireland\) Act 2015](#)

⁴² HM Government. [The Stormont House Agreement - Financial Annex](#), December 2014

Appendix 1. Calculating the Home Office's comparability percentage

Example comparability calculation: Home Office								
Column----->	a	b	c	d	e = a x b	f = a x c	g = a x d	
		Comparability			Calculation			
	2015-16 provision	Scotland	Wales	NI	Scotland	Wales	NI	
Administration	728,337	100%	0%	100%	728,337	0	728,337	
Border Force	537,500	0%	0%	0%	0	0	0	
European Solidarity Mechanism	1	0%	0%	0%	0	0	0	
General Register Office	11,251	100%	0%	100%	11,251	0	11,251	
Her Majesty's Inspectorate of Constabulary	5,406	100%	0%	100%	5,406	0	5,406	
HM Passport Office	-126,729	0%	0%	0%	0	0	0	
Immigration & International Policy Group	37,261	0%	0%	0%	0	0	0	
Immigration Enforcement	432,603	0%	0%	0%	0	0	0	
National Crime Agency	463,700	0%	0%	0%	0	0	0	
Office of Security & Counter Terrorism	805,054	100%	0%	100%	805,054	0	805,054	
Police	8,401,007	100%	0%	100%	8,401,007	0	8,401,007	
UK Visa & Immigration	-445,262	0%	0%	0%	0	0	0	
Total provision	10,850,129	Weighted sum			9,951,055	0	9,951,055	
Comparability percentage = weighted sum/ total provision					91.7%	0.0%	91.7%	

Appendix 2. Calculating Scotland's Barnett consequentialials for 2018/19

Scotland's 2018/19 consequentialials from the Spending Review 2015, changes on 2015/16 baseline						
UK Department	Comparability percentage	Population proportion	Resource, £ billion		Capital, £ billion	
			UK change on 2015/16 baseline	Scottish consequentialials	UK change on 2015/16 baseline	Scottish consequentialials
Education	100.0%	9.85%	2.8	0.3	-0.1	0.0
Health	99.4%	9.85%	9.7	1.0	0.0	0.0
Transport	91.0%	9.85%	-0.4	0.0	2.9	0.3
CLG: Communities	99.7%	9.85%	-0.2	0.0	0.8	0.1
CLG: Local Government	100.0%	9.85%	-5.4	-0.5	0.0	0.0
Business Rates Income	100.0%	9.85%	-0.7	-0.1
Business Innovation & Skills	66.4%	9.85%	-1.1	-0.1	-0.5	0.0
Home Office	91.7%	9.31%	0.3	0.0	0.1	0.0
Justice	100.0%	9.31%	-0.4	0.0	0.3	0.0
Law Officers	100.0%	9.31%	0.0	0.0	0.0	0.0
Energy & Climate Change	1.8%	9.85%	0.0	0.0	0.0	0.0
Environment, Food & Rural Affairs	99.8%	9.85%	-0.1	0.0	0.1	0.0
Culture Media & Sport	76.9%	9.85%	0.1	0.0	0.0	0.0
Work & Pensions	1.4%	9.85%	0.1	0.0	-0.1	0.0
HM Revenue & Customs	0.4%	9.85%	-0.2	0.0	0.1	0.0
HM Treasury	0.4%	9.85%	0.0	0.0	0.0	0.0
Cabinet Office	6.5%	9.85%	0.2	0.0	0.0	0.0
Single Intelligence Account	6.5%	9.85%	0.3	0.0	0.0	0.0
Small Depts & Independent Bodies	100.0%	9.85%	0.0	0.0	0.1	0.0
Total Scottish consequentialials				0.5		0.4

notes: figures are approximate as Spending Review figures are rounded to the nearest £0.1 billion

¹ Business rates income to the Treasury are included as devolved administrations have control over business rates income

source: Scottish Parliament Information Centre, Summary of Scottish Government budget from the Comprehensive Spending Review 2015

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