National Audit Office

Report
by the Comptroller
and Auditor General

HM Treasury

Investigation into devolved funding

HC 1990 SESSION 2017–2019 13 MARCH 2019

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

National Audit Office

HM Treasury

Investigation into devolved funding

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 12 March 2019

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

11 March 2019

HC 1990 | £10.00

We saw an investigation as an opportunity to present some clear facts about how the UK government determines how much funding it allocates to the devolved administrations.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

06532 03/19 NAO

Contents

The National Audit Office study team consisted of:
Jola Groves, Rachel Kift and Anna Wojtal, under the direction of Lee Summerfield.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

What this investigation is about

1 The four nations that make up the United Kingdom (England, Scotland, Wales and Northern Ireland) have different powers of self-government. These have been brought about by devolving public services and tax and revenue-raising powers.

2 HM Treasury, the UK government's economics and finance ministry, has overall responsibility for allocating funding for public services in the UK. At spending reviews, HM Treasury decides how much funding it will allocate to government departments over a three- to five-year period. It allocates a 'block grant' to the devolved administrations in Scotland, Wales and Northern Ireland that they use to provide public services according to their spending priorities. Between spending reviews, HM Treasury allocates funding at annual budgets and authorises in-year adjustments to re-allocate money as priorities change. It may also announce funding for new priorities on an ad hoc basis (**Figure 1**).

3 Most of the UK government funding allocated to the devolved administrations is determined through the Barnett formula. Before the formula was introduced in the late 1970s, decisions about the funding allocated to the Scottish Office, Welsh Office and Northern Ireland Office were subject to annual negotiations with HM Treasury, as for other government departments.[1] The formula aims to ensure that the devolved administrations receive a population-based share of any changes in what the UK government is spending on public services in England that are devolved in Scotland, Wales and/or Northern Ireland.

4 The Barnett formula is not the only funding mechanism available to HM Treasury. It can also decide to allocate funding directly to the devolved administrations. For areas of spending such as public sector pensions, HM Treasury allocates ringfenced funding based on forecasts provided by the devolved administrations.

5 Since the introduction of the formula, the devolved administrations have been funded almost entirely by block grants from HM Treasury. However, as additional administrative and legislative powers have been devolved to the nations, the way their funding from the UK government is calculated has also changed. In particular, the devolution of tax-raising powers, whereby the devolved administrations can set taxes and retain the associated revenues, means that adjustments are now made when their funding is calculated.

1 Prior to devolution, the Scottish Office, Welsh Office and the Northern Ireland Office carried out a range of functions including negotiating funding settlements with HM Treasury.

Figure 1

Calculating the UK government (HM Treasury) funding payable to the devolved administrations

What happens at fiscal events and how this affects the funding allocated to the devolved administrations

Event	Spending Review	The Budget	In-year announcements
Frequency	Typically every two to four years	Annually	Ad hoc
Purpose	To identify priorities for public spending and allocate funding to UK government departments, typically for a three to five year period.	Between spending reviews, HM Treasury uses annual budgets to allocate funding in response to changing and new priorities and authorise in-year budget adjustments.	Outside of spending reviews, annual budgets and other fiscal events, other ad hoc announcements of funding may result in additional amounts of funding for the devolved administrations.

HM Treasury's Statement of Funding Policy lists UK government spending programmes according to whether comparable services in Scotland, Wales and Northern Ireland are devolved or reserved – this categorisation informs the application of the Barnett formula.

Process

Where a service or function is devolved, HM Treasury applies the Barnett formula to the changes in funding allocated to UK government departments to calculate a proportionate share of new funding for each devolved administration, which is added to the previous year's block grant.

\+

HM Treasury applies the Barnett formula as applicable to changes in UK government departments' funding and calculates Barnett consequentials for the devolved administrations. HM Treasury may also allocate direct funding to the devolved administrations.

\+

HM Treasury applies the Barnett formula to new announcements of funding and calculates Barnett consequentials for the devolved administrations, as applicable.

\-

Adjustments for devolved taxes, welfare payments and non-cash items.

=

Total block grants payable from UK government to the devolved administrations.

Note

1 At main and supplementary estimates, the government seeks Parliament's authorisation for its spending plans or changes to budgets.

Source: National Audit Office analysis

6 The devolved administrations are not funded exclusively by the UK government. Funding comes from other sources, such as local and devolved taxation, other revenue-raising powers, grants from European institutions and borrowing.

7 Government announcements of funding, such as the £20.5 billion for the NHS announced in summer 2018, led to our interest in devolved funding matters and prompted questions about whether consequential amounts of funding would be made available for health services in the devolved administrations and where this funding would come from. We were also aware of Parliamentary interest in how decisions are made about the UK government funding provided to the devolved administrations. We saw an investigation as an opportunity to present some clear facts about how funding for the devolved administrations is calculated and where it comes from.

8 Our investigation aimed to establish how decisions on funding are reached and the different mechanisms and formulas that result in funding allocations, covering:

- the way the UK government allocates funding to the devolved administrations and the adjustments that are required, particularly in light of devolution of tax and revenue-raising powers;
- the different UK government funding streams available to the devolved administrations and the mechanisms for calculating and allocating funding; and
- the implications of changes in UK government spending plans and how these impact on the funding allocated to the devolved administrations

9 The investigation focuses on UK government funding to the devolved administrations. We did not examine any other income sources available to the devolved administrations, their tax and revenue-raising activity, or how spending decisions are made by the devolved administrations or the value for money of their spending decisions. These are all topics that fall within the remit of the respective audit offices of Scotland, Wales and Northern Ireland.

Summary

Key findings

HM Treasury's role in allocating funding to the devolved administrations

1 **HM Treasury is responsible for calculating funding allocations to the devolved administrations.** Funding for each devolved administration is calculated based on the previous year's block grant. This funding is rolled forward and adjusted for changes in UK government departmental spending using the Barnett formula. Since the formula was introduced in the late 1970s, HM Treasury has used this method to determine the funding allocated to the devolved administrations (paragraphs 1.1 to 1.3).

2 **The Barnett formula ensures that the devolved administrations receive a share of the changes in planned UK government spending on functions that are devolved in Scotland, Wales and Northern Ireland.** It applies percentage factors (comparability of service, population-based, and 'needs-based' for Wales only) to the planned changes in UK government departmental spending in order to determine how much funding to allocate to the devolved administrations. Outside of spending reviews, funding allocated to UK government departments may result in extra funding for the devolved administrations. Just as HM Treasury calculates block grant allocations at spending reviews, it calculates extra funding or consequentials in the same way by using the Barnett formula (paragraphs 1.3, 1.4 and 1.11 and Figure 1).

3 **Devolved administrations receive additional funding when new, additional funding is provided to UK government departments for comparable services or functions.** Whether the devolved administrations receive additional funding from changes in UK government spending depends on whether the changes are financed from existing departmental budgets or from new, additional funding. In the example of the £20.5 billion of additional funding announced for NHS England in June 2018, the actual amount of funding the devolved administrations received was less than they had expected because the Department of Health & Social Care part-funded the increase from ongoing transfers within its existing budgets. Only new money has the effect of increasing the funding allocated to the devolved administrations (paragraphs 2.15 and 2.16).

4 **The Barnett formula has no legislative basis.** HM Treasury's Statement of Funding Policy (SFP) sets out how UK government funding for the devolved administrations should be determined. HM Treasury seeks to ensure that the UK government's decisions on funding allocations are made in accordance with these rules and principles. It categorises services or UK government spending programmes according to whether they are 'reserved' (that is, the UK government retains responsibility for providing them in that nation) or 'devolved' (that is, the devolved administration is responsible for providing services comparable with those provided by UK government departments). Transport and railways infrastructure is one of the more complicated areas of funding. HM Treasury's categorisation of Crossrail as a 'local' transport project in England has triggered consequential payments for the devolved administrations of around £500 million to Scotland, along with additional funding for Wales and Northern Ireland.[2] But the High Speed Two project, rail infrastructure again to be located in England, is categorised as a 'national' project, with the result that Barnett consequentials are payable to Scotland and Northern Ireland but not to Wales (paragraphs 2.4 to 2.7, Figure 7).

5 **It can be unclear whether consequential amounts of funding are due to the devolved administrations for funding allocated to new services or functions established since the Spending Review 2015.** For example, funding allocated to the Home Office for EU exit-related activity carried out by Border Force is a function reserved to the UK government and therefore does not result in Barnett consequentials for the devolved administrations. However, other activity related to EU exit may be of a more general nature, so it may be more complicated to decide whether consequential amounts of funding should be paid to the devolved administrations. All of the devolved administrations have received Barnett consequentials as a result of funding allocated to UK government departments for activity related to EU exit but a lack of up to date information on spending programmes can make it difficult to ascertain how HM Treasury has calculated the consequential amounts (paragraphs 2.5 and 2.13).

6 **HM Treasury may allocate direct, special or ad hoc funding without consequential amounts of funding for other nations.** This funding is sometimes referred to as 'non-Barnett additions'. For example, England, Scotland and Wales have not received any additional funding as a result of the £410 million in funding allocated to Northern Ireland for 2018-19 as part of the agreement reached between the Conservative party and the Democratic Unionist Party.[3] In other examples, the devolved administrations have each received direct funding for city deals or growth deals in their localities (totalling more than £0.3 billion).[4] And, because of the way the Barnett formula works, the devolved administrations will have benefited from consequential amounts of funding from UK government spending on city deals in England. But England does not receive consequential amounts of funding from the UK government as a result of direct funding allocated to the devolved administrations (paragraphs 2.8 and 2.11, Figures 9 and 10).

2 House of Lords Select Committee on the Barnett Formula, *The Barnett Formula*, First Report of Session 2008-09, HL 139, July 2009.

3 Available at: www.gov.uk/government/publications/conservative-and-dup-agreement-and-uk-government-financial-support-for-northern-ireland/uk-government-financial-support-for-northern-ireland

4 Refers to funding allocated to the devolved administrations up to 2021 and does not include UK government funding commitments beyond this period.

Recent funding allocations

7 **A large part of the block grant funding allocated to the devolved administrations is rolled forward and unaffected by population changes.** Changes in population only affect the calculation of the annual change in block grant funding. As the populations of Scotland, Wales and Northern Ireland are falling relative to England's population, their corresponding block grant funding per head is therefore increasing. Populations in all countries of the UK have been increasing for several years but the rate of increase in Scotland, Wales and Northern Ireland is consistently lower than the rate of increase in England and the UK as a whole (paragraph 1.5, Figures 2 and 3).

8 **HM Treasury data shows that the highest actual spend on public services per head in the UK is in Northern Ireland at £11,190.** This is followed by Scotland at £10,881, Wales at £10,397 and then England at £9,080 and compares with a UK average spend per head of £9,350.[5] From total UK-wide spending of £617 billion in 2017-18, HM Treasury estimates that England accounts for £505 billion, Scotland £59 billion, Wales £32 billion and Northern Ireland £21 billion (paragraph 3.2 and Figure 11).

9 **In the 2015 Spending Review, HM Treasury allocated £287 billion of funding to the devolved administrations to spend for the five years to 2020-21.** Scotland was allocated indicative annual funding of around £30 billion; Wales was allocated £15 billion; and Northern Ireland was allocated £11 billion. This funding formed part of total funding of almost £4 trillion allocated to UK government departments and the devolved administrations for spending on all public services (reserved and devolved) across the UK (paragraph 1.14).

10 **The Autumn Budget 2018 resulted in consequential amounts of funding totalling £960 million for Scotland, £554 million for Wales and £325 million for Northern Ireland.** Additional funding stemmed from a variety of UK government spending decisions that resulted in increased funding for the devolved administrations. More than 50% of these consequential amounts for each devolved administration were triggered by additional funding allocated to NHS England.[6] Other consequential amounts included £1.6 million for the devolved administrations as a result of Coventry being chosen and awarded £8.5 million as the winner of the UK City of Culture 2021, in a competition organised by the Department for Digital, Culture, Media & Sport (paragraphs 2.9 and 2.10, Figure 8).

5 Based on spending by devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks UK government departments and devolved administrations to apportion their spending between countries and regions.

6 Department of Health & Social Care and HM Treasury, 'Prime Minister sets out 5-year NHS funding plan', press release, 18 June 2018, available at: www.gov.uk/government/news/prime-minister-sets-out-5-year-nhs-funding-plan.

11 **The devolved administrations are free to spend their allocated funding (including Barnett consequentials) according to their own priorities.** They are not required to spend the additional funding on the same service or area of spending as the UK government. For example, Barnett consequentials allocated to the devolved administrations because of funding allocated to NHS England do not have to be spent on health services. Similarly, the devolved administrations are free to spend Barnett consequentials arising from funding allocated to UK government departments for EU exit-related activity as they like (paragraphs 2.9 and 2.12).

The impact of devolution on UK government funding to the devolved administrations

12 **Devolution has changed the way that the block grants for Scotland, Wales and Northern Ireland are calculated.** There are specific adjustments that vary depending on the extent of devolution. While the Barnett formula continues to be used to calculate the block grants for all devolved administrations, the UK government makes nation-specific adjustments that have been agreed with the devolved administrations (paragraphs 1.6 and 1.7, Figure 4).

13 **The Scottish block grant is subject to more adjustments than that of the other devolved administrations.** This reflects the Scottish Government's additional powers and responsibilities for setting its own income tax rates and bands and retaining associated revenues. Among other adjustments, HM Treasury must reduce Scotland's block grant to reflect the income tax revenues that the UK government has foregone. Greater tax and revenue-raising powers have also been extended to Wales and Northern Ireland, but they have yet to exercise these powers to the same degree as Scotland. From 2018-19, the Barnett formula for Wales has included a 'needs-based' factor, which has increased its funding in response to calls to recognise its more dispersed population and greater prevalence of poverty. Adjustments to Northern Ireland's block grant are minimal. The principal adjustments are to reduce funding allocations to reflect different VAT rules and the revenues the UK government has foregone in respect of long-haul air passenger duty tax, which is devolved to the Northern Ireland Executive (paragraphs 1.7 to 1.13).

Part One

UK government funding to Scotland, Wales and Northern Ireland

Background

1.1 HM Treasury is the UK government's economics and finance ministry and has overall responsibility for allocating funding for public services in the UK. Just as HM Treasury allocates funding to UK government departments, it allocates a 'block grant' to the devolved administrations, which they use to provide public services according to their spending priorities. Part of the funding that the UK government allocates to the devolved administrations is determined through a formula known as the Barnett formula.

1.2 In 1978, Joel Barnett, the then Chief Secretary to the Treasury, introduced a new formula to allocate funding for public spending. This avoided lengthy negotiations between the Scottish Office and HM Treasury over Scotland's block grant. The formula was extended to Northern Ireland in 1979 and Wales in 1980. Although the government intended the Barnett formula to be an interim arrangement for allocating funding, it continues to be the primary method for allocating funding to Scotland, Wales and Northern Ireland.

Calculating the block grant

The Barnett formula

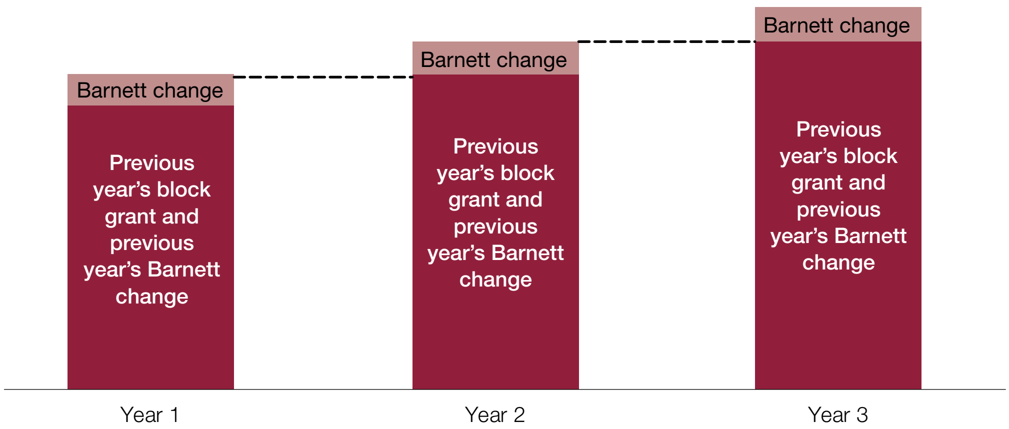
1.3 Each devolved administration's block grant is calculated by taking the previous year's grant and adding a population-based share of the changes in planned UK government spending on those comparable functions and services that have been devolved in Scotland, Wales and Northern Ireland.[7] At spending reviews (whenHM Treasury decides how much funding it will allocate to UK government departments and the devolved administrations) and annual budgets, the Barnett formula is used to calculate changes in block grant funding. As the formula is only applied to annual changes in the UK government's planned spending, not to the total block grant, a large part of the block grant funding for the devolved administrations is rolled forward year-on-year (**Figure 2** overleaf).

7 A 'needs-based' factor currently forms part of the block grant calculation for Wales (paragraph 1.11 explains).

Figure 2
Calculating the block grant funding for the devolved administrations

A large part of the block grant is rolled forward from the previous year, with the Barnett formula used to calculate the annual change in the block grant

Block grant funding



Notes

1 There are three components to the Barnett formula calculation that affect the annual change in the block grant (see paragraph 1.4).

2 The change in the block grant can be an increase or a decrease. In Figure 2, we show that funding is based on the previous year's block grant plus changes calculated using the Barnett formula.

Source: National Audit Office

1.4 The Barnett formula aims to give Scotland, Wales and Northern Ireland a population-based share of changes in UK government spending on public services in England. It only applies to those functions or services that have been devolved, so it does not apply to spending on policy areas such as defence where the UK government retains responsibility for the whole of the UK. The three components of the calculation are: 'Change to the UK government's planned spending' multiplied by 'Comparability percentage' multiplied by 'Population proportion':

- **The change to UK government planned spending**

  This change could be an increase or decrease.

- **Comparability**

  The extent to which public services have been devolved to Scotland, Wales and Northern Ireland varies. The Barnett formula uses comparability factors to calculate the funding that the devolved administrations will receive when the UK government changes planned allocations of funding for public services in England. For example, the comparability factor for education is 100% for Scotland, Wales and Northern Ireland, which reflects that education is fully devolved in all three nations and therefore any changes in funding allocated to the Department for Education will result in changes in funding for the devolved administrations. Funding provided to the Department for Work & Pensions (DWP), by contrast, had a comparability factor of 1.4% for Scotland and Wales and 100% for Northern Ireland. This is because the DWP's activities are devolved in Northern Ireland but were mostly reserved in respect of Scotland and Wales.[8] Changes in funding allocated to work and pensions will therefore result in minimal changes in funding for Scotland and Wales, but bigger changes for Northern Ireland.

- **Population**

  The population proportions used in the formula reflect the coverage and countries of the UK that benefit from the change in UK government planned spending. Where spending by a UK government department covers England only, the proportion of England's population is applied. However, where a UK department covers services in England and Wales, then the proportion of the population of England and Wales is applied.

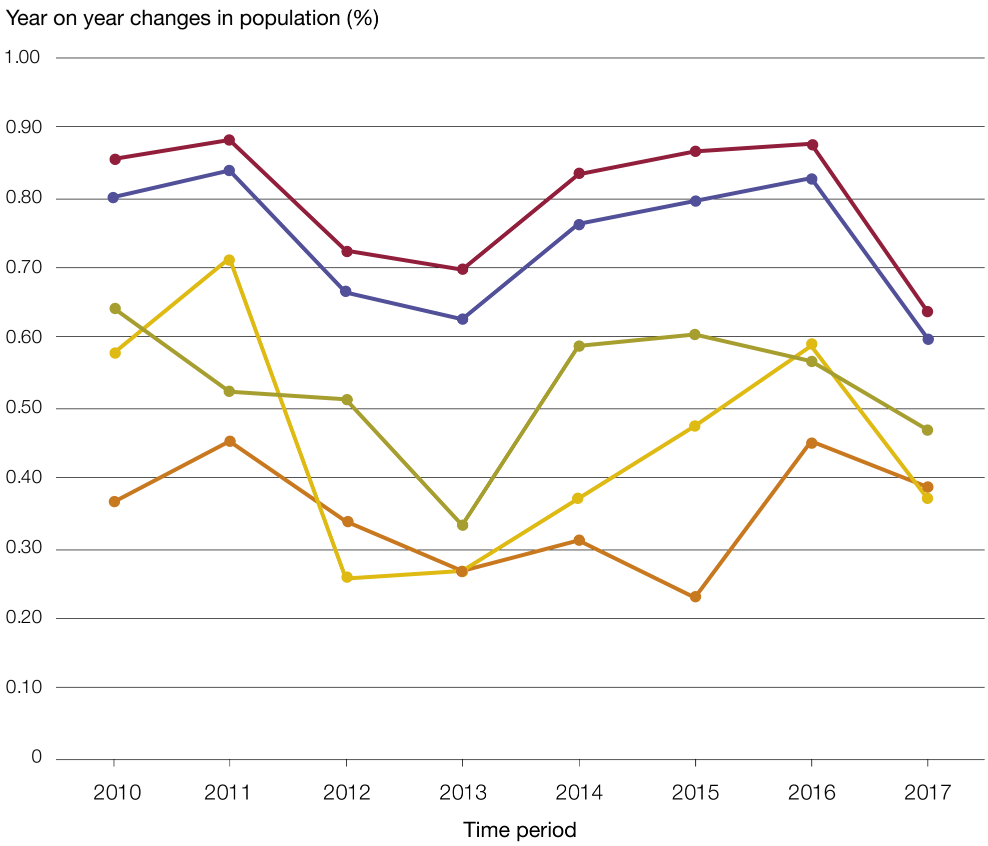
8 Further devolution of welfare powers to the Scottish Government will affect the Department for Work & Pensions comparability factor to be used for Scotland at the next spending review.

1.5 As the larger, residual part of the block grant is unaffected by the Barnett formula if the population of Scotland, Wales or Northern Ireland decreases, block grant funding per head increases as the same funding will be available for fewer people. Populations in all countries of the UK have been increasing for a number of years, but the rate of increase in Scotland, Wales and Northern Ireland is consistently lower than the rate of increase in England and the UK as a whole (**Figure 3**).

Figure 3

Chart showing changes in population between 2010 and 2017

The rate of population increase in Scotland, Wales and Northern Ireland is consistently lower than in England and the UK as a whole



	2010	2011	2012	2013	2014	2015	2016	2017
England	0.85	0.88	0.73	0.70	0.84	0.86	0.88	0.64
United Kingdom	0.80	0.84	0.66	0.63	0.77	0.79	0.83	0.60
Scotland	0.58	0.72	0.26	0.27	0.37	0.47	0.59	0.37
Northern Ireland	0.64	0.53	0.51	0.33	0.59	0.60	0.57	0.47
Wales	0.37	0.45	0.34	0.27	0.31	0.23	0.45	0.39

Source: National Audit Office analysis of Office for National Statistics mid-year population data

The impact of devolution on funding

1.6 Successive changes in legislation have given the devolved administrations new tax-raising powers (**Figure 4** overleaf) and tax revenues are expected to provide an increasing proportion of the funding available to the devolved administrations:

- In its 2019-20 budget, the Scottish Government estimates that tax revenues raised in Scotland represent around 40% (approximately £12 billion) of its budget.[9]
- The Welsh Government estimates that 20% (approximately £3.5 billion) of its overall spending in 2019-20 will come from revenues raised directly from Welsh taxes.[10,11]

1.7 Each devolved administration has a different set of devolved powers, which is likely to continue to change with further devolution. Fiscal framework agreements have been agreed between the UK government and the Scottish and Welsh governments. These set out how the block grant funding will be adjusted to reflect the devolved taxes and spending powers and other nation-specific adjustments.[12,13] The Welsh Government and the Northern Ireland Executive do not currently have as many tax and spending powers as the Scottish Government. However, the Welsh Government has been given powers to introduce Welsh rates of income tax from 2019-20, which will result in additional adjustments to the block grant in future.[14] The principal adjustments currently in operation for each devolved administration are summarised below.

Scotland

1.8 The Scottish Government has legislative power to vary the rates of income tax and bands that apply to Scottish taxpayers.[15] HM Revenue & Customs administers and collects Scottish income tax as part of the UK tax system. From 2017-18 onwards, the Scottish Government will retain all Scottish income tax revenues and HM Treasury has reduced Scotland's block grant to reflect the specific income tax revenues that the UK government has foregone. Initial Scottish income tax revenues and deductions to block grant funding have been based on forecast income tax receipts.

9 Scottish Government, *Scottish budget 2019-20*, December 2018, available at: www.gov.scot/publications/scottish-budget-2019-20/pages/4/
10 Welsh Government, *Draft budget 2019-20*, October 2018, available at: https://beta.gov.wales/sites/default/files/publications/2018-11/2019-2020-draft-budget-narrative-outline-a.pdf
11 There has been no ruling government in Northern Ireland since January 2017 due to a breakdown in the relationship between governing parties. No new powers will be devolved to the Northern Ireland Assembly until its Executive is again operational.
12 HM Government and the Scottish Government, *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*, February 2016.
13 HM Government and the Welsh Government, *The agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework*, December 2016.
14 Comptroller and Auditor General, *Administration of Welsh Income Tax 2017-18*, Session 2017–2019, HC 1869, National Audit Office, January 2019.
15 Comptroller and Auditor General, *Administration of Scottish Income Tax 2017-18*, Session 2017–2019, HC 1676, National Audit Office, November 2018.

Figure 4

Devolution of tax-raising powers: a timeline

As a result of further devolution over time, the devolved administrations have more tax-raising powers

	pre-2012	2012	2013	2014	2015	2016	2017	2018	2019	post-2019
Scotland	Business rates Council tax				Stamp duty and landfill tax	Scottish rate of income tax	Income tax		Value Added Tax	Air Passenger Duty Aggregates Levy
Wales	Council tax				Business rates			Stamp duty and landfill tax	Welsh rates of income tax	
Northern Ireland	Business rates Council tax	Long-haul air passenger duty								

Source: National Audit Office analysis of HM Treasury's Statement of Funding Policy and Institute for Government analysis available at: www.instituteforgovernment.org.uk/explainers/tax-and-devolution

1.9 Due to the way tax is collected, there is a time lag before the government is able to correctly identify and allocate tax revenues in a given year. It must carry out reconciliations and adjustments once the actual revenues are known. This means that the Scottish Government's funding is subject to more variability and uncertainty than previously, as differences between forecast and actual revenues need to be adjusted for in future years. Since the Scottish Government set its 2017-18 Budget, updated forecasts on expected tax revenues indicate a deterioration in its net budget position by £145 million (this represents the change over time in the difference between forecast tax revenues and block grant adjustment forecasts).[16] The Scottish Government needs to manage any shortfall within its future budget.

1.10 The devolution of additional welfare powers to the Scottish Government, giving it powers to create new benefits and top up existing UK-wide benefits such as Universal Credit, tax credits and child benefit, has also had an impact on Scotland's block grant funding.[17] The block grant adjustment, required for the first time in 2018-19, increased Scotland's funding, based on the UK government's spending on welfare payments to Scotland in the year prior to devolution, uplifted by agreed indices.[18] The use of indices aims to ensure that the Scottish Government's overall level of funding will be unaffected if its population grows differently from the rest of the UK.

Wales

1.11 From the 2018-19 financial year, HM Treasury introduced a new, needs-based factor into the Barnett formula specifically for Wales. This was introduced in response to the findings and recommendations of an independent commission, which reported that Wales needed additional funding in recognition of its more dispersed population and greater prevalence of poverty.[19] It is intended to ensure that block grant funding for the Welsh Government does not fall below 115% of equivalent funding per head in England.[20] This means that the Barnett formula calculation for Wales has one additional component (the needs-based factor), which is applied, along with comparability and population factors, when calculating the block grant funding for Wales.

1.12 For the first time in 2018-19, adjustments will be made to Wales' block grant funding for stamp duty land tax and landfill tax (newly devolved taxes); adjustments will be based initially on the Office for Budget Responsibility's forecasts.

16 Scottish Fiscal Commission, *Scotland's Economic and Fiscal Forecasts*, December 2018.
17 Office of the Secretary of State for Scotland, 'New welfare powers transferred to the Scottish Parliament', 5 September 2018, available at: www.gov.uk/government/news/new-welfare-powers-transferred-to-the-scottish-parliament
18 See footnote 12.
19 Independent Commission on Funding and Finance for Wales, *Fairness and accountability: a new funding settlement for Wales*, July 2010.
20 This additional factor is in force for the current Parliament only, after which it will be reassessed.

Northern Ireland

1.13 Unlike UK government departments and the devolved administrations in Scotland and Wales, the Northern Ireland Executive does not require any funding to meet VAT expenditure, since most of the VAT it pays is refunded by HM Revenue & Customs.[21] Consequently, changes to Northern Ireland's block grant funding as calculated under the Barnett formula are decreased by 2.5%. An adjustment to the block grant is also made for long-haul air passenger duty tax, which has been devolved to the Northern Ireland Executive since 2013.

Recent funding allocations

1.14 At the Spending Review 2015, HM Treasury allocated almost £4 trillion to UK government departments and the devolved administrations for spending on all public services (reserved and devolved) across the UK.[22] Indicative funding to the devolved administrations to spend over the five-year period to 2020-21 amounted to annual funding of around £30 billion for Scotland, £15 billion for Wales and £11 billion for Northern Ireland. In the years following the Spending Review, changes in UK government priorities led to changes to spending plans, which changed the funding initially allocated to the devolved administrations. Taking the 2017-18 financial year as an example, the block grant funding initially allocated to Scotland, Wales and Northern Ireland was updated to reflect additional funding as a result of changes in plans, along with adjustments for devolved powers (**Figure 5**).

1.15 The Barnett formula is not the only funding mechanism available to HM Treasury. Non-Barnett additions are funding that HM Treasury allocates directly to the devolved administrations. For areas of spending such as public sector pensions and student loans, HM Treasury allocates ringfenced funding based on forecasts provided by the devolved administrations.[23] This type of funding is referred to as annually managed expenditure (AME). **Figure 6** on page 20 gives an overview of the categories of UK government funding to the devolved administrations.

21 Value Added Tax Act 1994, available at: www.legislation.gov.uk/ukpga/1994/23/section/99/1995-11-29
22 HM Treasury, *Spending Review and Autumn Statement 2015*, November 2015.
23 Ringfenced funding is intended for a specific purpose.

Figure 5

Summary of funding allocations to the devolved administrations for the 2017-18 financial year

Nature of funding	Scotland (£m)	Wales (£m)	Northern Ireland (£m)
Spending Review 2015 allocation	29,490	14,669	10,992
Barnett additions	751	411	251[1]
Non-Barnett additions	230	57	85
Budget transfers and technical changes[2]	-124	-23	-99
Adjustment for devolved taxation	-12,539[3]	0	-2
Total block grant funding	**17,808**	**15,114**	**11,227**

Notes

1 Barnett additions for Northern Ireland are shown net of the VAT adjustment (see paragraph 1.13).

2 Our categorisation includes transfers whereby functions and corresponding budgets are transferred to the devolved administrations, and 'budget exchange' amounts whereby the devolved administrations give back unspent funding and an equivalent amount is added to the block grant for the next financial year.

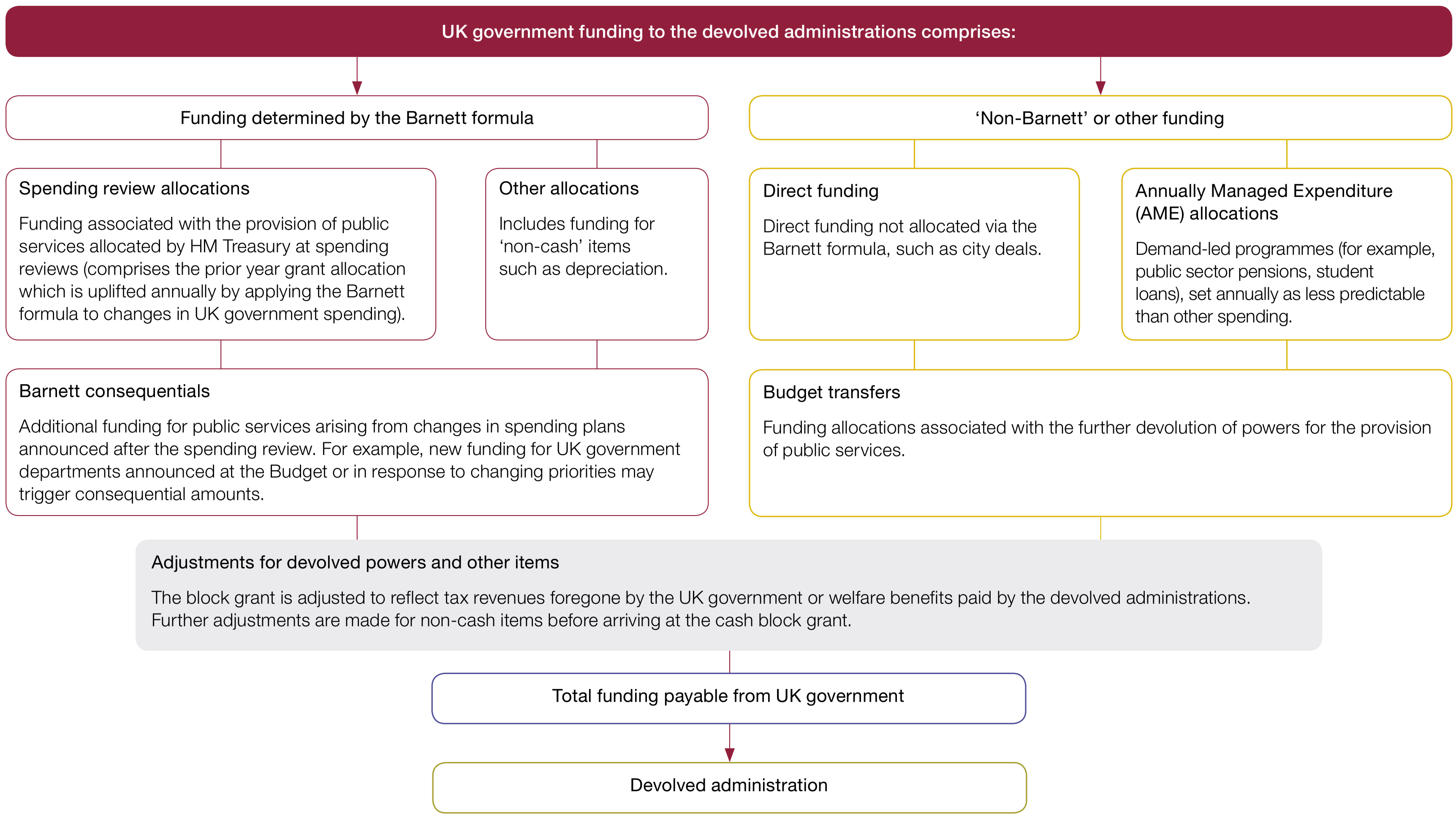
3 As well as income tax revenues, this adjustment includes stamp duty land tax and landfill tax.

Source: National Audit Office analysis of HM Treasury data

Other sources of funding

1.16 The devolved administrations are not funded exclusively by the UK government and devolved tax revenues. They also receive revenue from courts and tribunals, grants from European institutions, and borrowing. The Welsh Government estimates that Wales receives around £680 million in EU funding annually; the Northern Ireland Executive finance team told us it receives in the region of £300 million; and the Scottish Government estimates that it receives approximately £1 billion each year. These other sources of funding are outside the scope of our work.

Figure 6
An overview of UK government funding to the devolved administrations



Note

1 This overview does not include other sources of funding available to the devolved administrations.

Source: National Audit Office analysis of UK government funding mechanisms

Part Two

How the UK government decides how much money to allocate to the devolved administrations

Responsibilities for decisions

2.1 Each devolved administration is responsible for assessing and setting priorities for public services, such as health and education, in its nation. In some government policy areas, however, the UK government continues to make decisions that affect the whole of the UK. These areas are often referred to as 'reserved'. This applies to areas such as defence, where the UK government funds and retains responsibility for protecting and defending the UK. While Ministry of Defence government sites and activities may be based or take place in all nations of the UK, the devolved administrations have no specific role in setting the priorities for these areas.

2.2 The UK government continues to take policy and spending decisions that affect public services in England only or, in policy areas such as policing, decisions that affect England and Wales. As changes in planned spending by UK government departments affect the level of funding available to the devolved administrations via the Barnett formula, decisions by the UK government will continue to affect the devolved administrations. In simple terms, if the UK government cuts expenditure on public services in England, block grant funding for Scotland, Wales and Northern Ireland will also decrease.

HM Treasury's decision-making role

2.3 At spending reviews, HM Treasury sets the UK government's future spending plans, including how much funding it will allocate to the devolved administrations in Scotland, Wales and Northern Ireland over a three- to five-year period. Between spending review periods, HM Treasury allocates funding at annual budgets and authorises in-year adjustments which re-allocate money between spending programmes (Figure 1). At these fiscal events the Barnett formula is applied to spending plans:

- At spending reviews, HM Treasury calculates aggregate comparability percentages for UK government departments, which are used in the formula to calculate the indicative funding attributable to the devolved administrations.
- At annual Budgets and other events, HM Treasury assigns comparability percentages of 0 or 100 for use in the formula, depending on whether the changes in planned UK government spending correspond to devolved functions or services.

2.4 HM Treasury has developed principles and rules to determine whether and how funding is allocated to the devolved administrations, as set out in its Statement of Funding Policy (SFP), first published in 1999. HM Treasury seeks to ensure that the UK government's decisions on funding allocations are made in accordance with these rules and principles. The SFP states that if there is a disagreement between Treasury ministers and devolved administrations about any aspect of funding determinations, the relevant devolved administration can pursue the matter with Treasury ministers and raise through the Joint Ministerial Committee.[24]

2.5 The SFP lists the comparability factors for UK government departments and their spending programmes and determines whether consequential amounts of funding should be paid to the devolved administrations under the Barnett formula. HM Treasury's assessment and categorisation of spending programmes is determined by whether:

- the service or activity is reserved or devolved; and
- the service or activity is of national significance.

2.6 The SFP is HM Treasury policy and it is updated at every spending review. HM Treasury shares a draft of the SFP with the devolved administrations so that they can review and comment on the classification of spending programmes as devolved or reserved. But, as the SFP is a HM Treasury policy document, they are not invited to formally approve the final version before it is published. The Scottish Government told us that it had little opportunity to scrutinise the list of programmes and comparability factors before the Spending Review 2015.

Categorisation of spending programmes

2.7 Applying the SFP is straightforward where services and functions are fully devolved but more complex in areas where HM Treasury's decisions on categorisations may be more subjective. For example, funding allocated to railways infrastructure in England does not always result in consequential amounts of funding for all devolved administrations (**Figure 7**).

24 The Joint Ministerial Committee is chaired by the Prime Minister and brings together the leaders of the devolved administrations.

Figure 7
Decisions on funding railways infrastructure

Categorising the High Speed 2 and Crossrail infrastructure projects

The Department for Transport is the sponsor of High Speed 2, a £55.7 billion programme to build a high-speed rail line between London and the north of England.

HM Treasury assessed the project as bringing benefits to both England and Wales as national rail infrastructure is reserved to the UK government in England and Wales but devolved in Scotland and Northern Ireland. This meant that the Barnett formula would apply in calculating consequential allocations of funding to Scotland and Northern Ireland, but Wales would not be eligible for additional funding.

For the Crossrail project, a line which when operational will run from Reading in Berkshire to Shenfield and Abbey Wood in East London, the Department for Transport and Transport for London established a £14.8 billion funding package (comprising grant funding from both organisations, borrowing and contributions from businesses) to build the infrastructure. The decision to invest was based on forecast growth to the population in London and the South East and resulting increased demand for public transport.

HM Treasury categorised the project as local transport (England), which entitled the devolved administrations to consequential funding via the Barnett formula – around £500 million to Scotland, along with additional funding for Wales and Northern Ireland – as local transport is devolved in all three nations. The devolved administrations are free to spend the additional funding according to their own priorities.

Sources: National Audit Office, *Departmental Overview: Department for Transport*, January 2019; Comptroller and Auditor General, *Crossrail*, Session 2013-14, HC 965, National Audit Office, January 2014; House of Lords Select Committee on the Barnett Formula, *The Barnett Formula*, First Report of Session 2008-09, HL 139, July 2009

2.8 HM Treasury also determines how it will fund changes in the UK government's spending plans. Funding for changes in priorities may come from a variety of sources: taxation, efficiency savings, cuts made in one area of government to fund another, or funding allocated from the Central Reserve. The Reserve is a contingency fund established by the government to meet the costs associated with unforeseen events that government departments (and devolved administrations) cannot be expected to meet from within their existing resources. HM Treasury decides how it will use the Reserve to allocate funds across the nations according to where they are most needed. HM Treasury guidance states that "…drawdown of funding from the Reserve is subject to an assessment of need, realism and affordability at the time at which the funds are released".[25] HM Treasury told us that the Barnett formula applies to funding from the Reserve that is allocated to UK government departments where there are similar pressures on spending in Scotland, Wales and Northern Ireland. But there are some exceptions where funding from the Reserve is allocated to a specific region of the UK. For example, £410 million allocated to Northern Ireland via the "confidence and supply agreement" was funded from the Reserve.[26] HM Treasury told us that as this funding was not linked to a change in the funding allocated to UK government departments, it did not trigger Barnett consequentials.

25 HM Treasury, *Consolidated Budgeting Guidance 2018 to 2019*, February 2018.
26 This funding was allocated to the Northern Ireland Executive for the 2018-19 financial year.

Barnett consequentials

2.9 At the 2018 Autumn Budget changes in UK government spending plans were announced that resulted in Barnett consequential payments totalling £960 million for Scotland, £554 million for Wales and £325 million for Northern Ireland. This extra funding stemmed from a variety of UK government spending decisions and increased allocations to the devolved administrations for the 2018-19, 2019-20 and 2020-21 financial years. More than 50% of the consequential amounts of funding for the devolved administrations were generated because of additional funding being allocated to NHS England (**Figure 8**). The devolved administrations are not required to spend the additional funding on the same service or area of spending as the UK government.

2.10 Other UK government decisions included allocating additional funding (£160 million in 2019-20) to police forces in England and Wales to spend on counter terrorism policing. This benefited the devolved administrations in Scotland and Northern Ireland through Barnett consequentials amounting to £19.8 million. Other consequential amounts included £1.6 million for the devolved administrations when Coventry was chosen as the winner of the UK City of Culture 2021, in a competition organised by the Department for Digital, Culture, Media & Sport, and awarded £8.5 million.

Direct funding allocations

2.11 In addition to funding allocated to the devolved administrations via the Barnett formula, HM Treasury allocates direct, special or ad hoc funding (sometimes referred to as 'non-Barnett additions') to the devolved administrations. Since the Budget 2016, the UK government has provided additional funding to Scotland, Wales and Northern Ireland for regenerating and developing their cities and institutions (**Figure 9** on page 26 and **Figure 10** on page 27).[27]

27 'City deals' within Scotland, Wales and Northern Ireland are partnerships between the UK government and the relevant devolved administration, and typically involve the devolved administrations matching the funding provided by the UK government. Local private and public sector partners may also contribute funding.

Figure 8

Examples of UK government funding announced at the Budget 2018 that resulted in Barnett consequentials for the devolved administrations

Beneficiary of UK government funding	UK government department	Funding allocated to UK government department (£m)	Barnett consequentials Scotland (£m)	Barnett consequentials Wales (£m)	Barnett consequentials Northern Ireland (£m)
National Health Service	Department of Health & Social Care	5,641	550.0	317.0	184.8
Local road maintenance	Department for Transport	420	41.0	23.6	13.8
Schools capital	Department for Education	400	39.0	22.5	13.1
Social care	Ministry of Housing, Communities & Local Government	890	86.8	50.0	29.2
Youth endowment fund	Home Office	200	18.5	0	6.2
Coventry city of culture	Department for Digital, Culture, Media & Sport	8.5	0.8	0.5	0.3
Air ambulance	Department of Health & Social Care	10	1.0	0.6	0.3
Counter terrorism policing	Home Office	160	14.8	0	5.0

Notes

1 Funding allocated to the National Health Service and associated Barnett consequentials are shown net of the ongoing transfers of funding from within existing Department of Health & Social Care budgets (see paragraph 2.16).

2 Wales does not receive Barnett consequentials for UK government funding allocated to the Home Office since the UK government makes policy for England and Wales in this area.

3 Barnett consequentials for Wales are shown net of the needs-based factor (see paragraph 1.11).

Source: National Audit Office analysis of HM Treasury data on funding allocations included at: www.gov.uk/government/publications/block-grant-transparency-december-2018

Figure 9

Examples of non-Barnett additions allocated to the devolved administrations since Budget 2016

Devolved administration and direct beneficiary	Funding (£m)	Comparable UK government department spending programme	Fiscal event
Scottish Government			
Dundee V&A Museum	5.0	DCMS Museums and Galleries	Budget 2016
Aberdeen City Deal	72.2	DCLG City Deals	Autumn Statement 2016
Inverness City Deal	25.2	DCLG City Deals	Autumn Statement 2016
Edinburgh City Deal	60.0	DCLG City Deals	Budget 2017
Welsh Government			
Cardiff City Deal	40.0	DCLG City Deals	Budget 2016
Swansea City Deal	24.0	DCLG City Deals	Budget 2017
North Wales Growth Deal	16.0	DCLG City Deals	Budget 2018
Northern Ireland Executive			
Belfast City Region Deal	40.0	DCLG City Deals	Budget 2018
Belfast Regeneration (fire damage in Belfast city centre)	2.0	Not stated in SFP	Budget 2018

Notes

1 DCMS is the Department for Digital, Culture, Media & Sport. DCLG is the Department for Communities & Local Government, now the Ministry of Housing, Communities & Local Government.

2 SFP is HM Treasury's Statement of Funding Policy.

Source: National Audit Office analysis of HM Treasury published data on funding allocations included in *Block Grant Transparency*, December 2018, available at: www.gov.uk/government/publications/block-grant-transparency-december-2018

Figure 10
UK government funding for city deals

Funding city deals in England

City deals aim to give more power to local leaders to generate economic growth. Since 2012, the UK government has allocated funding to 26 city deals in England. For the first eight deals, the government committed up to £2.3 billion to support around 40 programmes included in the deals, to be spread over a 30-year period. Funding for the 'City deals' spending programme has a comparability factor of 100%, which means that the Department for Communities & Local Government's (DCLG's) spending on cities in England will have affected the funding allocated to the devolved administrations. However, because the Barnett formula is applied at a departmental level at spending reviews, it is not possible to disaggregate the consequential funding the devolved administrations will have received.

Funding city deals in Scotland, Wales and Northern Ireland

The UK government has allocated more than £375 million in funding for city and growth deals in Scotland, Wales and Northern Ireland to the devolved administrations up until 2021, with funding commitments extending beyond this period. In addition to this direct funding for city deals, the devolved administrations will have received consequential amounts of funding following funding allocated to the DCLG to spend on city deals in England. England does not receive consequential amounts of funding from the UK government as a result of direct funding allocated to the devolved administrations.

Sources: National Audit Office analysis of HM Treasury published data on funding allocations included in *Block Grant Transparency*, December 2018, available at: www.gov.uk/government/publications/block-grant-transparency-december-2018; Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 city deals*, Session 2015-16, HC 266, National Audit Office, July 2015; House of Commons Library, *City Deals Briefing Paper*, October 2018

Funding for EU exit

2.12 The UK government has committed more than £4 billion to support activities related to EU exit within UK government departments, with consequential amounts of funding being allocated to the devolved administrations.[28] HM Treasury told us that a total of £98.6 million has been allocated to the Scottish Government, £56.2 million to the Welsh Government and £54.4 million to the Northern Ireland Executive. The devolved administrations are not required to spend this additional funding on activity related to EU exit.

2.13 Decisions as to whether funding results in consequential amounts are based on whether the nature of the planned UK government spending is comparable to functions carried out in the devolved administrations. For example, funding allocated to the Home Office for Border Force activity is a function reserved to the UK government with a comparability factor of 0% in the SFP, so the devolved administrations do not receive consequential funding. HM Treasury told us that some EU exit-related activity may be of a more general nature, so it is more complicated to decide whether the devolved administrations should receive consequential amounts of funding. Without an update to the SFP to set out the comparability factors, HM Treasury has used existing departmental comparability factors to determine consequential amounts for exit-related activity. However, the Scottish Government told us that it had queried how its allocations were calculated with HM Treasury.

28 HM Treasury, *Budget 2018*, October 2018.

Availability and transparency of information

2.14 For the first time, in December 2017, HM Treasury published information on the total amount of block grant funding allocated to the devolved administrations, including the consequential amounts of funding that arise through applying the Barnett formula.[29] HM Treasury shares a more detailed version of this information with the devolved administrations and the devolved administrations can raise any queries about how their allocations have been calculated.

2.15 Unlike UK government departments, the devolved administrations are not involved in direct negotiations with HM Treasury on their funding settlements. The devolved administrations told us that, while they maintain their own records of UK government spending announcements and estimate how much they expect to receive at fiscal events, they will not know the net impact on their budgets until HM Treasury has decided where the money will come from to fund changes to its spending plans. For example, if the government announces 'new' spending that will be funded by cuts to spending in other areas, then Barnett consequentials may be less than expected.

2.16 Because the UK government does not give advance notification of changes in its spending, finance staff at the devolved administrations need to be responsive to UK government spending announcements to understand the potential impact on the funding available to support their spending plans. For example, the devolved administrations told us that they were allocated less funding for 2019-20 than they had expected because of the additional £20.5 billion funding announced for the NHS in England. This was because HM Treasury part-funded the increase for 2019-20 from within existing Department of Health & Social Care budgets and therefore not all of the funding represented additional funding.

29 HM Treasury, *Block Grant Transparency*, December 2017, available at: www.gov.uk/government/publications/block-grant-transparency-december-2017-publication; and Tables 1.1 to 1.6, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/669844/Block_Grant_Transparency.xlsx

Part Three

Comparability of information on UK spending on public services

Spending priorities

3.1 Devolved powers for providing public services enable the devolved administrations to set their own spending priorities and take decisions at a local level. In their budgets for 2019-20, among other spending priorities, the devolved administrations set out plans to invest in transport infrastructure, including £207 million in a rail electrification programme in Scotland and £60 million to maintain and prevent the deterioration of the local roads network in Wales.[30,31] Spending priorities for Northern Ireland focus heavily on health and education.[32]

3.2 In 2017-18, spending on public services per head was £9,080 in England, £10,881 in Scotland, £10,397 in Wales and £11,190 in Northern Ireland (**Figure 11** overleaf).[33,34] This compares to a UK average spend per head of £9,350. From a total UK identifiable actual spend of £617 billion in 2017-18, HM Treasury estimates that England accounts for £505 billion, Scotland £59 billion, Wales £32 billion and Northern Ireland £21 billion.

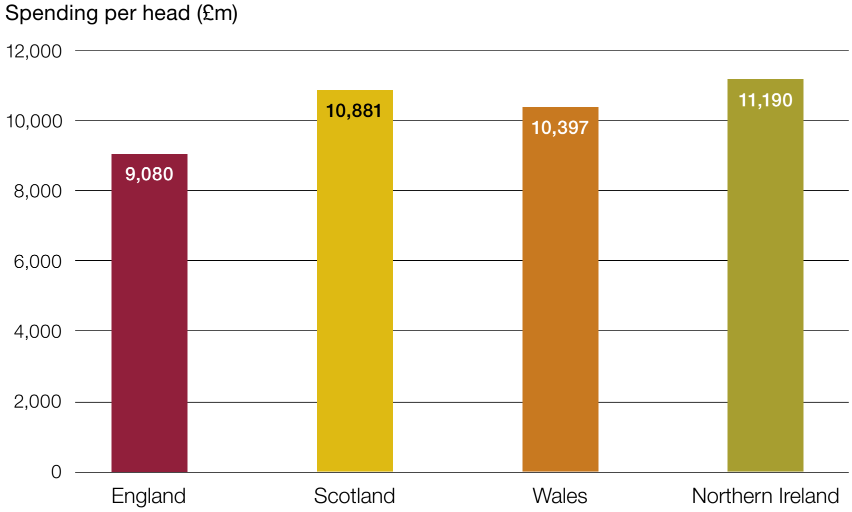
3.3 Different priorities for public services result in variation in spending by policy area and nation. The top five priority areas of spending are broadly consistent across the nations but the amount spent in each area is subject to variation (**Figure 12** on page 31). For example, spending per head on transport in Northern Ireland and Wales (at 2.7% and 3.9% of total spend per head in those nations, respectively) is comparatively lower than in England and Scotland (at 5.2% and 6.1% respectively).

30 Scottish Government, *Scottish Budget 2019-20*, December 2018.
31 Welsh Government, *Draft Budget 2019-20*, October 2018.
32 Department of Finance, 'Northern Ireland Budget 2019-20 announced', 28 February 2019, available at: www.finance-ni.gov.uk/news/northern-ireland-budget-2019-20-announced
33 HM Treasury, *Country and Regional Analysis*, Table A.2, November 2018.
34 Expenditure data includes spending by devolved administrations and spending by UK government departments identified as benefiting individual nations.

Figure 11

Spending per head in England, Scotland, Wales and Northern Ireland 2017-18

The highest actual spend on public services per head in the UK is in Northern Ireland



Notes

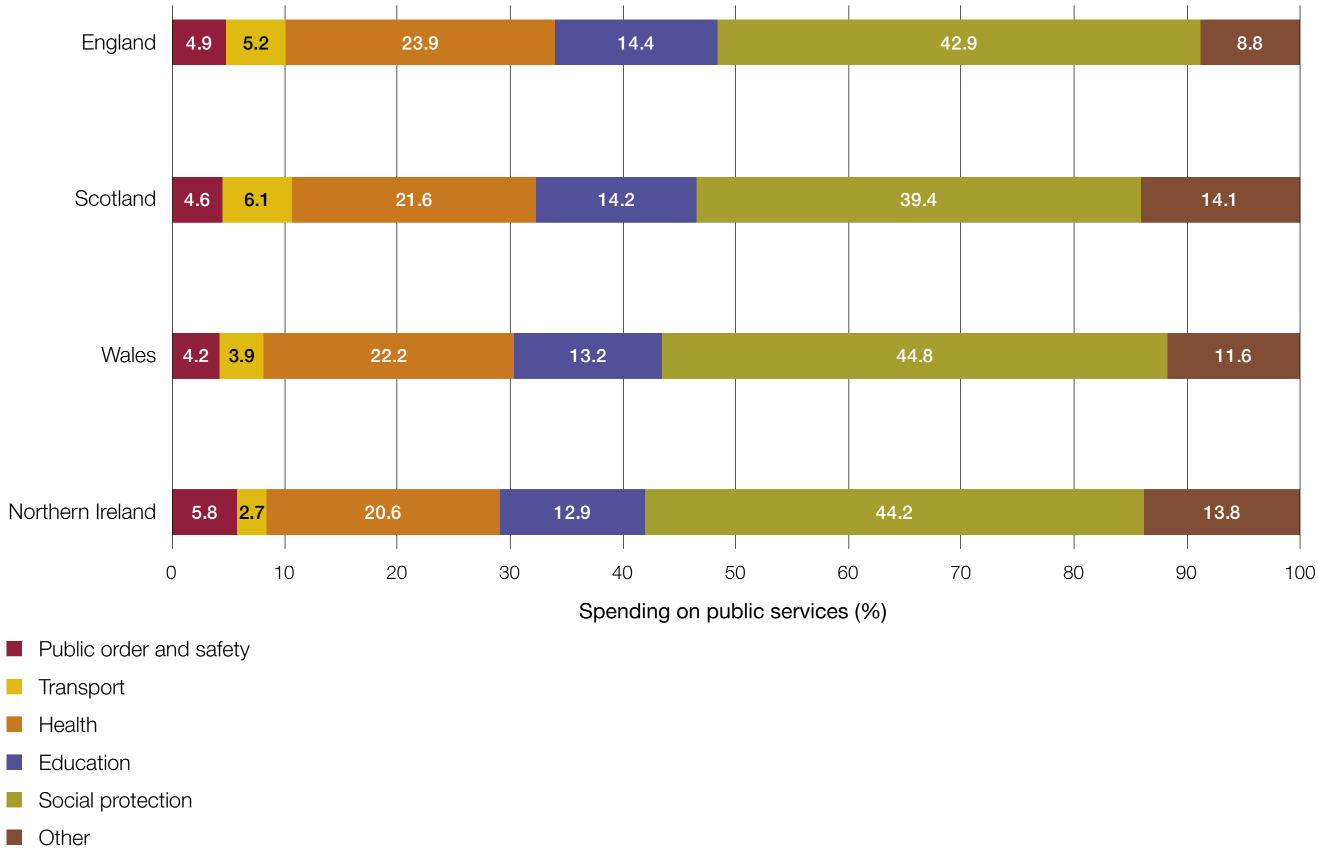
1. These data are based on spending by the devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks UK government departments and devolved administrations to apportion their spending between countries and regions.
2. Data on expenditure cover central government, local government, public corporations and expenditure financed by EU receipts where identifiable.

Source: National Audit Office analysis of HM Treasury, *Country and Regional Analysis*, November 2018

Figure 12

Comparable spending on public services per head in England, Scotland, Wales and Northern Ireland in 2017-18

Proportional spend by each nation on policy areas varies according to their spending priorities



Notes

1 These data are based on spending by the devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks the UK government departments and devolved administrations to apportion their spending between countries and regions.

2 Analysis is not restricted to funding provided by the UK government and includes other sources of funding.

3 Social protection covers a range of spending including the state pension and benefits such as jobseekers allowance and housing benefit.

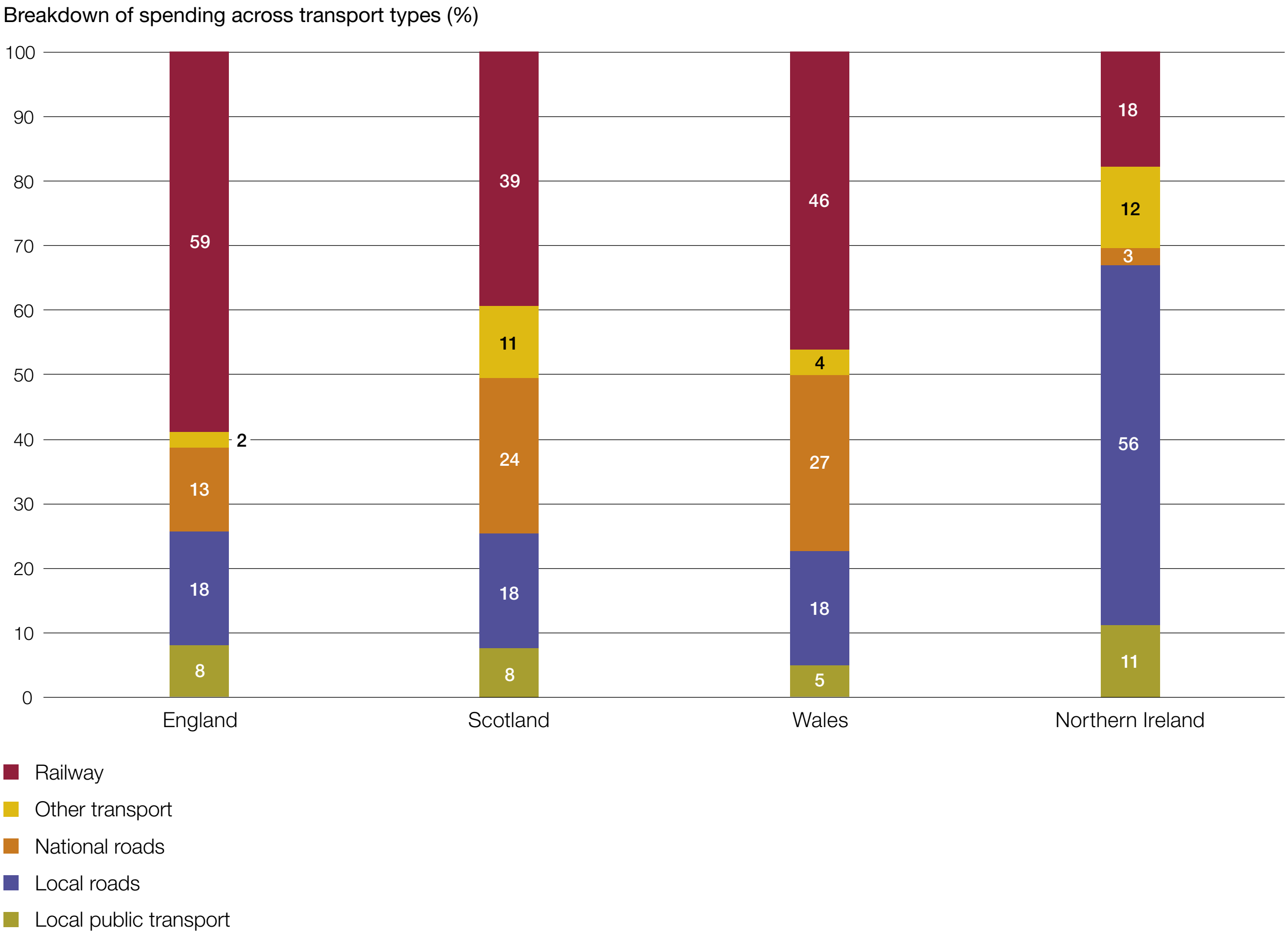
Source: National Audit Office analysis of HM Treasury, *Country and Regional Analysis*, November 2018

3.4 Priorities within a specific policy area vary across the nations. Using transport as an example, 59% of transport-related spending in England is on railways, with 31% on roads, whereas Scotland, Wales and Northern Ireland spend proportionately more on roads and less on railways (**Figure 13**).

Figure 13

Spending on transport in England, Scotland, Wales and Northern Ireland in 2017-18

Priorities within a specific policy area vary across the nations



Notes

1 These data are based on spending by the devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks UK government departments and devolved administrations to apportion their spending between countries and regions.

2 Transport is fully devolved to Scotland and Northern Ireland but not to Wales. While the Welsh Assembly Government may choose to prioritise and allocate funding to transport, decisions on funding major transport infrastructure in Wales are still largely taken by the UK government (Department for Transport).

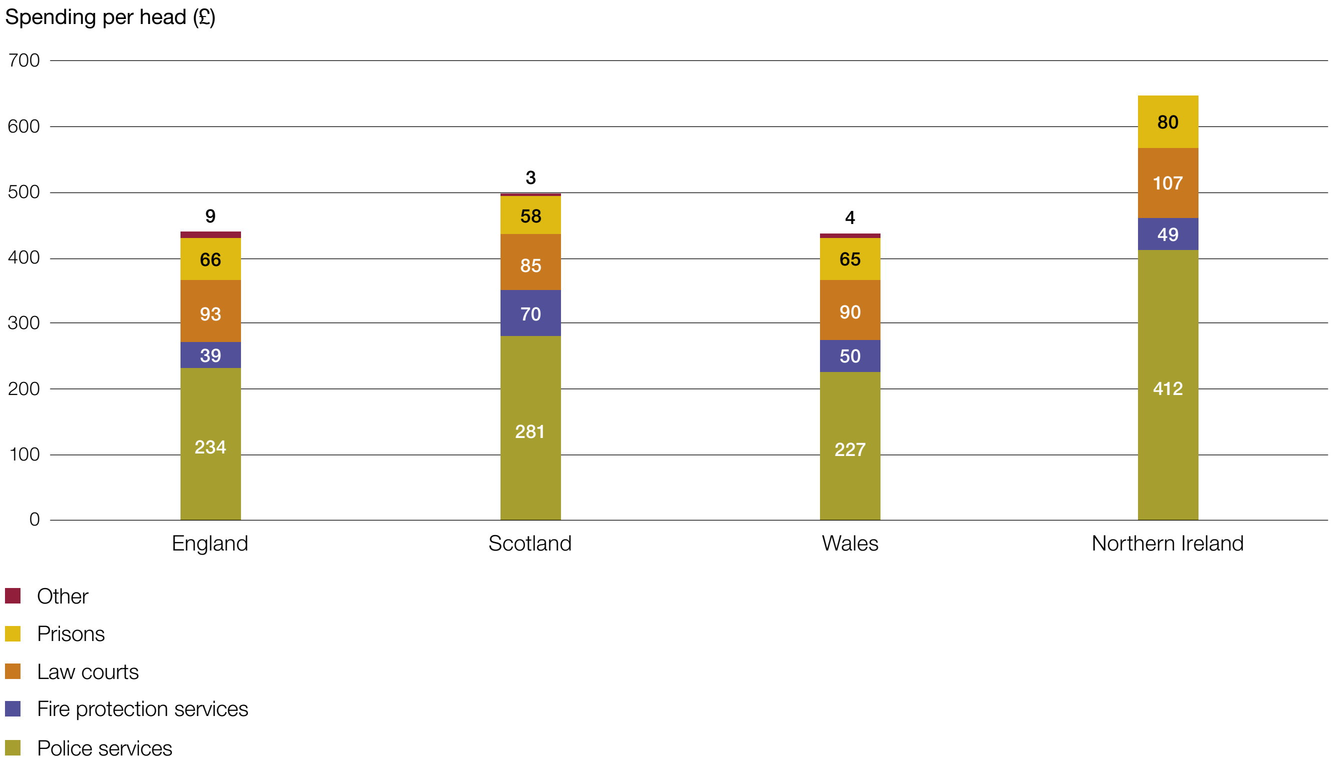
Source: National Audit Office analysis of HM Treasury, *Country and Regional Analysis*, November 2018

3.5 Within the area of public order and safety, Northern Ireland spends significantly more than anywhere else in the UK: £648 per head, compared with £497 per head in Scotland, £441 per head in England and £436 in Wales. Spending per head on police services, law courts and prisons is higher in Northern Ireland than in anywhere else in the UK (**Figure 14**).

Figure 14

Spending per head on public order and safety in England, Scotland, Wales and Northern Ireland in 2017-18

Northern Ireland spends significantly more on public order and safety per head than anywhere else in the UK



Note

1 These data are based on spending by the devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks UK government departments and devolved administrations to apportion their spending between countries and regions.

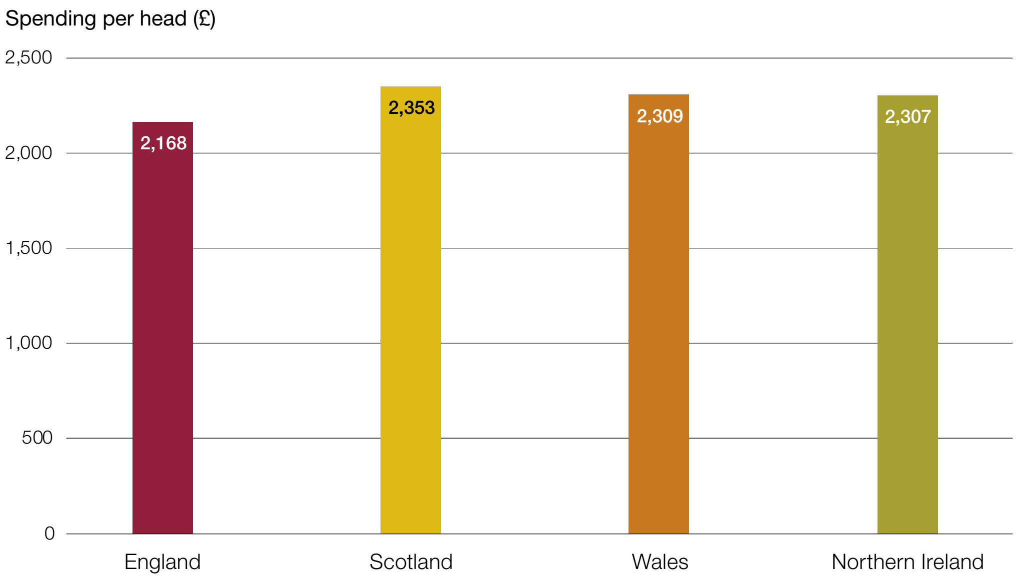
Source: National Audit Office analysis of HM Treasury, *Country and Regional Analysis*, November 2018

3.6 Spending per head on health is higher in Scotland than elsewhere in the UK: £2,353 per head in Scotland, which is 8.5% higher than the £2,168 spend per head in England (**Figure 15**). More than 95% of spending on health in every nation is attributed to 'medical services', with no further detailed breakdown of spending available within this categorisation.

Figure 15

Spending per head on health in England, Scotland, Wales and Northern Ireland in 2017-18

Spending per head on health is higher in Scotland than elsewhere in the UK



Note

1 These data are based on spending by the devolved administrations and UK government departments that can be identified as benefiting the population of individual regions. HM Treasury guidance asks UK government departments and devolved administrations to apportion their spending between countries and regions.

Source: National Audit Office analysis of HM Treasury, *Country and Regional Analysis*, November 2018

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into devolved funding, and specifically how the UK government via HM Treasury determines allocations of funding to the devolved administrations.

2 Our investigation focuses on:

- the way the UK government allocates funding to the devolved administrations and the adjustments that are required, particularly in light of devolution of tax and revenue-raising powers;
- the different UK government funding streams available to the devolved administrations and the mechanisms for calculating and allocating funding; and
- the implications of changes in UK government spending plans and how these impact on the funding allocated to the devolved administrations.

Methods

3 We drew on a variety of evidence sources.

4 We interviewed key individuals from HM Treasury's Devolution Spending team, who are involved in the process of allocating funding to the devolved administrations, to establish their roles and responsibilities and their interactions with the devolved administrations, and to understand what directs HM Treasury's decisions about funding allocations.

5 We conducted semi-structured interviews with finance staff at the devolved administrations to establish their roles and responsibilities and their interactions with HM Treasury, and to understand the practical implications for them of HM Treasury's decisions about funding allocations.

6 At the outset of our work, we spoke to our counterparts at Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office to get their insights into how the devolved administrations are funded and to find out about their interests and publications to date on funding and devolution-related matters.

7 We reviewed documents published by HM Treasury on the funding allocated to the devolved administrations since the Spending Review 2015. We used HM Treasury's published data to analyse the indicative funding allocated to the devolved administrations and how changes in spending plans over time affect subsequent funding allocations.

8 We used HM Treasury's published data to analyse spending on public services by England, Scotland, Wales and Northern Ireland.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

National Audit Office

Design and Production by NAO External Relations
DP Ref: 006532-001

£10.00

ISBN 978-1-78604-250-7

9 781786 042507