

# Embeddedness of UK Devolution Finance within the Public Expenditure System

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HEALD D. and MCLEOD A. (2005) Embeddedness of UK devolution finance within the public expenditure system, *Regional Studies* 39, 495–518. Before devolved government was established in 1999 in Scotland, Wales and Northern Ireland, it was expected that the financing system would become more transparent. In fact, greater transparency about process (i.e. the rules) has not yet been matched by transparency about the numerical operation of a key element in the system, namely the Barnett formula, which regulates the budget envelopes of the devolved administrations. This paper tracks the numerical implementation of the Barnett formula since devolution in order to deepen understanding of how devolution finance is embedded within the UK's public expenditure planning system. Accordingly, data are provided showing the generation of formula consequences for Scotland in each of the UK Spending Reviews 2000, 2002 and 2004. This cannot yet be done for Wales or Northern Ireland because the necessary data are not in the public domain. Then, for all three devolved administrations, the paper chain-links their 'Departmental Expenditure Limits' from one Spending Review to the next. These changes are systematically analysed into six analytical categories developed for the purpose. The empirical results show that the UK devolution financing system cannot be understood simply in terms of applying the Barnett population-based formula proportions to changes in comparable expenditure in England. Finally, practical suggestions are made about the steps necessary to render the system fully transparent.

Barnett formula    Devolution finance    Public expenditure planning    Transparency    UK territorial public finance

HEALD D. et MCLEOD A. (2005) L'ancrage des finances décentralisées britanniques dans le système de finances publiques, *Regional Studies* 39, 495–518. Avant la naissance de l'administration décentralisée en 1999 en Ecosse, au Pays de Galles et en Irlande du Nord, on s'attendait à une meilleure transparence des finances. En effet, une meilleure transparence du processus (autrement dit de la réglementation) n'est pas encore assortie d'une transparence quant à l'opération numérique d'un élément clé du système, à savoir la formule Barnett qui contrôle l'importance de l'enveloppe financière des administrations régionalisées. Dans un premier temps, cet article cherche à faire le suivi de la mise en application numérique de la formule Barnett depuis la décentralisation afin d'approfondir la connaissance de comment les finances décentralisées sont ancrées dans le système de planification des finances publiques au Royaume-Uni. En conséquence, on fournit des données qui montrent pour l'Ecosse les retombées de la formule engendrées suite aux révisions pluriannuelles des dépenses publiques au Royaume-Uni pour les années 2000, 2002 et 2004; on ne peut le faire encore ni pour le Pays de Galles, ni pour l'Irlande du Nord parce que les données qu'il faut ne sont pas disponibles. Dans un deuxième temps, pour toutes les trois administrations décentralisées, l'article cherche à établir un lien entre les limitations des dépenses départementales d'une révision pluriannuelle à une autre. On analyse ces évolutions systématiquement en fonction de six catégories analytiques spécialement conçues. Les résultats empiriques laissent voir que l'on ne peut pas comprendre le système de finances décentralisées britanniques que du point de vue de la mise en application de la formule Barnett au Royaume-Uni, fondée sur la taille de la population, à l'évolution des dépenses comparables en Angleterre. Pour conclure, on propose des démarches à suivre afin de rendre le système transparent à cent pour cent.

Formule Barnett    Finances décentralisées    Planification des finances publiques    Transparence  
Finances publiques britanniques territoriales

HEALD D. und MCLEOD A. (2005) Die Verankerung der britischen Dezentralisierungsfinanzierung im System der öffentlichen Ausgaben, *Regional Studies* 39, 495–518. Vor der Einführung eines dezentralisierten Regierungssystems in Schottland, Wales und Nordirland im Jahre 1999 hatte man erwartet, daß das System der Finanzierung durchsichtiger werden würde. Tatsächlich aber entspricht die Durchschaubarkeit des zahlenmäßigen Funktionierens der Barnettschen Formel, eines Schlüsselementes des Systems, welches die Haushaltszuweisungen der dezentralisierten Behörden bestimmt, der besseren Durchschaubarkeit des Verfahrens, d.h. den Regeln, noch nicht. Dieser Aufsatz verfolgt die numerische Anwendung der Barnettschen Formel seit Inkrafttreten der Dezentralisierung, um besser zu verstehen, wie ein dezentralisiertes Finanzwesen im Planungssystem der öffentlichen Ausgaben des UK verankert ist. Dementsprechend werden Daten bereitgestellt, welche die Schaffung von Folgen der Formel für Schottland in den Ausgabenübersichten der Jahre 2000, 2002 und 2004 darstellen; es ist bisher nicht möglich

gewesen, dies für Wales und Nordirland zu tun, weil die erforderlichen Daten nicht zur Veröffentlichung freigegeben worden sind. Der Aufsatz verknüpft sodann die Ausgaben Grenzen der Ministerien aller drei dezentralisierten Verwaltungsbehörden in eine Abfolge von einer Ausgabenprüfung zur nächsten. Diese Veränderungen werden systematisch analysiert und in sechs analytische, eigens zu diesem Zwecke geschaffenen Kategorien eingeteilt. Die empirischen Ergebnisse zeigen, daß dieses, die Dezentralisierung des UK finanziel unterbauende System nicht einfach als Anwendung der Barnettschen, auf Bevölkerungszahlen beruhenden Formelverhältnisses auf Änderungen vergleichbarer Ausgaben in England verstanden werden können. Abschließend werden praktische Vorschläge im Hinblick auf Schritte gemacht, die notwendig sind, um das System völlig durchsichtig zu machen.

Barnettsche Formel    Dezentralisierungskosten    Veranschlagung öffentlicher Ausgaben    Durchschaubarkeit  
Öffentliches Finanzwesen des Gebietes des UK

HEALD D. y MCLEOD A. (2005) El arraigo de la descentralización financiera en el Reino Unido dentro del sistema de gastos públicos, *Regional Studies* 39, 495–518. Antes de que se estableciera un gobierno descentralizado en Escocia, el País de Gales e Irlanda del Norte en 1999, se esperaba que el sistema financiero se volviera más transparente. De hecho, aunque existe una mayor transparencia en los procesos (esto es, las reglas), tal transparencia no se ha visto reflejada en las operaciones numéricas de un elemento clave del sistema, denominado la fórmula Barnett, la cual regula los paquetes presupuestarios de las administraciones descentralizadas. Este artículo sigue la pista de la implantación numérica de la fórmula Barnett tras la descentralización, con objeto de ofrecer un mejor entendimiento sobre cómo la descentralización financiera está arraigada en el sistema de planificación de los gastos públicos en el Reino Unido. Así pues, se ofrecen datos que muestran la generación de los resultados de la fórmula para Escocia en cada una de las *Spending Reviews* (Revisiones de Gastos) que han tenido lugar en el Reino Unido durante 2000, 2002 y 2004; dichos datos no pueden todavía generarse para el País de Gales e Irlanda del Norte puesto que los datos requeridos no son de dominio público. Seguidamente, para las tres administraciones descentralizadas, el artículo encadena sus *Departmental Expenditure Limits* (Límites Departamentales de Gastos) de una *Spending Review* a la siguiente. Dichos cambios se analizan sistemáticamente en seis categorías analíticas que han sido desarrolladas para tal propósito. Los resultados empíricos obtenidos muestran que la descentralización del sistema financiero en el Reino Unido no se puede entender simplemente en base a la aplicación de proporciones de la fórmula Barnett basadas en la población a los cambios en los gastos que son comparables en el caso de Inglaterra. Por último, se ofrecen recomendaciones prácticas en lo que atañe a los pasos necesarios que se deben tomar para que el sistema se convierta en un sistema totalmente transparente.

Fórmula Barnett    Descentralización financiera    Planificación de gastos públicos    Transparencia    Reino Unido  
Financiación pública territorial

JEL classifications: H61, H77, H83

## INTRODUCTION

Although much criticized by participants and commentators, the expenditure-based devolution finance system for the devolved administrations established in 1999 is really a continuation of the system in the prior period of administrative devolution under territorial Secretaries of State. An expectation before 1999 was that the financing system under devolution would become more transparent. In fact, greater transparency about process (i.e. the rules) has not yet been matched by transparency about the numerical operation of a key element in the system, namely the Barnett formula. In part, this may have been an indirect consequence of the unprecedented growth in resources flowing to the devolved administrations as a result of UK budgetary decisions for England on health and education expenditure. There simply has not been the budgetary scarcity that might otherwise have focused political attention on the detailed mechanisms.

In this paper, the term 'Barnett formula system' refers to a wider set of procedures than the narrow question of determining the incremental changes. It includes, for example, the setting of the baseline to which these changes are applied. The essential idea

behind the Barnett formula is to establish expenditure ceilings for the devolved administrations. The inherited expenditure base is not questioned and changes to total expenditure are determined by the application of the relevant population proportion to changes in comparable expenditure in England. The attraction of this mechanism is partly its mechanical nature, thus limiting transactions costs and avoiding annual conflict between the UK Treasury and the devolved administrations. It also protects the expenditure-switching autonomy of the devolved administrations; they can spend this 'new money' according to their political preferences, without regard to those services in England that have generated the formula consequences.

There is now an extensive literature about the Barnett formula; an authoritative exposition of its application under administrative devolution (i.e. territorial Secretaries of State took decisions) is to be found in HEALD (1994). There is much confusion and misinformation about the operation and impact of the Barnett formula, but there are several expositions (BELL and CHRISTIE, 2001; HEALD and MCLEOD, 2002a; RAWLINGS, 2003). Criticisms of the Barnett formula have reflected diametrically opposite interpretations of its effects. There is a literature on how the Barnett formula

disadvantages Scotland (CUTHBERT and CUTHBERT, 2001), Wales (MORGAN, 2001) and Northern Ireland (GIBSON, 1996), and also literature on how it privileges them, particularly Scotland (MCLEAN, 2001, 2003).

It is not the purpose of this paper to add to the literature about the merits or otherwise of the Barnett formula, either the general issue of having a formula or the parameters of the existing formula. These are covered elsewhere, with MCLEAN (2000) as critic and MIDWINTER (2002) as defender. Instead, this paper tracks the numerical implementation of the Barnett formula since devolution, in order to deepen understanding of its operation within the UK's public expenditure planning system. Slowly, the data necessary to achieve this objective have come into the public domain.

Accordingly, this paper emphasizes those aspects of formula operation that are relevant to demonstrating the formula in operation in the context of political devolution. Using data that have not previously been available, it has three key objectives. The first is to place in the public domain some examples, albeit not fully complete, of numerical transparency about formula operation. The second is to demonstrate how the embeddedness of devolution finance within the UK public expenditure system affects its operation. Without this understanding and sufficiently disaggregated data, efforts to detect whether there is 'convergence' of per capita expenditure are doomed to failure. The third is to make proposals as to how transparency can be improved, for example by routine publication of special analyses.

The paper is structured as follows. The role the Barnett formula plays in establishing the expenditure ceilings of the devolved administrations is first explained. Then, taking Scotland as the example because of the greater availability of data, the process whereby changes in comparable expenditure in England generate formula consequences for Scotland is carefully tracked. The calculated totals reconcile with those published at the time of the 2002 and 2004 UK Spending Reviews (SR). The next step is to chain-link expenditure totals in SR 2000 to those in SR 2002, and again from SR 2002 to SR 2004. This can be done for Scotland, Wales and Northern Ireland, disaggregating changes into specially designed categories so that the importance of formula consequences relative to other changes can be precisely established. Based on this empirical work, recommendations are made for improvements in the system, particularly with regard to data transparency.

## **DETERMINING THE EXPENDITURE CEILINGS OF THE DEVOLVED ADMINISTRATIONS**

### *Architecture of the funding system*

Essentially there are three elements in the funding of the devolved administrations:<sup>1</sup> the 'Assigned Budget' or

'block grant' (which is Departmental Expenditure Limit, DEL); the 'Non-assigned Budget' (which is also DEL); and expenditure within Annually Managed Expenditure (AME). These are supplemented by: the income of the devolved administrations themselves and that of other public bodies; and, in the case of Scotland alone, the product (possibly negative) if the Scottish Parliament uses its power of variation of the basic rate of income tax (popularly known as the 'tartan tax').

Table 1 provides a schematic representation of the public expenditure regime for the devolved administrations. Details of the composition of the Assigned Budgets are provided in the Treasury's funding guide (H.M. TREASURY, 2004b, ch. 10), with separate diagrams there for Scotland, Wales and Northern Ireland. However, those diagrams are only updated at the time of the biennial Spending Review, and can become outdated. Table 1 represents the position as at the July 2004 SR 2004, with some interpretative comments made in the notes.

The so-called block grant should not be confused with the payments into the Scottish and Northern Ireland Consolidated Funds, and to the National Assembly for Wales (NAW) made by the respective Secretary of State. Effectively, the Assigned Budget is an expenditure consent granted by the UK government for the services over which the devolved administrations have full responsibility for the allocation of expenditure. It is changes in that part, and that part alone, of the devolved administrations' budgets that are determined by the Barnett formula. The Assigned Budget is funded, as is the Non-assigned Budget and expenditure within AME, partly by the cash payments from the Secretary of State, but also by borrowing, local taxation, and other receipts, including those from the European Union (EU).<sup>2</sup> The devolved administrations have control over the composition of expenditure within the Assigned Budget. Moreover, because this is DEL, UK rules about End-Year Flexibility (EYF) mean that unspent amounts can be carried forward to the next financial year.<sup>3</sup>

The Non-assigned Budget comprises items, within DEL, for which the allocation of expenditure is determined in accordance either with UK policy or with EU regulations. Devolved administrations are not able to divert these allocations to other purposes, though they are expected to make good any expenditure overrun. Welfare to Work and Less Favoured Area Support Schemes (formerly Hill Livestock Compensation Allowances) were in the Non-assigned Budget in the first and second editions (H.M. TREASURY, 1999, 2000a) of the Statement of Funding Policy, but not in the third (H.M. TREASURY, 2002a). Currently the only example of expenditure within DEL but outside the Assigned Budget is the EU Peace and Reconciliation Programme in Northern Ireland (DEPARTMENT OF FINANCE AND PERSONNEL, 2001). For each devolved administration, the amounts of the Non-assigned

Table 1. Representation of the UK devolved public expenditure regime (as at July 2004)

| Assigned Budget  | Non-assigned Budget                   |  |
|--|---------------------------------------|--|
| Departmental expenditure limit (DEL)   | Annually managed expenditure (AME)    |  |
| Barnett formula determined   | Non-Barnett determined                | Main programme spending AME:   |
| Expenditure by each devolved administration defined by the UK Treasury to be comparable with expenditure in England. The coverage of devolved expenditure differs <sup>1</sup> | EU Peace Programme (Northern Ireland) | Common Agricultural Policy (CAP) <sup>2</sup>  |
|  |                                       | Social security benefits (Northern Ireland)  |
|  |                                       | Housing support grant (Scotland)   |
|  |                                       | Housing Revenue Account Subsidy (Wales)  |
|  |                                       | NHS and teachers' pensions (Scotland and Northern Ireland) <sup>3</sup>  |
|  |                                       | <b>Other AME:</b>  |
|  |                                       | Certain accrual items such as capital charges on roads network; the non-cash costs of the water service (Northern Ireland); and non-cash costs of GB local authority functions discharged by 'central government' (Northern Ireland) |
|  |                                       | Supporting people  |
|  |                                       | Educational Maintenance Allowances   |
|  |                                       | Local authority business growth incentive scheme (Wales)   |
|  |                                       | Certain Reinvestment and Reform Initiative self-financed borrowing (Northern Ireland)  |
|  |                                       | Local Authority (District Councils in Northern Ireland) Self-Financed Expenditure  |
|  |                                       | Scottish Non-domestic Rates  |
| Regional Rates (Northern Ireland)  |                                       |  |
| Scottish Variable Rate of Income Tax   |                                       |  |

Notes: <sup>1</sup>For information on the exact coverage, which differs between the devolved administrations, see the separate diagrams in H.M. TREASURY (2004b).

<sup>2</sup>CAP modulation, which is explained in note 21, is from SR 2004 part of Assigned Budget DEL, with the devolved administrations receiving Barnett formula consequences from changes in DEFRA's DEL. Previously, CAP modulation was informally part of Non-assigned Budget DEL. These arrangements were not made clear in H.M. TREASURY (2002a, 2004b).

<sup>3</sup>The complex issues concerning the public expenditure scoring of (public employee) pensions are briefly explained in note 5, which summarizes recent important changes.

Source: H.M. TREASURY (2004b), from which the three separate figures have been converted by the authors into this unified funding diagram.

Budget DEL were determined in bilateral negotiations with the Treasury. However, Non-assigned Budget DEL was never numerically important and is now disappearing.<sup>4</sup>

Two markedly different kinds of expenditure are scored as AME. The first (Main Programme spending AME) is expenditure heavily influenced by EU and UK policy-making. The principal instances are spending on: the Common Agricultural Policy (CAP); social security benefits (Northern Ireland); housing support (Scotland and Wales); and National Health Service and teachers' pensions (Scotland and Northern Ireland).<sup>5</sup> The second (Other AME) reflects the, albeit limited, discretion enjoyed by the devolved administrations over their total budget: e.g. Certain Reinvestment & Reform Initiative self-financed borrowing in Northern Ireland<sup>6</sup>; Local Authority Self-Financed Expenditure; Scottish Non-Domestic Rates; Northern Ireland Regional Rates;

and the Scottish variable rate of income tax. The amounts of the first kind are settled bilaterally with the Treasury; those of the second are settled, or influenced, by the devolved administrations. Also in Other AME, for technical reasons, are certain accrual items such as capital charges for roads.

#### Origins of the Barnett formula

Some critics of the UK devolution finance system regard the Barnett formula as an aberration, if not also as an abomination. It is therefore important to emphasize the durability of territorial formula mechanisms, as that suggests that some value has been placed on having a quasi-automatic mechanism to govern changes in certain territorial public expenditure relativities. The embeddedness of territorial allocation within the UK public expenditure system is therefore not new,

rather that its context is changed by there now being separately accountable devolved administrations. These are therefore now allocations between governments, not within a government.

Moreover, the Barnett formula is not the first such UK mechanism. In 1888, the then Chancellor of the Exchequer, Mr George Goschen MP, announced in his Budget Statement the distribution of a predecessor of revenue support grant to local authorities on the basis of a formula giving 80% to England (actually, England and Wales), 11% to Scotland and 9% to Ireland.<sup>7</sup> Thereafter, Scotland received 11/80ths of the support given to England and Wales over a wide range of expenditure. It was even enshrined in statute for certain education expenditure from 1918 to 1959. The use of that formula was formally discontinued in 1959, in parallel with the introduction of the 1961 Plowden public expenditure reforms (MACPHERSON and RAAB, 1988).

From 1959 to 1978, the budget of the Scottish Office was determined in the same way as that of other government departments under the Public Expenditure Survey arrangements, basically by negotiation between the Secretary of State and the Treasury on a service-by-service basis. The negotiations may have been affected by the Goschen legacy, in that 11/80ths of England and Wales provision may have been seen as a minimum. Notwithstanding the formal 1957 announcement of its impending retirement, it is entirely possible that the Goschen formula, or something quite like it, was used informally for some allocations even after its formal use was discontinued.<sup>8</sup>

During the protracted proceedings on devolution in the 1970s, the then Labour Government proposed that the funding of the devolved assemblies in Scotland and Wales should be determined by a new formula; this would give the Assemblies a set proportion of English expenditure on the same services as those which were to be devolved (CABINET OFFICE, 1977), though with freedom to vary the composition of expenditure. That formula was to be determined, in consultation with the Assemblies, on the basis of a needs assessment, and would be reviewed, again taking account of changing relative need, from time to time (perhaps every four years to coincide with the term of the Assemblies). Since these arrangements were only to be finalized in consultation with the Assemblies, they clearly could not be put in place initially. However, neither the White Papers nor the Parliamentary proceedings during the passage of the Bills which became the Scotland Act 1978 and the Wales Act 1978, addressed the question of how provision was to be determined in the period before the new arrangements were agreed and came into effect.

The Barnett formula seems to have been originally an interim arrangement for use until the needs-based arrangements could be negotiated and implemented. It was used, for the first time, in the determination of the Scottish Office budget in the 1978 Public Expenditure

Survey (1979–80 being the effective first year); that would have, in turn, determined the initial budget of the Scottish Assembly, had it been set up. The incoming Conservative Government in 1979 continued with the use of the formula, perhaps because of the benefit of an automatic process compared to negotiation for what was a relatively small part of total public expenditure. At the same time, the Conservative Government introduced the ‘Scottish block’ – that part of the Scottish Office budget primarily determined by the Barnett formula. This meant that the Secretary of State for Scotland was able to determine the distribution of expenditure within the block, without having to agree this, service by service, with the Treasury. The formula was subsequently extended to Wales and Northern Ireland, with 1981–82 being the effective first years (HEALD, 1994).

#### *Operation of the Barnett formula*

Originally, the Barnett formula allocated 10/85ths of the increases in comparable English provision to the Scotland programme, and 5/85ths to Wales. (When comparability for Scotland related to England and Wales, because services were jointly delivered, 11/90ths was used.) This was based on rounded percentages of the Great Britain population (85% England, 10% Scotland and 5% Wales). The latest published actual proportions at the time were England 85.31%, Scotland 9.57% and Wales 5.12%. When it was introduced in Northern Ireland, the formula was set at 2.75% of changes in GB provision, whereas the exact population proportion was 2.79%.

The formula applied, and still applies, not to the total provision, but only to the increases (or decreases) in allocations made in successive Public Expenditure Surveys, now Spending Reviews. The greater expenditure per head of population in the territories comes not from the Barnett formula, but from the existing expenditure levels when the block and formula arrangements were established.

The formula itself was adjusted in 1992 to reflect the actual relative populations, and it is now updated annually on the basis of mid-year population estimates,<sup>9</sup> though there is in practice a lag.<sup>10</sup> At the implementation of devolution in July 1999, the Barnett formula percentages, now expressed relative to England, were: Scotland 10.39%, Wales 5.94% and Northern Ireland 3.40% (H.M. TREASURY, 1999, annex B).

At devolution, use of the Barnett formula was continued, with a number of adjustments made to the composition of the respective blocks, now renamed the Assigned Budgets. The intention to use the formula as the basis for funding devolution was announced in the July 1997 White Papers for Scotland and Wales (SCOTTISH OFFICE, 1997; WELSH OFFICE, 1997). A similar announcement was made for Northern Ireland; the operation of its funding system has recently

converged in a number of ways with that for Scotland (HEALD, 2003a). The Barnett formula has no legislative backing, and could, in principle, be abolished at any time.

The Barnett formula has aroused much controversy, both in that it is perceived to guarantee the territories an advantageous position and, conversely, in that it results in a diminishing share of UK expenditure for them. There is, undoubtedly, higher expenditure per head in the territories on devolved services than there is on comparable services in England, though systematic figures are not published.

However, one of the effects of the formula is to converge, albeit over a long period, expenditure per head on the services covered by the formula in the territories towards that in England. This results from incremental expenditure being allocated to the devolved administrations on a population basis, whereas their existing expenditure per head is significantly higher than the UK average. Over time, the cumulative increments determined by the population-based formula come to dominate the inherited base, thus converging expenditure on the UK per capita average.<sup>11</sup> There has been considerable discussion as to why it is difficult to find empirical evidence of such convergence. The most important factors appear to be: bypass of the formula, particularly in the 1980s; relatively low growth in nominal public expenditure in the 1990s; and, in the case of Scotland, continuing falls in relative population, thus offsetting the convergence effect. More evidence of convergence is now to be expected, owing to: fewer opportunities for formula bypass; unprecedentedly high rates of growth of comparable expenditure in England; annual updating of the formula to reflect changes in relative population; and the fact that the formula now applies to a greater proportion of expenditure increases.<sup>12</sup>

Two specific provisions in the Statement of Funding Policy (H.M. TREASURY, 2004b) deserve attention at this point. First, the Treasury has the right to claw back from the Assigned Budget those amounts it determines if it deems that there is excessive growth in Local Authority Self-Financed Expenditure. Second, the Treasury has the right to impose across-the-board reductions in public expenditure, a mechanism that would be disadvantageous to the devolved administrations relative to the same total of UK public expenditure reductions being implemented using the Barnett formula.<sup>13</sup>

### CALCULATION OF FORMULA CONSEQUENCES

To monitor the operation of the Barnett formula in successive Spending Reviews, two separate elements need to be considered: the calculation of the formula consequences following the changes made to provision for relevant English departments; and the changes

made to the baseline (to which the consequences are applied).<sup>14</sup>

Table 2 shows the detail of the calculation of the formula consequences for Scotland in SR 2000. It was only possible to construct the table (and the corresponding Table 3 for SR 2002) because of the persistence of the Westminster Scottish Affairs Committee, which acquired the underlying data from the SCOTLAND OFFICE (2002a, b, 2003). It is not possible to produce these calculations, at this level of precision, from the information published on UK departments at the time of the Spending Reviews, or in the Treasury's annual *Public Expenditure: Statistical Analyses (PESA)*. Even as recently as the SR 2004 settlement, information on incremental changes by English department is heavily rounded (H.M. TREASURY, 2004a, table A3), and not in a form suitable for combination with the comparability percentages<sup>15</sup> published in the Statement of Funding Policy (H.M. TREASURY, 2004b).

Columns (1–4) in Part A of Table 2 reproduce data from the Scotland Office memorandum (SCOTLAND OFFICE, 2002a), showing the aggregate increments over baseline in SR 2000 for relevant UK departments. 'Departments' is a slightly loose term, but it is the one used by government. In fact, the (then) Department of the Environment, Transport and the Regions is split into three (Transport, Local Government and Other) and the Legal Departments and the Lord Chancellor's Departments are combined.

Column (5) shows the 'Comparability percentage' for Scotland relative to each of the departments;<sup>16</sup> and column (6) shows the population proportion used in SR 2000. That for the Home Office and the Legal Departments is different from the others since the appropriate comparison is with England and Wales rather than with England. It should be noted that comparability operates at the departmental programme level, in part because late changes to the total spending plans of UK departments responsible for comparable expenditure in England do not necessarily involve there being compositional breakdowns at the time the formula consequences have to be calculated. On occasions the devolved administrations may gain from this averaging (i.e. the item of expenditure that will actually go up is not itself comparable), and sometimes lose.<sup>17</sup>

Columns (7–9) are the products of the aggregate increments, the comparability percentages and the population proportions. The totals of these columns are the formula consequences for the years in question. The figures in columns (7–9) are there simply to show the detail of the calculation. There is no implication that these additions are for the equivalent services in Scotland, though interest groups connected to those services may try to claim them.

The amounts so calculated for the formula consequences (£796 million, £1928 million and £2995

Table 2. SR 2000 outcome: programme additions by UK department and the calculation of formula consequences for Scotland

| Part A: Generation of formula consequences                                 |   |                  |                  |                                  |                                    |  |  |  |
|--|---|------------------|------------------|----------------------------------|------------------------------------|--|--|--|
| Department<br>(1)  | Programme additions<br>(resource + capital) |                  |                  | Compa-<br>rability<br>(%)<br>(5) | Population<br>factor<br>(%)<br>(6) | Formula consequences                   |  |  |
|  | 2001–02                                     | 2002–03          | 2003–04          |                                  |                                    | 2001–02                                | 2002–03                                | 2003–04                                |
|  | £millions<br>(2)                            | £millions<br>(3) | £millions<br>(4) |                                  |                                    | £millions<br>(7)<br>(2) × (5)<br>× (6) | £millions<br>(8)<br>(3) × (5)<br>× (6) | £millions<br>(9)<br>(4) × (5)<br>× (6) |
| Department for Education and Employment                                    | 1600  | 3770             | 5960             | 93.3                             | 10.34                              | 154                                    | 364                                    | 575                                    |
| Health   | 2760  | 7740             | 12 310           | 99.7                             | 10.34                              | 285                                    | 798                                    | 1269                                   |
| Department of the Environment, Transport<br>and Regions – Transport        | 1000  | 2450             | 4100             | 71.2                             | 10.34                              | 74                                     | 180                                    | 302                                    |
| Department of the Environment, Transport<br>and Regions – Local Government | 260   | 1130             | 1820             | 96.5                             | 10.34                              | 26                                     | 113                                    | 182                                    |
| Department of the Environment, Transport<br>and Regions – Other            | 650   | 3090             | 5710             | 56.4                             | 10.34                              | 38                                     | 180                                    | 333                                    |
| Home Office  | 1560  | 2240             | 2580             | 92.3                             | 9.77                               | 141                                    | 202                                    | 233                                    |
| Legal Departments  | 310   | 370              | 390              | 97.8                             | 9.77                               | 30                                     | 35                                     | 37                                     |
| Trade and Industry   | 1020  | 710              | 650              | 20.2                             | 10.34                              | 21                                     | 15                                     | 14                                     |
| Agriculture  | 210   | 300              | 330              | 84.3                             | 10.34                              | 18                                     | 26                                     | 29                                     |
| Forestry   | 10  | 10               | 10               | 100.0                            | 10.34                              | 1                                      | 1                                      | 1                                      |
| Department for Culture, Media and Sport                                    | 80  | 130              | 200              | 95.3                             | 10.34                              | 8                                      | 13                                     | 20                                     |
| Chancellor's Departments   | 350   | 550              | 580              | 2.1                              | 10.34                              | 1                                      | 1                                      | 1                                      |
| Cabinet Office   | 120   | 120              | 190              | 0.1                              | 10.34                              | 0                                      | 0                                      | 0                                      |
| Calculated total   |   |                  |                  |                                  |                                    | <b>796</b>                             | <b>1928</b>                            | <b>2995</b>                            |
| Rounding error   |   |                  |                  |                                  |                                    | <b>4</b>                               | <b>12</b>                              | <b>5</b>                               |
| Published total  |   |                  |                  |                                  |                                    | <b>800</b>                             | <b>1940</b>                            | <b>3000</b>                            |

  

| Part B: Reconciliation to published figures |             |             |              |                             |             |             |
|---|-------------|-------------|--------------|-----------------------------|-------------|-------------|
|   | 1999–2000   | 2000–01     | SR 2000      | Provision following SR 2000 |             |             |
|   | Planned     | Planned     | Baseline for | 2001–02                     | 2002–03     | 2003–04     |
|   | expenditure | expenditure | 2001–02      | 2001–02                     | 2002–03     | 2003–04     |
|   | £millions   | £millions   | £millions    | £millions                   | £millions   | £millions   |
| Total DEL                                   | 13 670      | 15 050      | 15 430       | 16 230                      | 17 370      | 18 430      |
| Increase over baseline                      |             |             |              | <b>800</b>                  | <b>1940</b> | <b>3000</b> |
| Increase over 2000–01 planned expenditure   |             |             |              | 1180                        | 2320        | 3380        |

Notes: 1. Figures in Part B are rounded to the nearest £10 million.

2. England and Wales population proportions apply in the cases of the Home Office and the Legal Departments.

Sources: Columns (1–4) SCOTLAND OFFICE (2002a); columns (5–6) H.M. TREASURY (2000a); columns (7–9) authors' own calculation.

million for 2001–02, 2002–03 and 2003–04, respectively) are consistent with those stated in the SCOTLAND OFFICE (2002a) memorandum (£800 million, £1940 million, £3000 million) as the increases over baseline. The small differences can probably be explained by the rounding in the memorandum of the numbers for additions to the nearest £10 million, and so they are reported as rounding errors. Part B of Table 2 reconciles the calculated figures in Part A to the totals published in the SR 2000 settlement (H.M. TREASURY, 2000b).

Parallel analyses for SR 2002 (H.M. TREASURY, 2002b) and SR 2004 (H.M. TREASURY, 2004a) are provided in Tables 3 and 4, respectively. An indication of greater transparency is that the data in Table 4 for SR 2004 formula consequences were supplied to the researchers by the Scottish Executive Finance Group on request.

The results reported in these tables are important for three reasons. First, they show the Barnett formula in action, a level of transparency that has hitherto been missing for Scotland and is still absent for Wales and Northern Ireland. Second, they confirm the extent to which increases in the Assigned Budget in the early years of devolution are being driven by education and health spending. These two departments accounted for 60% of formula consequences for Scotland in SR 2000, increasing to 68% in both SR 2002 and SR 2004. A change in UK machinery of government, namely the formation of the Department for Education and Skills (as opposed to the Department of Education and Employment), resulted in this particular comparability percentage for Scotland increasing from 93.3% in SR 2000 to 99.7% in SR 2002. Third, the tables show the effect of updating the population proportions. Expressed in terms of current practice, the original

Table 3. SR 2002 outcome: programme additions by UK department and the calculation of formula consequences for Scotland

| Part A: Generation of formula consequences  |   |                                     |                                      |                                  |                                    |  |  |  |
|---|---|-------------------------------------|--------------------------------------|----------------------------------|------------------------------------|--|--|--|
| Department<br>(1)                           | Programme additions<br>(resource + capital) |                                     |                                      | Compa-<br>rability<br>(%)<br>(5) | Population<br>factor<br>(%)<br>(6) | Formula consequences                   |  |  |
|   | 2003–04                                     | 2004–05                             | 2005–06                              |                                  |                                    | 2003–04                                | 2004–05                                | 2005–06                                |
|   | £millions<br>(2)                            | £millions<br>(3)                    | £millions<br>(4)                     |                                  |                                    | £millions<br>(7)<br>(2) × (5)<br>× (6) | £millions<br>(8)<br>(3) × (5)<br>× (6) | £millions<br>(9)<br>(4) × (5)<br>× (6) |
| Education and Skills                        | 400   | 2560                                | 5940                                 | 99.7                             | 10.23                              | 41                                     | 261                                    | 606                                    |
| Health                                      | 2390  | 8790                                | 15 870                               | 99.6                             | 10.23                              | 244                                    | 896                                    | 1617                                   |
| Transport                                   | 1300  | 1860                                | 2340                                 | 86.6                             | 10.23                              | 115                                    | 165                                    | 207                                    |
| ODPM  | 60  | 570                                 | 900                                  | 99.6                             | 10.23                              | 6                                      | 58                                     | 92                                     |
| ODPM – Local Government                     | 320   | 2400                                | 5490                                 | 55.8                             | 10.23                              | 18                                     | 137                                    | 313                                    |
| Home Office                                 | 790   | 1300                                | 2090                                 | 99.8                             | 9.66                               | 76                                     | 125                                    | 201                                    |
| Legal Departments                           | 150   | 390                                 | 500                                  | 95.9                             | 9.66                               | 14                                     | 36                                     | 46                                     |
| Trade and Industry                          | 60  | 90                                  | 510                                  | 21.3                             | 10.23                              | 1                                      | 2                                      | 11                                     |
| Agriculture                                 | 290   | 290                                 | 350                                  | 83.1                             | 10.23                              | 25                                     | 25                                     | 30                                     |
| Forestry                                    | 10  | 10                                  | 10                                   | 100.0                            | 10.23                              | 1                                      | 1                                      | 1                                      |
| Department of Culture, Media and Sport      | 40  | 120                                 | 210                                  | 92.1                             | 10.23                              | 4                                      | 11                                     | 20                                     |
| Work and Pensions                           | 50  | 330                                 | 350                                  | 8.7                              | 10.23                              | 0                                      | 3                                      | 3                                      |
| Chancellor's Departments                    | 60  | 90                                  | 140                                  | 0.0                              | 10.23                              |  |  |  |
| Cabinet Office                              | 90  | 300                                 | 470                                  | 4.4                              | 10.23                              | 0                                      | 1                                      | 2                                      |
| Calculated total                            |   |                                     |                                      |                                  |                                    | <b>545</b>                             | <b>1721</b>                            | <b>3150</b>                            |
| Rounding error                              |   |                                     |                                      |                                  |                                    | <b>5</b>                               | <b>(11)</b>                            | <b>0</b>                               |
| Published total                             |   |                                     |                                      |                                  |                                    | <b>550</b>                             | <b>1710</b>                            | <b>3150</b>                            |
| Part B: Reconciliation to published figures |   |                                     |                                      |                                  |                                    |  |  |  |
|   | 2001–02                                     | 2002–03                             | SR 2002                              | Provision following SR 2002      |                                    |  |  |  |
|   | Planned<br>expenditure<br>£millions         | Planned<br>expenditure<br>£millions | Baseline for<br>2003–04<br>£millions | 2003–04<br>£millions             | 2004–05<br>£millions               | 2005–06<br>£millions                   |  |  |
| Total DEL (net of depreciation)             | 17 240                                      | 18 210                              | 19 170                               | 19 720                           | 20 880                             | 22 320                                 |  |  |
| Increase over baseline                      |   |                                     |                                      | <b>550</b>                       | <b>1710</b>                        | <b>3150</b>                            |  |  |
| Increase over 2002–03 planned expenditure   |   |                                     |                                      | 1510                             | 2670                               | 4110                                   |  |  |

Notes: 1. Figures in Part B are rounded to the nearest £10 million.

2. England and Wales population proportions apply in the cases of the Home Office and the Legal Departments.

Sources: Columns (1–4) SCOTLAND OFFICE (2002b); columns (5–6) H.M. TREASURY (2002a); columns (7–9) authors' own calculation.

Barnett formula established in 1978 was 11.76%. This was not revised until 1992, when it became 10.66% (HEALD, 1994), at which it stayed until the practice of annual updating began for 1999–2000. The proportion has subsequently fallen to 10.34% (SR 2000), 10.23% (SR 2002) and 10.20% (SR 2004). At Pre-Budget 2004, it had fallen to 10.14%. The effect at any one settlement is not huge but is cumulatively important. Had the original 11.76% still been in force the formula consequences for Scotland in SR 2004 would have been about 15% higher.

#### Tracking changes in the expenditure ceiling

It has also been possible to establish that as well as the changes made at Spending Reviews, considerable changes are made at other times. This confirms that the implementation of the Barnett formula cannot be monitored without access to figures on a consistent basis. This Section shows how the Assigned Budgets

have evolved since the July 2000 publication of the SR 2000 settlement. Successive sub-sections provide two tables each for Scotland (Tables 5 and 6), Wales (Tables 7 and 8) and Northern Ireland (Tables 9 and 10). The first of each pair starts at the SR 2000 settlement and takes the data up to the SR 2002 settlement, whilst the second of each pair links the SR 2002 and SR 2004 settlements.

In a 'noiseless' system, there would be little change in the aggregates between Spending Reviews, just adjustments to outturn (and the movement of provision from one year to another under EYF arrangements) and the occasional in-year addition in respect of some unforeseen circumstance. In fact, there is much more movement than that.

The layout of these six tables is as similar as is practically possible in order to secure comparability. There is one significant difference that is worth drawing attention to at this juncture. The same analytical structure is applied to changes, though the measurement



Table 4. SR 2004 outcome: programme additions by UK department and the calculation of formula consequences for Scotland

| Part A: Generation of formula consequences  |  |  |   |                                  |                                    |                             |                             |                             |
|---|--|--|---|----------------------------------|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Department<br>(1)                           | Programme additions<br>(resource + capital)    |  |   | Compa-<br>rability<br>(%)<br>(5) | Population<br>factor<br>(%)<br>(6) | Formula consequences        |                             |                             |
|   | 2005–06<br>£millions<br>(2)                    | 2006–07<br>£millions<br>(3)                    | 2007–08<br>£millions<br>(4)                     |                                  |                                    | 2005–06<br>£millions<br>(7) | 2006–07<br>£millions<br>(8) | 2007–08<br>£millions<br>(9) |
|   |  |  |   |                                  |                                    | (2) × (5)<br>× (6)          | (3) × (5)<br>× (6)          | (4) × (5)<br>× (6)          |
| Education and Skills                        |  | 1800   | 4100  | 99.8                             | 10.20                              |                             | 183                         | 417                         |
| Health                                      |  | 7568   | 16 028  | 99.5                             | 10.20                              |                             | 768                         | 1627                        |
| Transport                                   |  | 3436   | 2614  | 71.3                             | 10.20                              |                             | 250                         | 190                         |
| ODPM  |  | 388  | 938   | 99.6                             | 10.20                              |                             | 39                          | 95                          |
| ODPM – Local Government                     |  | 2405   | 4842  | 65.7                             | 10.20                              |                             | 161                         | 324                         |
| Home Office                                 |  | 921  | 1656  | 99.6                             | 10.20                              |                             | 94                          | 168                         |
| Legal Departments                           |  | 146  | 238   | 96.1                             | 10.20                              |                             | 14                          | 23                          |
| Trade and Industry                          |  | 186  | 430   | 18.6                             | 10.20                              |                             | 4                           | 8                           |
| Agriculture                                 |  | 155  | 261   | 85.2                             | 10.20                              |                             | 13                          | 23                          |
| Forestry                                    |  |  |   | 100.0                            | 10.20                              |                             |                             |                             |
| Department of Culture, Media and Sport      |  | 73   | 137   | 95.4                             | 10.20                              |                             | 7                           | 13                          |
| Work and Pensions                           |  | (32)   | (137)   | 6.4                              | 10.20                              |                             | 0                           | (1)                         |
| Chancellor's Departments                    |  | 150  | 300   | 0.9                              | 10.20                              |                             | 0                           | 0                           |
| Cabinet Office                              |  | 125  | 198   | 2.0                              | 10.20                              |                             | 0                           | 0                           |
| Calculated total                            |  |  |   |                                  |                                    |                             | <b>1534</b>                 | <b>2889</b>                 |
| Rounding error                              |  |  |   |                                  |                                    |                             | <b>(4)</b>                  | <b>1</b>                    |
| Published total                             |  |  |   |                                  |                                    |                             | <b>1530</b>                 | <b>2890</b>                 |
| Part B: Reconciliation to published figures |  |  |   |                                  |                                    |                             |                             |                             |
|   | 2003–04<br>Planned<br>expenditure<br>£millions | 2004–05<br>Planned<br>expenditure<br>£millions | SR 2004<br>Baseline for<br>2005–06<br>£millions | Provision following SR 2004      |                                    |                             |                             |                             |
|   |  |  |   | 2005–06<br>£millions             | 2006–07<br>£millions               | 2007–08<br>£millions        |                             |                             |
| Total DEL (net of depreciation)             | 19 720   | 20 880   | 22 320  | 22 760                           | 24 200                             | 25 550                      |                             |                             |
| Increase over baseline                      |  |  |   |                                  | <b>1530</b>                        | <b>2890</b>                 |                             |                             |
| Increase over 2004–05 planned expenditure   |  |  |   | 1880                             | 3320                               | 4670                        |                             |                             |

Note: Figures in Part B are rounded to the nearest £10 million.

Source: Scottish Executive Finance Group.

points have been conditioned by what data are available for each devolved administration. In each table, there are 'public milestones' at which there have been official expenditure announcements, and these provide useful pillars in the bridge between adjacent Spending Reviews. In the case of Scotland, these milestones are *Public Expenditure: Statistical Analyses (PESA)*, the annual Treasury publication appearing each spring; this is the form in which the Scotland Office supplied data on Scotland to the Scottish Affairs Committee. In contrast, the data on Wales and Northern Ireland, supplied directly to the researchers by the respective devolved administrations, use as milestones the budgetary documents of the devolved administrations. Ideally, it would have been better for all three pairs of tables to have shown the same milestones. However, obtaining these data with different milestones has drawn attention to certain data reliability issues that should be addressed, in particular the relationship between data published by the Treasury and those published by the devolved administrations.

The Barnett formula proportions are applied to Assigned Budget DEL, which, as discussed above, now covers almost all DEL (Table 1). Changes to the Assigned Budgets were analysed into a number of categories, imposing the same sequencing on the analysis of changes between each milestone and the next, on the longer journey between Spending Reviews:

- Transfers to/from other government departments.
- Inter-Review policy changes.
- Outturn adjustments.
- Resource Accounting and Budgeting (RAB) changes.
- Other.
- Spending Review changes, mostly Barnett formula consequences.

Within the Inter-Review policy changes there are additions that are attributable to Barnett formula consequences but the fact that Barnett has been applied is sometimes not well documented. However, the presumption since 1999 is that the Barnett formula has been applied in such cases.

Table 5. Scotland's DEL from SR 2000 to SR 2002

|  | 2001–02<br>£millions | 2002–03<br>£millions | 2003–04<br>£millions | 2004–05<br>£millions | 2005–06<br>£millions |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Published settlement for SR 2000   | <b>16 244</b>        | <b>17 379</b>        | <b>18 441</b>        |                      |                      |
| Transfers to/from other government departments                                       | 112                  | 109                  | 107                  |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Capital Modernization Fund   | 1                    | 43                   | 57                   |                      |                      |
| Invest-to-Save Budget  | 3                    | 2                    | 1                    |                      |                      |
| Budget 2001 additions  | 62                   | 68                   | 70                   |                      |                      |
| Position at publication of <i>PESA 2001</i>  | <b>16 422</b>        | <b>17 601</b>        | <b>18 676</b>        |                      |                      |
| Transfers to/from other government departments                                       | 3                    | 22                   | 22                   |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Capital Modernization Fund   | 9                    | 28                   |                      |                      |                      |
| Invest-to-Save Budget  |                      | 3                    | 2                    |                      |                      |
| Pre-Budget Report 2001 additions   |                      | 86                   |                      |                      |                      |
| Budget 2002 additions (Health)   |                      |                      |                      | 223                  |                      |
| Claims on the Reserve  | 29                   | 35                   | 16                   |                      |                      |
| Outturn adjustments  |                      |                      |                      |                      |                      |
| Reduction in respect of draw forward of EU structural funds                          | (32)                 |                      |                      |                      |                      |
| Take up of End-Year Flexibility  | 718                  |                      |                      |                      |                      |
| Estimated underspend for 2001–02   | (602)                |                      |                      |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Reduction in respect of Scottish Transport Group pensions                            | (50)                 |                      |                      |                      |                      |
| Position at publication of <i>PESA 2002</i>  | <b>16 497</b>        | <b>17 775</b>        | <b>18 939</b>        |                      |                      |
| RAB changes  |                      |                      |                      |                      |                      |
| Depreciation in implementation of RAB Stage 2  | 211                  | 306                  | 297                  |                      |                      |
| Cost of Capital Charge   | 471                  | 538                  | 532                  |                      |                      |
| Provisions   | 25                   | 31                   | 57                   |                      |                      |
| NDPBs converted to a RAB basis   | 98                   | 90                   | 32                   |                      |                      |
| Change in treatment of public corporations under RAB Stage 2                         | (146)                | (145)                | (106)                |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| CMF ISB and Reserve claims not rolling forward into SR 2002 period                   |                      | (82)                 | (61)                 |                      |                      |
| Deduct Budget 2002 additions (Health) brought back below within Barnett consequences |                      |                      |                      | (223)                |                      |
| Baseline for SR 2002   | <b>17 156</b>        | <b>18 513</b>        | <b>19 467</b>        | <b>19 467</b>        | <b>19 467</b>        |
| Barnett consequences (including for capital charges and depreciation)                |                      |                      | 548                  | 1730                 | 3162                 |
| Other  |                      |                      |                      |                      |                      |
| CAP modulation   |                      |                      |                      |                      | 15                   |
| Depreciation and impairments   | (211)                | (306)                | (297)                | (313)                | (327)                |
| Published settlement for SR 2002 (total DEL net of depreciation)                     | <b>16 945</b>        | <b>18 207</b>        | <b>19 718</b>        | <b>20 884</b>        | <b>22 317</b>        |

Sources: SCOTLAND OFFICE (2002a, b, 2003); Scottish Executive Finance Group.

## SCOTLAND

The purpose of Tables 5 and 6 is to link the published settlements for SRs 2000, 2002 and 2004 in a way that clearly shows how factors other than formula consequences affect the size of the Assigned Budget. Where possible, each table reconciles to the numbers published by the Treasury in its annual statistical publication, *Public Expenditure: Statistical Analyses (PESA)*. The detailed exposition concentrates on Table 5, with Table 6 being described briefly as it follows an identical format.

### From SR 2000 to SR 2002

Table 5 shows the changes that have taken place in the Scotland Assigned Budget over a complete cycle from

the end of one Spending Review (SR 2000) to the end of the next (SR 2002), a period of 2 years. Again, these tables are not published in the ordinary course of events; they are mainly based on information supplied at the request of the SCOTTISH AFFAIRS COMMITTEE (2002a, b, 2003). The next step is to go through each category for classifying expenditure change, as enumerated above.

*Transfers to/from UK departments.* Between Reviews, there were net transfers from other government departments of £115 million, £131 million and £129 million for, respectively, 2001–02, 2002–03 and 2003–04.<sup>18</sup> The extent of the transfers with specific departments is unknown, nor is the extent to which the net nature of

Table 6. Scotland's DEL from SR 2002 to SR 2004

|   | 2001-02       | 2002-03       | 2003-04       | 2004-05       | 2005-06       | 2006-07       | 2007-08       |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | £millions     | £millions     | £millions     | £millions     | £millions     | £millions     | £millions     |
| Published settlement for SR 2002 (total DEL net of depreciation)                                  | <b>16 945</b> | <b>18 207</b> | <b>19 718</b> | <b>20 884</b> | <b>22 317</b> |               |               |
| Transfers to/from other government departments  |               |               |               |               |               |               |               |
| Residential allowances (to DEL from Department of Work and Pensions AME)                          |               |               | 17            | 40            | 42            |               |               |
| Other transfers   |               | 36            | 2             | 1             | 1             |               |               |
| Inter-Review policy changes   |               |               |               |               |               |               |               |
| Aggregates Sustainability Fund  |               | 3             | 3             | 3             | 3             |               |               |
| Capital Modernization Fund  |               |               | 6             | 9             | 5             |               |               |
| Invest-to-Save Budget   |               |               | 2             | 1             |               |               |               |
| Retention of fines from speed cameras   |               | 4             |               |               |               |               |               |
| Pre-Budget Report 2002 – Employer Training Pilots   |               |               | 11            |               |               |               |               |
| Budget 2003 – Futurebuilders  |               |               | 1             | 5             | 7             |               |               |
| Budget 2003 – Parenting Fund  |               |               | 1             | 1             | 1             |               |               |
| Budget 2003 – Landfill Tax Credit Scheme  |               |               | 9             | 9             | 9             |               |               |
| Correction to calculation of SR 2002 settlement   |               |               |               |               | 1             |               |               |
| Outturn adjustments   |               |               |               |               |               |               |               |
| Amendment to estimated underspend in 2001-02 (as shown in Public Expenditure Outturn White Paper) | (100)         |               |               |               |               |               |               |
| Partial reversal of 2001-02 Outturn data  | 492           |               |               |               |               |               |               |
| Take-up of End-Year Flexibility   |               | 590           |               |               |               |               |               |
| Other   |               |               |               |               |               |               |               |
| Transfer of NHS/Teachers' pensions into DEL (formerly in AME)                                     |               |               | 345           | 379           | 354           |               |               |
| Judicial pensions   |               |               | 7             | 7             | 7             |               |               |
| Education Maintenance Allowances (from DEL to AME)  |               |               | (5)           | (5)           | (5)           |               |               |
| Cost of capital charge (reduction in discount rate from 6 to 3.5%)                                | (202)         | (224)         | (128)         | (129)         | (129)         |               |               |
| Changed RAB treatment of Edinburgh Royal Infirmary PFI deal                                       |               | 190           | 4             | 4             | 4             |               |               |
| Dumfries and Galloway housing stock transfer  |               | 62            |               |               |               |               |               |
| Add items not rolling forward into SR 2002 period   |               | 82            | 61            |               |               |               |               |
| Reduction in depreciation and impairments   |               | 5             | 69            | 82            | 95            |               |               |
| Position at publication of <i>PESA 2003</i>   | <b>17 135</b> | <b>18 954</b> | <b>20 123</b> | <b>21 292</b> | <b>22 714</b> |               |               |
| Outturn adjustments   |               |               |               |               |               |               |               |
| Reverse partial reversal of 2001-02 Outturn data  | (492)         |               |               |               |               |               |               |
| Estimated underspend for 2002-03  |               | (760)         |               |               |               |               |               |
| Other   |               |               |               |               |               |               |               |
| Reverse Dumfries and Galloway housing stock transfer  |               | (62)          |               |               |               |               |               |
| Corrections to cost of capital charge   | 74            | 74            |               |               |               |               |               |
| Position after corrections to <i>PESA 2003</i>  | <b>16 717</b> | <b>18 206</b> | <b>20 123</b> | <b>21 292</b> | <b>22 714</b> |               |               |
| Transfers to/from other government departments  |               |               |               |               |               |               |               |
| Inter-departmental transfers  |               |               | 16            | 17            | 13            |               |               |
| Remove Scotland Office (now in Department of Constitutional Affairs DEL)                          | (6)           | (7)           | (7)           | (6)           | (6)           |               |               |
| Inter-Review policy changes   |               |               |               |               |               |               |               |
| Claims on the Reserve   |               |               | 50            |               |               |               |               |
| Pre-Budget Report 2003 measures   |               |               |               | 39            | 8             |               |               |
| Invest-to-Save Budget   |               |               |               | 2             | 2             |               |               |
| Outturn adjustments   |               |               |               |               |               |               |               |
| Take up of End-Year Flexibility   |               |               | 392           |               |               |               |               |
| Final Outturn (cash)  | (185)         | (84)          |               |               |               |               |               |
| Estimated Outturn   |               |               | (653)         |               |               |               |               |
| Final Outturn (non-cash)  | (41)          | (182)         |               |               |               |               |               |
| Other   |               |               |               |               |               |               |               |
| Baseline addition for superannuation  |               |               |               |               | 24            |               |               |
| Reduction in depreciation and impairments   |               |               | 50            | 56            | 1             |               |               |
| Baseline for SR 2004  | <b>16 485</b> | <b>17 933</b> | <b>19 971</b> | <b>21 400</b> | <b>22 756</b> | <b>22 756</b> | <b>22 756</b> |
| Barnett consequences (including for capital charges and depreciation)                             |               |               |               |               |               | 1534          | 2889          |
| Other   |               |               |               |               |               |               |               |
| Increase in depreciation and impairments  |               |               |               |               |               | (83)          | (92)          |
| Deduction of items not in baseline  |               |               |               |               |               | (7)           | (7)           |
| Calculated settlement for SR 2004   | <b>16 485</b> | <b>17 933</b> | <b>19 971</b> | <b>21 400</b> | <b>22 756</b> | <b>24 200</b> | <b>25 546</b> |
| Deduct items funded from Reserve (not included against departments in SR 2004 White Paper)        |               |               |               | (49)          |               | 2             | 3             |
| Rounding error, and error on depreciation in SR 2004 White Paper                                  |               |               |               | (13)          |               |               |               |
| Published settlement for SR 2004 (total DEL net of depreciation)                                  |               |               |               | <b>21 338</b> | <b>22 757</b> | <b>24 202</b> | <b>25 549</b> |

Sources: SCOTLAND OFFICE (2003, 2004) supplemented by additional information from the Scottish Executive Finance Group and the Treasury.

Table 7. Wales's DEL from SR 2000 to SR 2002

|  | 2001-02<br>£millions | 2002-03<br>£millions | 2003-04<br>£millions | 2004-05<br>£millions | 2005-06<br>£millions |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Published settlement for SR 2000   | <b>8451.9</b>        | <b>9144.6</b>        | <b>9792.7</b>        |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers to 29 November 2000  | (4.3)                | (5.8)                | (5.8)                |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Changes announced in Chancellor's Pre-Budget Statement on 8 November 2000:                           |                      |                      |                      |                      |                      |
| Flood provision  | 1.0                  | 1.0                  | 0.9                  |                      |                      |
| Capital Modernization Fund   | 0.6                  | 24.8                 | 33.1                 |                      |                      |
| Aggregates Levy  |                      | 1.7                  | 1.7                  |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Corrections to 18 July SR 2000 calculations plus adjustments   | 7.2                  | 4.1                  | 5.7                  |                      |                      |
| Welsh Assembly Government Final Budget 2000 (29 November 2000)                                       | <b>8456.4</b>        | <b>9170.4</b>        | <b>9828.3</b>        |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers since 29 November 2000   | 0.5                  | 0.5                  | 0.2                  |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Chancellor's Budget Statement 2001 additions (7 March 2001)  |                      |                      |                      |                      |                      |
| Invest-to-Save   | 1.1                  | 0.7                  | 0.3                  |                      |                      |
| Education  | 14.4                 | 16.3                 | 18.7                 |                      |                      |
| Health   | 17.7                 | 17.4                 | 14.2                 |                      |                      |
| Drugs and related crime  | 0.4                  | 0.5                  | 0.3                  |                      |                      |
| Welsh Assembly Government Supplementary Budget 2000 (21 March 2001)                                  | <b>8490.5</b>        | <b>9205.8</b>        | <b>9861.9</b>        |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers to November 2001   |                      | 9.9                  | 9.2                  |                      |                      |
| Welsh Assembly Government Final Budget 2001 (22 November 2001)                                       |                      | <b>9215.7</b>        | <b>9871.1</b>        |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers to 21 March 2002   |                      | 5.1                  | 2.4                  |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Chancellor's Pre-Budget Statement 2001 additions (27 November 2002):                                 |                      |                      |                      |                      |                      |
| Health   |                      | 49.3                 |                      |                      |                      |
| Education  |                      | 0.6                  | 0.9                  |                      |                      |
| Education capital  |                      | 1.2                  | 1.8                  |                      |                      |
| Welsh Assembly Government Supplementary Budget 2001 (21 March 2002)                                  |                      | <b>9271.9</b>        | <b>9876.2</b>        |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Amendments to earlier net transfers  |                      | 5.6                  |                      |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Chancellor's Budget Statement 2001 additions (17 April 2002):  |                      |                      |                      |                      |                      |
| Health   |                      |                      | 128.8                |                      |                      |
| Invest-to-Save   |                      | 1.7                  |                      |                      |                      |
| Capital Modernization Fund   |                      | 6.9                  |                      |                      |                      |
| Consequential increase related to Department for Education and Employment                            |                      | 0.9                  |                      |                      |                      |
| Position at publication of <i>PESA 2002</i>  |                      | <b>9287.0</b>        | <b>10 005.0</b>      |                      |                      |
| RAB changes  |                      |                      |                      |                      |                      |
| RAB Stage 2 additions (AME to DEL switch)  |                      |                      | 393.0                |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Deduct Budget 2002 additions (Health and Social Care) brought back below within Barnett consequences |                      |                      | (128.6)              |                      |                      |
| Less CMF/ISB claims not rolling forward into SR 2002 period  |                      |                      | (35.3)               |                      |                      |
| Baseline for SR 2002 (rounded)   |                      |                      | <b>10 234.0</b>      | <b>10 234.0</b>      | <b>10 234.0</b>      |
| Other  |                      |                      |                      |                      |                      |
| Plus CMF/ISB added back in for 2003/04   |                      |                      | 35.3                 |                      |                      |
| SR 2002 Barnett consequences (including for capital charges and depreciation)                        |                      |                      | 251.3                | 924.5                | 1764.6               |
| Published settlement for SR 2002 (Welsh Assembly Government presentation)                            |                      |                      | <b>10 520.7</b>      | <b>11 158.5</b>      | <b>11 998.6</b>      |
| Resource Budget  |                      | 8829.0               | 9655.0               | 10 240.0             | 11 000.0             |
| Capital Budget   |                      | 801.0                | 830.0                | 919.0                | 999.0                |
|  |                      | <b>9630.0</b>        | <b>10 485.0</b>      | <b>11 159.0</b>      | <b>11 999.0</b>      |
| Less: Depreciation and impairments   |                      | (206.0)              | (210.4)              | (217.5)              | (224.6)              |
| Published settlement for SR 2002 (Treasury presentation Cm 5570)                                     |                      | <b>9424.0</b>        | <b>10 274.6</b>      | <b>10 941.5</b>      | <b>11 774.4</b>      |

Sources: Welsh Assembly Government Finance Group, and the Treasury.

Table 8. Wales's DEL from SR 2002 to SR 2004

|  | 2003–04<br>£millions | 2004–05<br>£millions | 2005–06<br>£millions | 2006–07<br>£millions | 2007–08<br>£millions |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Published settlement for SR 2002 (resource and capital budgets)                                    | <b>10 520.7</b>      | <b>11 158.5</b>      | <b>11 998.6</b>      |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Transfer from DWP – Teachers' pensions (additional costs)  | 44.0                 | 45.7                 | 47.5                 |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Adjustment   | (1.6)                | (1.6)                | (1.5)                |                      |                      |
| Welsh Assembly Government Final Budget 2002 (6 March 2002)   | <b>10 563.1</b>      | <b>11 202.6</b>      | <b>12 044.6</b>      |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers with Whitehall government departments  | 93.4                 | 128.5                | 138.2                |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Chancellor's Pre-Budget Statement 2002: education consequences (27 November 2002)                  | 6.4                  |                      |                      |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Cost of capital – reduction in rate applied from 6 to 3.5%   | (72.8)               | (75.7)               | (79.8)               |                      |                      |
| Welsh Assembly Government Supplementary Budget 2002 (26 March 2003)                                | <b>10 590.1</b>      | <b>11 255.4</b>      | <b>12 102.9</b>      |                      |                      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Net transfers with Whitehall government departments to Welsh Assembly Government Draft Budget 2003 |                      | 35.6                 | 37.4                 |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Abandoned vehicles   |                      | 1.5                  | 1.5                  |                      |                      |
| Countryside Council for Wales increase in pensions costs   |                      | 1.4                  | 1.4                  |                      |                      |
| Welsh Assembly Government Final Budget 2003 (6 December 2003)                                      |                      | <b>11 293.9</b>      | <b>12 143.1</b>      |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Chancellor's Pre-Budget Statement 2003 additions (10 December 2003)                                |                      |                      |                      |                      |                      |
| Local Authority consequential increase   |                      | 20.0                 |                      |                      |                      |
| Employer training pilots consequential increase  |                      | 2.4                  | 4.7                  |                      |                      |
| Increase for the Invest-to-Save Budget – consequential   |                      | 0.1                  | 0.2                  |                      |                      |
| Additional funding from the Treasury for increases in civil service pension liability charges      |                      |                      | 7.5                  |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Net changes and corrections since the Final Budget   |                      | (7.4)                | (3.7)                |                      |                      |
| Welsh Assembly Government Supplementary Budget 2003 (24 March 2004)                                |                      | <b>11 309.0</b>      | <b>12 151.9</b>      | <b>12 151.9</b>      | <b>12 151.9</b>      |
| Transfers to/from other government departments   |                      |                      |                      |                      |                      |
| Remove Wales Office (now in DEL of Department of Constitutional Affairs)                           |                      |                      | (4.2)                | (4.2)                | (4.2)                |
| Position at publication of <i>PESA 2004</i>  |                      |                      | <b>12 147.7</b>      | <b>12 147.7</b>      | <b>12 147.7</b>      |
| Other  |                      |                      |                      |                      |                      |
| Less items which do not form part of the SR 2004 baseline  |                      |                      |                      |                      |                      |
| EU Objective 1   |                      |                      | 106.0                |                      |                      |
| Other  |                      |                      | 0.3                  |                      |                      |
| Baseline for SR 2004   |                      |                      | <b>12 041.4</b>      | <b>12 041.4</b>      | <b>12 041.4</b>      |
| Add back items which do not form part of the SR 2004 baseline                                      |                      |                      |                      |                      |                      |
| EU Objective 1   |                      |                      | 106.0                | 128.0                | 147.0                |
| Other  |                      |                      | 0.3                  | 0.3                  |                      |
| SR 2004 Barnett formula consequences (including for capital charges and depreciation)              |                      |                      |                      | 850.4                | 1629.2               |
| Published settlement for SR 2004 (resource and capital budgets)                                    |                      |                      | <b>12 147.7</b>      | <b>13 020.1</b>      | <b>13 817.6</b>      |

Sources: Welsh Assembly Government Finance Group, and the Treasury.

the disclosed figures conceals greater traffic in both directions, or indeed the detailed reasons for them. Two possibilities may occur: transfers in respect of permanent reallocation of responsibilities between levels of government; and ongoing adjustments in respect of

considerations for services provided by, or to, the UK government to, or by, the devolved administration. Some information is available in the Scottish Executive's Budget documents, but this needs to be consolidated in an accessible format.

Table 9. Northern Ireland's DEL from SR 2000 to SR 2002

|  | 2001–02<br>£millions | 2002–03<br>£millions | 2003–04<br>£millions | 2004–05<br>£millions | 2005–06<br>£millions |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Published settlement for SR 2000 (Northern Ireland presentation)                     | <b>5667.4</b>        | <b>5973.2</b>        | <b>6294.1</b>        |                      |                      |
| Transfers to/from UK Government departments  | 2.5                  | 0.6                  | 1.0                  |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences on allocations after SR 2000                            | 0.9                  | 13.9                 | 18.0                 |                      |                      |
| CAP modulation   | 3.0                  | 4.0                  | 4.5                  |                      |                      |
| Non-Barnett additions – Invest-to-Save budget  | 0.4                  | 0.1                  |                      |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Welfare to Work  | 52.4                 | 52.4                 | 52.4                 |                      |                      |
| New Deal for Schools   | 8.2                  | 8.2                  | 8.2                  |                      |                      |
| Rounding error   |                      | 0.1                  |                      |                      |                      |
| Position at 12 December Budget   | <b>5734.8</b>        | <b>6052.5</b>        | <b>6378.2</b>        |                      |                      |
| Transfer to/from UK Government departments   | 4.9                  | (1.6)                | (1.9)                |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences from March 2001 Budget                                  | 19.5                 | 21.3                 | 21.4                 |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Reclassification of Community Care from AME to DEL                                   |                      | 19.0                 | 21.5                 |                      |                      |
| Position at 25 September 2001 Draft Budget   | <b>5759.2</b>        | <b>6091.2</b>        | <b>6419.2</b>        |                      |                      |
| Transfer to/from UK Government departments   |                      | 1.2                  | 1.5                  |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences from November 2001 Pre-Budget                           | 0.3                  | 28.2                 |                      |                      |                      |
| Rounding error   | 0.1                  |                      |                      |                      |                      |
| Position at 3 December 2001 Budget   | <b>5759.6</b>        | <b>6120.6</b>        | <b>6420.7</b>        |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences from April 2002 Budget                                  |                      | 10.3                 | 73.6                 |                      |                      |
| RAB changes  |                      |                      |                      |                      |                      |
| RAB Stage 2 conversion   |                      | 866.9                | 889.5                |                      |                      |
| Transfer of certain non-cash costs from DEL to AME                                   |                      | (91.6)               | (92.3)               |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| SR 2000 baseline adjustment  |                      |                      | (22.0)               |                      |                      |
| Rounding error   |                      | 0.1                  |                      |                      |                      |
| Position at 5 June 2002 Position Report (RAB Stage 2)                                |                      | <b>6906.3</b>        | <b>7269.5</b>        |                      |                      |
| Inter-Review policy changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences from April 2002 Budget – Health                         |                      |                      | (72.4)               |                      |                      |
| Other  |                      |                      |                      |                      |                      |
| Removal of one-off additions   |                      |                      | (18.7)               |                      |                      |
| Reprofiling of EU Peace and Reconciliation Programme                                 |                      |                      | (80.0)               |                      |                      |
| Reclassification of water costs from DEL to AME                                      |                      | (373.0)              | (393.0)              |                      |                      |
| Baseline for SR 2002   |                      | <b>6533.3</b>        | <b>6705.4</b>        | <b>6705.4</b>        | <b>6705.4</b>        |
| Other  |                      |                      |                      |                      |                      |
| Add back one-off additions   |                      |                      | 18.7                 |                      |                      |
| Rounding error   |                      |                      |                      |                      | 0.1                  |
| SR 2002 Changes  |                      |                      |                      |                      |                      |
| Barnett formula consequences from SR 2002  |                      |                      | 148.9                | 507.0                | 930.6                |
| Non-Barnett additions – EU Peace and Reconciliation Programme                        |                      |                      | 50.0                 | 62.0                 | 80.0                 |
| Non-Barnett additions – Card at the Post Office (CAPO)                               |                      |                      | 4.0                  | 5.0                  | 6.0                  |
| Non-Barnett additions – CAP Modulation   |                      |                      |                      |                      | 9.0                  |
| SR 2002 settlement (Northern Ireland presentation)<br>(resource and capital budgets) |                      | <b>6533.3</b>        | <b>6927.0</b>        | <b>7279.4</b>        | <b>7731.1</b>        |
| Less: Treasury adjustment for depreciation   |                      |                      | (95.0)               | (101.0)              | (105.0)              |
| One-off items  |                      | (24.3)               | (18.7)               |                      |                      |
| Published settlement for SR 2002 (Treasury presentation)                             |                      | <b>6509.0</b>        | <b>6813.3</b>        | <b>7178.4</b>        | <b>7626.1</b>        |

Sources: Department of Finance and Personnel, and the Treasury.

Table 10. Northern Ireland's DEL from SR 2002 to SR 2004

|   | 2002–03<br>£millions | 2003–04<br>£millions | 2004–05<br>£millions | 2005–06<br>£millions | 2006–07<br>£millions | 2007–08<br>£millions |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Published settlement for SR 2002 (resource and capital budgets)                                 |                      | <b>6927.0</b>        | <b>7279.4</b>        | <b>7731.1</b>        |                      |                      |
| Transfers to/from UK Government departments   |                      | (4.1)                | (3.3)                | (3.2)                |                      |                      |
| Inter-Review policy changes   |                      |                      |                      |                      |                      |                      |
| Barnett formula consequences from Pre-Budget Report 2002  |                      | 3.6                  |                      |                      |                      |                      |
| Barnett formula consequences from Budget 2003   |                      | 3.7                  | 5.3                  | 5.7                  |                      |                      |
| Non-Barnett additions – Invest-to-Save budget   |                      | 1.5                  | 1.8                  | 1.6                  |                      |                      |
| Other   |                      |                      |                      |                      |                      |                      |
| Technical transfers   |                      | 2.2                  | 10.9                 | 12.1                 |                      |                      |
| Cost of capital charge (reduction in discount rate from 6 to 3.5%)                              |                      | (105.9)              | (105.9)              | (105.9)              |                      |                      |
| Position at 2003 Draft Budget   |                      | <b>6828.1</b>        | <b>7188.3</b>        | <b>7641.4</b>        |                      |                      |
| Transfers to/from UK Government departments   |                      |                      | 2.6                  | 1.4                  |                      |                      |
| Inter-Review policy changes   |                      |                      |                      |                      |                      |                      |
| Barnett formula consequences from PBR   |                      |                      | 12.7                 | 2.7                  |                      |                      |
| RAB changes   |                      |                      |                      |                      |                      |                      |
| RAB technical change  |                      |                      | (67.9)               | (73.7)               |                      |                      |
| Position at 13 January 2004 Budget  |                      |                      | <b>7135.7</b>        | <b>7571.8</b>        |                      |                      |
| Transfers to/from UK Government departments   |                      |                      | (1.7)                | (2.2)                |                      |                      |
| Inter-Review policy changes   |                      |                      |                      |                      |                      |                      |
| Barnett formula consequences from Chancellor's Budget   |                      |                      | 0.9                  | 1.0                  |                      |                      |
| Other   |                      |                      |                      |                      |                      |                      |
| Rounding error  |                      |                      | 1.0                  | (0.1)                |                      |                      |
| Removal of one-off items.   |                      |                      |                      | (1.8)                |                      |                      |
| Removal of EU Peace and Reconciliation Programme  |                      |                      |                      | (80.0)               |                      |                      |
| Baseline for SR 2004  |                      |                      | <b>7135.9</b>        | <b>7488.7</b>        | <b>7488.7</b>        | <b>7488.7</b>        |
| Transfers to/from UK Government departments   |                      |                      |                      | 0.5                  | 0.5                  | 0.5                  |
| Other   |                      |                      |                      |                      |                      |                      |
| Rounding error  |                      |                      |                      |                      | 0.3                  | 0.3                  |
| Add backs – one-off items.  |                      |                      |                      | 1.8                  |                      |                      |
| Add backs – EU Peace and Reconciliation Programme   |                      |                      |                      | 80.0                 |                      |                      |
| Barnett formula consequences from SR 2004   |                      |                      |                      |                      | 481.5                | 876.5                |
| EU Peace and Reconciliation Programme allocation  |                      |                      |                      |                      | 59.0                 | 30.0                 |
| Published settlement for SR 2004 (Northern Ireland presentation) (resource and capital budgets) |                      |                      | <b>7135.9</b>        | <b>7571.0</b>        | <b>8030.0</b>        | <b>8396.0</b>        |
| Less: Treasury adjustment for depreciation  |                      |                      | (70.0)               | (69.0)               | (99.0)               | (100.0)              |
| One-off items and EU Peace and Reconciliation Programme   |                      |                      | (62.0)               | (81.8)               |                      |                      |
| Published settlement for SR 2004 (Treasury presentation)  |                      |                      | <b>7003.9</b>        | <b>7420.2</b>        | <b>7931.0</b>        | <b>8296.0</b>        |

Sources: Department of Finance and Personnel, and the Treasury.

*Inter-Review policy changes.* There have been numerous additions to the Scotland Assigned Budget outside the formal Spending Reviews. Between SR 2000 and SR 2002, these amounted to £104 million, £265 million and £369 million, in respect of 2001–02, 2002–03 and 2003–04.<sup>19</sup> Of those, the most significant are increases announced at the time of UK Budget and/or Pre-Budget statements, with the largest item being £223 million for 2003–04, consequential upon Budget 2002 increases in the health programme for England.

*Outturn adjustments.* Outturn adjustments can be seen for 2001–02, the year that had just finished at the time

of SR 2002. The first item refers to a reduction in the Assigned Budget, as a result of EU structural funds having been used in an earlier year. The other two items refer to access to EYF (£718 million was available in 2001–02 from underspends in previous years) and to take-up of EYF at the end of 2001–02 (the estimated underspend in 2001–02 is £602 million, and this could be carried forward to later years). These outturn adjustments do not affect the baseline for future Spending Reviews. However, they do illustrate the extent to which there can be inter-year shifts in the spending of planned provision. This can lead to confusion, and indeed obfuscation, over year-on-year changes in planned provision.

*Resource Accounting and Budgeting (RAB) changes.* A number of changes were made to the Assigned Budget to reflect the switch to Resource Accounting and Budgeting (RAB), broadly a switch from cash (or receipts and payments) accounting to accrual accounting. Under cash accounting, items are recorded in the accounts when money changes hands: for example, goods paid for but not yet received are recorded as expenditure while goods received but not yet paid for are not; and capital items are recorded as lump-sum payments as they are made, typically at the start of the asset's life. Under accrual accounting, expenditure is recognized at the time it is incurred: when goods and services are received; or assets are consumed. Those changes involve: the addition of depreciation, a charge for the cost of capital, and the making of provisions. There are two other items in Table 5 relating to the impact of RAB on Non-Departmental Public Bodies and on public corporations. These changes reflect the UK-wide implementation by the Treasury of both Resource Accounting (government accounts are prepared on an accrual basis) and of Resource Budgeting (expenditure planning and Parliamentary authorization are conducted on an accrual basis) (HEALD and MCLEOD, 2002c).

*Other.* Those items not easily classified elsewhere have been included. There are five items in the period between SR 2000 and SR 2002. The first is a reduction of £50 million (2001–02 only) in respect of the pension scheme of the Scottish Transport Group (STG). This appears to be business dating back to before devolution. The STG was effectively abolished in the early 1990s when the constituent bus operations were privatized and the shipping interests transferred to the Secretary of State (since inherited by the Scottish Ministers), but the formal wind-up was delayed. The next two items are adjustments, designed to ensure that the provision was not carried forward to future years when the baselines for 2004–05 and 2005–06 were established;<sup>20</sup> the provision is added back after the Review. The fourth is an addition of £15 million for 2005–06 for CAP modulation.<sup>21</sup> Finally, there is a deduction of the depreciation element of the RAB changes of around £300 million in each year to arrive at the final settlement.<sup>22</sup> The effect of treating depreciation as if it were DEL in SR 2002 was that Barnett operated on changes to depreciation, even though these were then classified as AME. The Treasury took the decision, for all programmes, to keep non-cash costs in AME under Stage 1 RAB, because of the lack of experience of departments in forecasting and managing such items. They became part of DEL after SR 2002, under Stage 2 of RAB.

*Spending Review Barnett formula consequences.* The amounts identified in Table 5 as SR 2002 Barnett formula consequences are as follows: £548 million

(2003–04); £1730 million (2004–05); and £3162 million (2005–06). These are very close to the amounts calculated in Table 3 by applying the comparability and population factors to the identified change in comparable expenditure in England: £545 million (2003–04), £1721 million (2004–05) and £3150 million (2005–06). The differences are likely to be attributable to rounding and late data changes.

#### *From SR 2002 to SR 2004*

Table 6 shows the position from SR 2002 to SR 2004. The complexity that characterized Table 5's depiction of the period between SR 2000 and SR 2002 was not unique. However, the magnitudes of Transfers and Inter-Review policy changes were not as great as in the previous cycle. More symbolic than numerically important, the Scotland Office DEL is now part of the DEL of the newly created Department of Constitutional Affairs,<sup>23</sup> and therefore is not part of the Assigned Budget DEL. However, it remains a first charge on the DEL available to the Scottish Executive from 'inherited' DEL and Barrett formula consequences. Increases in Scotland Office DEL must be funded by the Scottish Executive, which would benefit from reductions. Again, there are complex Outturn adjustments, of a similar mould to those in Table 5.

There has also been an increase in the number of instances of 'Other' changes. First, there were a considerable number of transfers from AME into DEL, most notably in respect of part of the provision for NHS and Teachers' Pensions (see note 5). Before the DEL and AME distinction, these Pensions were outside the Control Total and, in the current system, were at first classified as ODEL (i.e. expenditure outside DEL).

Second, there is a reduction of the order of £200 million for 2001–02 and 2002–03 and £130 million for each of the years from 2003–04 to 2005–06, in respect of the change in the test discount rate from 6.0 to 3.5%, in accordance with the adoption of the Treasury's revised Green Book on project appraisal (H.M. TREASURY, 2003a). This has implications for the capital charge made under the RAB arrangements; the reduction will be neutral in terms of actual spending ability, as there will be a reduction in the capital charge for which the Scottish Executive will have to account.

Third, changes to the accounting treatment of the PFI-financed new Edinburgh Royal Infirmary resulted in additional provision of £190 million in 2002–03, and then £4 million in the following three years. This change from off-balance to on-balance sheet to the NHS<sup>24</sup> was handled exceptionally by means of a transfer of provision, without the expenditure going retrospectively through the Barnett formula. This occurred because, under the Treasury accounting guidance extant when the deal was agreed in summer 1998, this scheme had been determined as off-balance sheet, but changes in that guidance brought it on-balance sheet when the



project was completed.<sup>25</sup> This is an interesting case of formula bypass<sup>26</sup> driven by technical considerations.

Another feature of Table 6 requires comment, namely large data corrections that are not publicly announced in a systematic way. Table 6 has two total lines for *PESA 2003* (H.M. TREASURY, 2003b), namely, the published and corrected figures. The published figures for 2001–02 contained an error whereby £492 million was added to outturn, being reversed in the corrected figures supplied to the Scottish Affairs Committee (SCOTLAND OFFICE, 2003, Ev 21–22). Another error affected the 2002–03 figures in *PESA 2003*: £62 million for the Dumfries and Galloway housing stock transfer was incorrectly charged to the Assigned Budget, being reversed in the corrected figures. Furthermore, a correction to the cost of capital charge increased expenditure in the revised *PESA 2003* figures by £74 million in both 2001–02 and 2002–03. Taken together, these data problems post a health warning even on *PESA* data, and underscore the importance of full data transparency. This should include automatic publication of full reconciliations between data published by the Treasury and those by the devolved administrations. Otherwise, users of these data will waste their time analysing data that are unfit for purpose.

Various explanations have been advanced for the prevalence of underspending under the Treasury's 1998 public expenditure control framework (HEALD and MCLEOD, 2002c). The presumption has been that underspending would decrease once government departments and devolved administrations became more familiar with the new control arrangements and adjusted to the step-change in the rate of growth of public expenditure. However, the corrected *PESA 2003* figures for 2002–03 deduct the original estimate of £760 million for underspend in 2002–03. It should be noted that, in Table 6, underspend in 2002–03 has three elements: £760 million taken into account in the *PESA 2003* corrections; £84 million (cash) in the Outturn adjustments; and £182 million (non-cash), also in the Outturn adjustments. Total underspend is therefore £1026 million in 2002–03.

The bottom section of Table 6 shows the adjustments required to reach the SR 2004 baseline, and then the formula consequences incorporated in the published settlement. It is important to note that formula consequences are calculated in relation to the changes to both Resource and Capital Budget DELs, whereas the Treasury's standard public expenditure presentation is to net off depreciation and to publish departmental totals in terms of their contribution to Total Managed Expenditure (HEALD and MCLEOD, 2002b, para. 506). The construction of the baseline for a Spending Review is clearly a vital step, though in the case of SR 2004 for Scotland there are no items that here require commentary. The extra resources that SR 2004 delivered to the Assigned Budget through the Barnett formula were undoubtedly large, namely £1534 million

in 2006–07 and £2889 million in 2007–08. In contrast, and confirming Table 4, there were no SR 2004 formula consequences for 2005–06 (the overlap year between SR 2002 and SR 2004), in marked contrast to what happened in the previous two Spending Review settlements. Formula consequences for 2006–07 and 2007–08 are then added to their respective baselines, leading to the calculated settlements.

## WALES

Tables 7 and 8, respectively, track the Wales DEL from SR 2000 to SR 2002 and from SR 2002 to SR 2004. Having discussed in detail each of the classification categories in the analysis on Scotland, the exposition here can concentrate on the main points of difference, rather than attempt to be comprehensive. These tables use exactly the same categorization of changes as do Tables 5 and 6 for Scotland. However, the milestones are mostly Welsh Assembly Government budget documents, rather than UK documents such as *PESA*. However, it has been possible to produce a subtotal corresponding to the data provided in *PESA 2002*. Obviously, the more milestones that are introduced into a table, the greater will be the number of lines required in the overall reconciliation. Whereas the data for Scotland were mostly provided to the Westminster Scottish Affairs Committee via the Scotland Office, the data for Wales have been provided by the Welsh Assembly Government Finance Group, on request by the researchers. This different provenance is the main explanation of why the milestones are differently constructed.<sup>27</sup>

The picture presented by Table 7 is very similar to the one portrayed by Table 5 for Scotland. For example, Table 7 confirms the significance of RAB implementation and the way in which the Budget 2002 additions for 'Health and social care' were excluded from the SR 2002 baseline. This means that they have to be included in the calculation to produce the position at publication of *PESA 2002*; taken out to reach the SR 2002 baseline; and then fed back through as part of SR 2002 Barnett formula consequences. Another feature of Table 7 is that there are no entries for inherited EYF entitlements adding to spending capacity in a particular financial year, nor for the carrying forward of underspends to later years. These differences may in part be because Table 7 concentrates on reconciling to Welsh Assembly Government budget documents, whereas Table 5 uses *PESA* for its milestones.

Table 8 takes up the evolution of the Wales Assigned Budget DEL from SR 2002 to SR 2004. A significant feature is the growth in 'Transfers to/from other government departments'. Public services and expenditure in Wales have never been as detached from England as has been the case for Scotland and Northern Ireland. There is therefore still scope for the repatriation of expenditure to Wales, and it is therefore important to be alert to any

such development when looking at changes in expenditure totals. For example, with regard to 2004–05, incoming transfers in Table 8 total £209.8 million. There are adjustments similar to those for Scotland, with regard to the reduction of the discount rate from 6.0 to 3.5%. Near the bottom of Table 8, the treatment of EU Objective 1 expenditure (i.e. taken out of the SR 2004 baseline and then added back alongside formula consequences) demonstrates the separate identification of this high-profile item. The bottom part of Table 8 shows the calculation of the SR 2004 baseline, to which are added formula consequences. For 2006–07 and 2007–08, these were, respectively, £978.6 million (published as £850.4 million) and £1629.2 million (published as £1780 million).

### NORTHERN IRELAND

In a similar fashion to the counterpart tables for Scotland and Wales, Tables 9 and 10, respectively, link SR 2000 to SR 2002 and SR 2002 to SR 2004. Like those for Wales, the Northern Ireland tables use devolved administration budgetary documents as the principal milestones. In fact, no reconciliations are provided to PESA data.

Unsurprisingly, the Northern Ireland picture is very similar to those for Scotland and Wales. However, because of the broader coverage of the Northern Ireland public sector (e.g. water and sewerage being departmental functions), the RAB adjustments in Table 9 are particularly large. As was shown in Table 1, Non-assigned Budget DEL now only occurs in Northern Ireland. This is the EU Peace and Reconciliation Programme, on which there is an expenditure re-profiling. Another observable difference is that non-Barnett changes were much more important in SR 2002 than in Scotland and Wales. Moreover, there is a measure of substitutability between the Assigned Budget and expenditure financed out of the Other-AME classified borrowing under the Reinvestment & Reform Initiative.

Table 10, covering SR 2002 to SR 2004, shows a larger impact of the reduction of the Treasury discount rate under Green Book implementation, though it must be remembered that expenditure is correspondingly lower. Substantial additional resources came to Northern Ireland from SR 2004, namely £481.5 million in 2006–07 and £876.5 million in 2007–08. Again, the main presentation is in terms of the sum of Capital and Resource Budgets, without netting off depreciation. Unlike Scotland, but as for Wales, neither Table 9 nor 10 identifies underspending.

### DISCUSSION

A number of issues arise. It is clear that the determination of the budgets of the devolved administrations turns on far more than the application of the Barnett

formula proportions, and that the details of the whole operation, and indeed of the operation of the formula itself, are not wholly transparent.

First, the analyses (Tables 2–4) of the generation of formula consequences for Scotland document the process that, until the work of the Westminster Scottish Affairs Committee, remained hidden from view. These can then be examined in the context of changes in total DEL for Scotland, Wales and Northern Ireland. Accordingly, Tables 5, 7 and 9 provide full reconciliations between SR 2000 and SR 2002, with comparable analyses for SR 2002 to SR 2004 appearing in Tables 6, 8 and 10. Collectively these show the Barnett formula system in operation, emphasizing that the system is much more complex than the simple calculation of formula consequences. Taking 2003–04 (i.e. the final year of SR 2000), the Scotland total increased from £18 441 million to £19 718 million. Of this total net increase of £1277 million, only £548 million represented SR 2002 Barnett formula consequences. The remaining £729 million consisted of a wide range of elements, including RAB changes, transfers and Barnett formula consequences between Spending Reviews. Admittedly, the position in this particular period was complicated by fundamental change in the measurement basis of the figures from cash to accrual accounting, welcome for other reasons.

The corresponding figures for Wales are that the SR 2000 settlement of £9792.7 million for 2003–04 increased, net, by £728 million by SR 2002, of which only £251.3 million were SR 2002 Barnett formula consequences. The corresponding figures for Northern Ireland are that the SR 2000 settlement of £6294.1 million for 2003–04 increased, net, by £632.9 million by SR 2002, of which only £148.9 million were SR 2002 Barnett formula consequences. It is clear from these data for all three devolved administrations that proper monitoring and scrutiny of the devolution financing system cannot be done without the analyses contained in these tables being routinely available at the time when decisions are announced.

Second, the practice of making additions to departmental budgets at intervals between Spending Reviews must disrupt the financial planning of the devolved administrations. Of course, some adjustment has to be expected in the light of unfolding events and changing circumstances. However, the scale of these additions, especially in the 2000–02 period, invites the charge of deliberate holding back of expenditure increases in order to make new spending announcements for electoral reasons. More subtly, the making of periodic ‘one-off’ Budget and Pre-Budget additions, with their Barnett consequences, puts pressure on the devolved administrations to allocate the additional resources to similar policy developments, thus to some extent eroding their budgetary freedom.

Third, the complexities of the position effectively confer on the UK government a great deal of discretion

over the operation of the system: notably, discretion over inter-Review additions; and over classification questions.<sup>28</sup> This will leave UK governments open to the charge of manipulation, a possibility exacerbated by the general confusion in political and media circles over the operation of the Barnett formula system.

The extent of this confusion can be illustrated by the situation in Scotland surrounding the proposal to allow universities in England to charge what were at first, and in some quarters still are, known as 'top-up fees' but are now described more accurately as 'variable fees'. This proposal caused concern in universities in Scotland that it would allow English universities to outbid them for academic talent while at the same time flooding them with English students avoiding variable fees; and that there would be no Barnett consequences to redress the situation. As the UK government's proposals became clearer, and indeed were modified in the light of opposition amongst their own supporters in England, the SCOTTISH EXECUTIVE (2003), in a submission to the Enterprise and Culture Committee of the Scottish Parliament, suggested that there would be positive formula consequences. This would be the case because English students would not be required to pay fees up front but only after graduation; the initial extra income to universities would come from student support. This appears to have been subsequently confirmed by the Treasury. However, Eric Joyce, Labour MP for Falkirk West and regularly described in the media as close to the Blair Government, was reported as stating that there would be no Barnett consequences since the money would come from students (CUSICK, 2004).

In fact, provided that the Treasury classify the extra student support as DEL rather than AME, any additions would be taken into account in the Barnett calculations. But this does not necessarily mean that there will be more money going to the devolved administrations than there would otherwise have been. For that to happen, there would need to be additional public expenditure in SR 2006 and later Spending Reviews than would otherwise have been the case. In other words, the money for extra student support is not found by restricting increases in other programmes, which might themselves have counted in the Barnett calculations. That can never be proved, but it might be considered unlikely that the specifics of higher education funding would lead to a larger spending envelope. The government's fiscal rules (H.M. TREASURY, 1998) are more likely to determine the size of the envelope than is the expected behaviour of individual components of expenditure. Added to that, as graduates start to repay fees, there will be large receipts for the programme in England that will implicitly generate negative formula consequences for the devolved administrations.

Fourth, given the extent of UK government discretion, it is essential that there is full numerical transparency in the operation of the Barnett formula, including the

changes that take place between Spending Reviews. Counterparts to Table 4 could have been published in July 2004 as part of the SR 2004 documentation, separately covering Scotland, Wales and Northern Ireland. This analysis should be accompanied by time series data on expenditures in England comparable, respectively, to those expenditures that are devolved in Scotland, Wales and Northern Ireland. Thus far, the UK government affects not to understand requests for these data, or claims that they are not 'routinely available' and their preparation would involve 'disproportionate cost'. Furthermore, updates to Tables 6, 8 and 10 should be published in the biennial Spending Review main documentation, showing the detailed reconciliation between adjacent Spending Reviews, with the steps in the reconciliation corresponding to those already placed in the public domain. Developments subsequent to the main SR 2004 settlement can then be recorded annually in departmental reports, with updates supplied to select committees on request. Added to that, the Scottish Parliament and the Assemblies should insist that their Executives publish full reconciliations of their own figures with those in Spending Reviews and PESA. Because of organizational and timing differences, it is difficult, if not impossible, to follow the trail from Spending Review results to the Scottish Executive budget.

Fifth, as part of the publication of the changes in provision between Spending Reviews, the extent of, and the reasons for, transfers between the devolved administrations and UK departments should be made explicit, without recourse to net figures. Where these transfers are in consideration of the provision of services, a system of hard charging should be considered.

Sixth, there is an asymmetry between how the decisions of the UK government affect the devolved administrations and how the decisions of the devolved administrations impinge on the UK government. (Although this asymmetry may be an inevitable consequence of asymmetric devolution, the implications need to be understood; the November 2004 referendum result in the North East of England means that this will not be a temporary phase.) The latter case is covered in the funding rules:

[W]here decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the United Kingdom Government or, alternatively, decisions of United Kingdom departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost.

(H.M. TREASURY, 2004b, para. viii)

However, if one of the devolved administrations takes some action that results in reduced expenditure for the UK government, there will be no compensation. An obvious example was the attendance allowance question

when free personal care for the elderly was introduced in Scotland. This is particularly likely to be an issue at the interface between devolved services and the UK benefits system. Added to that, the fact that parts of the benefits system assume the continuation of current ways of providing and financing services could inhibit the devolved administrations from making changes that would otherwise be within their powers. This issue is likely to be most pressing in Northern Ireland, which has both devolved administration of the benefits system and a high level of benefits expenditure fully funded by the UK Exchequer. Another example relates to the future of the council tax; if a devolved administration were unilaterally to replace this with some other form of local taxation, such as a local income tax, there would be a substantial loss of access to UK benefits expenditure. Even if the UK government was sympathetic to the policy intentions, negotiations about compensation are likely to be complex and difficult.

### CONCLUSION

Detailed recommendations were made in the previous section, so this conclusion will be restricted to four more general points. First, transparency about the Barnett formula has increased since 1999, though data availability remains deficient. Governments do not consider it to be their responsibility to correct media and political misrepresentations of fact. Given this understandable aversion – if nothing else, on grounds of practicality – it becomes even more important that systematic and reliable data are routinely published,<sup>29</sup> so that outside commentators can fully explain the operation of the devolution finance system. Longstanding misperceptions will be difficult to correct, and these are likely to accentuate political conflict in future conditions of resource shortage or cutbacks. A lack of transparency about numerical operation characterized almost a quarter century of Barnett formula operation. This opaqueness clearly had appeal to UK governments – the territorial offices as well as the Treasury – in the pre-devolution period, limiting public debate and retaining a measure of discretion about detailed operation. However, that opaqueness is no longer sustainable under political devolution, which creates separate accountabilities.

Second, this paper has demonstrated just how deeply embedded the UK devolution finance system is within the public expenditure system, and hence vulnerable to shocks (e.g. from changes to the parameters of the latter). This strengthens the argument for a degree of independent regulation of the devolved financing system, in particular over data generation and needs assessment. This embeddedness is one of the reasons why it has hitherto not been possible to track the post-devolution numerical operation of the Barnett

formulae. As shown clearly in Tables 5–10, the mechanical application of each territory's population proportions to comparable expenditure in England is only one part of the story.

Third, the gushing of resources down the Barnett pipeline has been one of the unexpected features of the early years of devolution; the standard presumption beforehand was that resources would be in short supply (HEALD and GEAUGHAN, 1998). Without this expected shortage of resources, the expected political conflict over funding levels between London and the territorial capitals has not so far materialized. Deficiencies in the data do not allow precise estimates of actual convergence. Attempts to quantify the so-called 'Barnett squeeze' assume that the territories have an entitlement to the same rate of increase in expenditure as in England, irrespective of existing levels of expenditure per capita or relative population change. Moreover, the published figures are themselves affected by different levels of underspending against Assigned Budgets and their English counterparts. It is essential that figures for comparable expenditure in England relevant to the three Assigned Budgets are routinely published. This has not so far happened, 6 years into devolution. However, the improved regional data for England in *PESA 2004* (H.M. TREASURY, 2004c; H.M. TREASURY and OFFICE FOR NATIONAL STATISTICS, 2004), prompted by the Nuffield Report (MCLEAN, 2003), provides some basis for optimism that this will eventually become available.

Fourth, a predictable result of this combination of circumstances has been limited interest in revenue-raising, either in terms of Scotland using the tartan tax or of an extension of tax-raising powers (RICHARD COMMISSION, 2002; HEALD, 2003a). The expenditure surge means that the self-financing percentages of the devolved administrations, defined to include local authority expenditure and taxation, have been falling (HEALD and MCLEOD, 2002b, 2003). The case for greater self-financing of the Scottish Parliament was restated in the Allander series of lectures on 'Scotland's Economic Future' by HALLWOOD and MACDONALD (2004), but the climate is not presently receptive to such views. Even if this climate changes, the analysis of proposed new sources of revenue must take full cognisance of the embeddedness of devolution finance within the UK public expenditure system. Otherwise, consideration will be restricted to one aspect, without regard to system architecture, under which revenue 'follows' the establishment of expenditure ceilings.

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## NOTES

1. The Northern Ireland Assembly has been suspended since 14 October 2002 for reasons entirely unconnected with finance. This suspension is intended to be temporary and the financial arrangements described in this paper are unaffected by suspension. For convenience of exposition, reference is made to the three devolved administrations.
2. In 2002–03, the funding of the Scottish budget, defined to include expenditure self-financed by local authorities and other public bodies, took the following estimated proportions: 77% central government transfers, 3% assigned revenues, 3% borrowing, 2% EU funds and 15% own taxes. Of the ‘own taxes’, council tax gross of council tax benefit represented 50% (40% net) and non-domestic rate income represented 50%. The Scottish variable rate of income tax (tartan tax) was not used (HEALD and MCLEOD, 2002b). A reconciliation between planned provision and the grant to the Scottish Consolidated Fund appeared in successive Departmental Reports of the Scotland Office (before the machinery of government changes in July 2003); the latest year’s figures appear in the annual report of the SCOTLAND OFFICE (2004, Annex 2).
3. H.M. TREASURY (2004b, ch. 10) shows that unspent DEL by the devolved administrations may normally be carried forward to the next year.
4. However, see the footnotes to Table 1, which comment on how certain items, not shown as part of Non-assigned Budget DEL, are treated in a way that implies that they should be.
5. In the later days of cash accounting, all that was recorded in Total Managed Expenditure (generally AME) was the pension benefits paid to beneficiaries of the scheme less the contributions from employers and employees. Much more is recorded under RAB. The only pensions elements within DEL, which is the focus of the tables in this paper, are the employers’ contributions which are in line with the civil service, English teachers’ and NHS schemes. For the Scottish NHS and teachers’ schemes, the employers’ contributions were previously showing as a notional charge. Under FRS 17, this became a real charge, so that a DEL increase was afforded to the Scottish Assigned Budget. This was TME neutral as the contributions are scored as negative AME. The changes in Scotland arose from the desire to record the full RAB costs of all central government pension schemes. There are no separate pension schemes in Wales for NHS and Teachers, the relevant staff being members of England and Wales schemes. The changes that were made to Scottish baselines affected the pension schemes and not the direct spending on staff costs, thus no adjustments were applicable to Wales. Separate NHS and Teachers’ pension schemes exist in Northern Ireland, but the corresponding baseline changes have not yet been made.
6. The Reinvestment & Reform Initiative, which allows up to £200 million per annum additional borrowing by Northern Ireland provided that certain revenue generation targets are met, was presented by the UK government as the counterpart to GB local authority prudential borrowing. This expenditure is classified as Other AME and therefore outside the scope of Tables 9 and 10.
7. For analyses of the role of the Goschen formula, see MCCRONE (1999), HEALD and MCLEOD (2002c) and MITCHELL (2003).
8. There is evidence of this in the internal budgetary practices of the then Arts Council of Great Britain, of which the Scottish Arts Council was effectively a regional office. Professor Sir Alan Peacock, an eminent public finance economist, was a member of the Arts Council of Great Britain from 1986 to 1992, during which he was Chairman of the Scottish Arts Council. His Chairman’s Foreword to the Scottish Arts Council’s 1989–90 Annual Report refers to ministerial decisions on the future funding arrangements for the arts, noting also that ‘[The Minister] also confirmed that the “Goschen formula” system governing the allocation of funds to Scotland and Wales should continue in being’ (SCOTTISH ARTS COUNCIL, 1990, p. 5). This appears to have been a longstanding arrangement.
9. The ‘Statement of Principles’ enunciated on 9 December 1997 by Alistair Darling MP, then Chief Secretary to the Treasury (DARLING, 1997), is reprinted in each edition of the Statement of Funding Policy (H.M. TREASURY, 2004b, Annex A).
10. For example, the increments in SR 2000 used the population figures for 1999. That review determined initial spending allocations for 2001–02, 2002–03 and 2003–04. Thus, the 2003–04 allocation was based on 1999 population and it was not updated to take account of later population information. The allocation was subsequently changed because of further allocations to England, in Budget Statements (such as substantial additional expenditure for the National Health Service in the 2002 Budget) and SR 2002. In each case, the Barnett formula would be applied to the additions, using the latest population data available at the time the allocation is made; existing allocations would not be revised to take account of relative population changes subsequent to the allocation being made.
11. It was never intended that convergence would go so far, there being recognition that the territories have higher per capita needs (HEALD and MCLEOD, 2002a). This process, and the qualifications arising from relative population change, is mathematically modelled in CUTHBERT (2001) and HEALD (1996).
12. Previously, new expenditure baselines for horizon years (i.e. the first time a year comes into the Survey) were based on provision for the previous final year, adjusted broadly in line with inflation. The increment on which the formula operated did not therefore include this adjustment. This practice stopped, with effect from the 1993 Public Expenditure Survey, although this change was not announced until 1997 (H.M. TREASURY, 1997, particularly Annex 2, pp. 38–39).
13. The Treasury has on at least one occasion implemented an across-the-board percentage reduction in departmental baselines, at the initial stage of a survey, before then

- applying the formula. Whether by accident or design, this procedure allows ministers to state that the Barnett formula has been implemented, even though this procedure erodes the protection afforded by the formula to inherited expenditure. Money 'saved' by applying a constant percentage cut to the territorial blocks and to comparable expenditure can then be passed through the Barnett formula, generating formula consequences supplementary to those generated by year-on-year increases in comparable expenditure. Naturally, the arithmetical effect is disadvantageous to the territories because the constant percentage cut generates more 'savings' from their blocks than they subsequently receive back in these 'artificial' formula consequences. There have been no across-the-board reductions to the Assigned Budgets of the devolved administrations.
14. To monitor the change in DEL, it would also be necessary to take into account any changes in the Non-assigned Budget. The Non-assigned Budget has never been important and now comprises only the EU Peace Programme in Northern Ireland, and it is not considered further.
  15. Equivalent tables tracking the generation of formula consequences for Wales and for Northern Ireland have never been published.
  16. The comparability percentage measures 'the extent to which the relevant United Kingdom departmental programme is comparable with the services carried out by each devolved administration' (H.M. TREASURY, 2004b, p. 10).
  17. For technical reasons (the precise internal allocations of UK departments may not be known at the time the formula consequences are calculated), the formula is not applied to the precise increments for English comparable programmes. Instead, an approximation is made based on aggregate programmes broadly corresponding to UK departments. For each of these 'departments', the proportion of expenditure comparable in each territory is calculated at the beginning of the Spending Review, and published in successive editions of the Statement of Funding Policy (H.M. TREASURY, 1999, 2000a, 2002a, 2004b). The formula is then applied to the total increment for each department weighted by the appropriate comparability proportion.
  18. These numbers are the sum of the two 'transfer' rows in Table 5. For example, in 2003–04, £107 million + £22 million = £129 million.
  19. These numbers are the sum of all the individual 'Inter-Review policy changes' rows in Table 5.
  20. The baseline, which is effectively the sum to which Barnett and other additions are added, for these years was simply set at the existing provision for 2003–04. Presumably, a similar procedure would be undertaken for the UK departments with similar provision.
  21. CAP modulation is the name given to a provision that EU Member States may divert ('top-slice' in the jargon) part of the CAP money out of subsidies into other measures. Unlike other CAP payments, this seems to have been treated as DEL as part of the Non-assigned Budget in SR 2000 and SR 2002, and is now part of Assigned Budget DEL, with the devolved administrations receiving Barnett formula consequences from changes in DEFRA expenditure.
  22. Depreciation and other capital charges were classified as AME under Stage 1 RAB (the basis on which expenditure was managed after SR 2000), meaning that departments did not have to cope with in-year changes. This was an interim arrangement until full RAB implementation occurred from the SR 2002 settlement and financial year 2003–04.
  23. Technically, the Scotland Office and the Wales Office were amalgamated into the Department of Constitutional Affairs (DCA), which had also taken over some functions from the Lord Chancellor's Department, the Home Office and the Office of the Deputy Prime Minister. In practical terms, these two territorial offices have retained their separate identity within the DCA, which is responsible for their 'pay and rations'. For all practical purposes, they continue to report, respectively, to the Secretary of State for Scotland (Alistair Darling, who also holds the office of Secretary of State for Transport) and to the Secretary of State for Wales (Peter Hain, who also holds the offices of Leader of the House of Commons and Lord Privy Seal). Both Westminster Select Committees have remained in existence. From 2000 to 2003, the Scotland Office and the Wales Office both published departmental reports as part of the UK central government series. This absorption into the DCA meant that they could no longer publish a separate Departmental Report in the official series, the core contents of which are regulated by the Treasury. Ironically, the replacement Annual Reports (SCOTLAND OFFICE, 2004; WALES OFFICE, 2004) were published in the run of Command Paper (Cm) numbers reserved for Departmental Reports and appear to follow the Treasury's 'core requirements' circular. Because of the continuing suspension of the Northern Ireland Assembly (since 14 October 2002), the Northern Ireland Office was not affected by these machinery of government changes.
  24. In principle, technical accounting considerations (HEALD, 2003b; HODGES and MELLETT, 2005) govern whether a PFI-financed asset is included on the balance sheet of the public sector client. If it is, this results in it scoring within public expenditure allocations, often with the effect that an accounting decision that on-balance sheet treatment is appropriate would lead to no project being undertaken.
  25. The public expenditure treatment was that when the Edinburgh Royal Infirmary PFI scheme came on-balance sheet to the NHS, this was treated as a classification change, with the Assigned Budget being increased as a one-off change. At the signing of the contract in summer 1998, the guidance on the accounting treatment of PFI projects was still in a state of flux. At that time, it was determined, and confirmed by the then auditor, that the project would be off-balance sheet, on the basis of the Treasury's Technical Note on PFI accounting (H.M. TREASURY TASKFORCE, 1997), issued in advance of the Accounting Standard Board's FRS 5A (ACCOUNTING STANDARDS BOARD, 1998). When the new Edinburgh Royal Infirmary was completed, the PFI was judged to be on-balance sheet under the provisions of the Treasury's revised Technical Note (H.M. TREASURY TASKFORCE, 1999). The payment mechanism for the Edinburgh Royal Infirmary is not the same as for other hospital PFI deals in Scotland

- and, under the 1999 guidance, was deemed to transfer insufficient risk to the private sector for it to be accounted for off-balance sheet. Seven NHS hospital projects in England similarly moved on-balance sheet, and these were also dealt with by means of classification changes. The essential point was that arrangements entered into in good faith should not be penalized because of later changes in accounting regulation.
26. A comprehensive explanation of formula bypass is provided in HEALD (1994).
  27. In April 2004, whilst this paper was being refereed, the WALES OFFICE (2004) in its Annual Report 2004 published a reconciliation table between Wales DEL in PESA 2003 and in PESA 2004. This parallels the table published in the SCOTLAND OFFICE's (2004) Annual Report, prompted by the earlier requests of the Westminster Scottish Affairs Committee.
  28. The reclassification of expenditure from DEL to AME, for example, takes it outside the normal operation of the formula and into the realm of bilateral negotiation, a negotiation in which the UK government has the whip hand.
  29. The Public Administration Committee of the House of Commons has emphasized the desirability of proactive disclosure: 'Above all, *we recommend that the Cabinet Office needs to place continuous pressure on departments to promote the pro-active disclosure of information by public authorities, and to create a general disposition to disclose; and to encourage authorities to use to the full the possibilities of information technology in the process.* We note the impressive amount of information provided on the Internet by the BSE inquiry, which has won an award from the Campaign for Freedom of Information for its website' (PUBLIC ADMINISTRATION COMMITTEE, 1998, para. 111, original emphasis). With the coming into effect on 1 January 2005 of the Freedom of Information Act 2000, the respective roles of proactive and responsive disclosure have acquired a new salience.

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