



Members' Research Service – QuickGuide 13 Gwasanaeth Ymchwil yr Aelodau – HysbysHwylus 13



The Block Grant for Wales and the Barnett Formula

The United Kingdom Public Expenditure Regime

The responsibility for fiscal policy, macroeconomic policy and public expenditure allocation across the UK lies with the Treasury. As a result, the devolved administrations' budgets continue to be set within the framework of public expenditure control within the UK. Once the overall public expenditure budgets have been decided, the devolved administrations have the freedom to make their own decisions for spending on devolved programmes within these totals. They must ensure that their plans meet the Government's [fiscal rules](#)¹.

Funding for the devolved administration's budgets is usually determined within spending reviews alongside UK Government departments. Up until the 2006/07 financial year, after Parliament had voted the necessary provisions to the Secretary of State for Wales, he or she, in turn, paid a grant to the Welsh Assembly as set out in Part IV of the Government of Wales Act 1998². Part 5 of The Government of Wales Act 2006³ established the Welsh Consolidated Fund (WCF) into which the block grant from the Secretary of State will now be paid. This represents a very important change as, with very few exceptions, amounts may only be issued from the WCF if the Welsh Assembly has passed a motion to this effect.

Provision for the costs of the Wales Office is found from within the total resources voted by Parliament for the Department of Constitutional Affairs (DCA). These costs are separately identified within the DCA Estimate with their own request for resources.

Public Expenditure in Wales

Public expenditure in Wales is not funded exclusively by grant from the UK Parliament. Once the proportion of the budget that requires Exchequer funding is determined, Parliament votes the necessary provision by means of a grant. Further elements of the total budget are covered by funding from locally financed expenditure (including non-domestic rates), the European Commission and through borrowing by local authorities and other public bodies in Wales to fund their capital spending.

The total budget for Wales is composed of a number of separate categories of public expenditure.

- **Departmental Expenditure Limits (DEL)** – are firm, three year spending limits. Expenditure within DEL is split between those items within the **assigned budget** and those within the **non-assigned budget**. The assigned budget refers to spending within DEL that is undifferentiated, over which the Welsh Ministers have full discretion to determine their priorities. Exceptionally, spending within DEL may be ring-fenced to a specific spending priority; such spending is classed as non-assigned budget items.
- **Annually Managed Expenditure (AME)** – covers items for which the provision for the coming year is set and reviewed annually. AME cannot be recycled from one programme to another or recycled to increase the DEL. Expenditure in AME is classified as main departmental programmes or other AME spending. The former

¹ These are the Golden Rule and the Rule of Sustainable Investment

² <http://www.opsi.gov.uk/acts/acts1998/19980038.htm>

³ <http://www.opsi.gov.uk/ACTS/acts2006/20060032.htm>



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covers policy-specific, ring-fenced items where provision is included within the vote from Parliament. Other AME spending covers locally financed expenditure.

The table below, taken from the HM Treasury document, *Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly. A Statement of Funding Policy*⁴ summarises the current public expenditure regime in Wales.

Table 1. Composition of the Current Public Expenditure Regime in Wales

National Assembly for Wales Public Expenditure Regime		
2004- 05 onwards		
Assigned Budget	Non-assigned Budget	
Departmental Expenditure Limit (DEL):		Annually Managed Expenditure (AME):
Barnett Formula determined ¹	Non-Barnett determined	Main programme spending:
Secretary of State's Office		
Economic development, industry and training, education and arts, transport, planning and environment, local government, housing and social services and health Domestic agriculture Forestry (from 1 April 2001) Capital Receipts Initiative Trust Debt Remuneration ² Bus Fuel Duty Rebate		Common Agricultural Policy ³
		Housing Revenue Account Subsidy ³
		Other AME: Certain accrual items such as capital charges for roads
		Supporting people
		EMAs
		LA business growth incentive scheme
		Local Authority Self Financed Expenditure (LASFE) ⁴

Source: HMT

Notes ¹ Undifferentiated expenditure linked to changes in provision to UK Government departments the Barnett Formula

² Trust Debt Remuneration is both payments and receipts (interest and dividends)

³ Items of expenditure forecast or determined annually

⁴ Post devolution, determined by local authorities within framework set by the National Assembly

The Block Grant

The assigned element of the DEL is what is commonly referred to as the “block grant”. This is the proportion of the total budget over which the Welsh Ministers have complete discretion regarding its allocation across departments and services in Wales. Welsh Ministers have no discretion, however, over the total level of the assigned DEL.

⁴ [http://www.hm-treasury.gov.uk/media/CB2/3C/Funding_the_Scottish_Parliament_National_Assembly_for_Wales\(296kb\).pdf](http://www.hm-treasury.gov.uk/media/CB2/3C/Funding_the_Scottish_Parliament_National_Assembly_for_Wales(296kb).pdf)



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The following items also appear in the total Welsh block but are not classified as assigned DEL:

- Non-assigned DEL
- Annually Managed Expenditure (AME)
- EU Structural Funding
- Funding in relation to the Police Authorities in Wales
- Self-financed Expenditure by Local Authorities

The block grant (assigned DEL) for Wales is determined by a baseline level of spending, plus the Barnett consequentials arising from UK Government spending increase on comparable programmes in England. A schedule of comparable sub-programmes can be found in Annex B of the Welsh Assembly Government Cabinet Statement of October 6 2005 on the Barnett Formula⁵.

The Barnett Formula

The Barnett Formula determines changes to expenditure within the assigned budgets of the Devolved Administrations. It does not determine the overall size of the assigned DEL. Under the formula, the Welsh block will change by a population-based proportion of the changes in planned spending on comparable Government services in England. Three factors are considered in calculating changes to the assigned DEL using the Barnett Formula, as illustrated below:

Change to UK Government department Programme	X	Comparability percentage	X	Population proportion
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Comparability percentages describe the extent to which services delivered by UK Government departments correspond to services devolved to the Welsh Assembly Government. These are updated at the start of each spending review. Comparability percentages are calculated by examining the sub-programmes (components) within each departmental programme. Each sub-programme is weighted by its spending in the base year⁶ to give an overall level comparability.

For example, the comparability percentage for overall expenditure in health is 99.5% because nearly all matters related to health are devolved to the Welsh Assembly Government. In contrast, the comparability percentage for overall expenditure on transport is 63.8% as the Westminster Government retains responsibility for several major areas, including the Strategic Rail Authority and grants to Network Rail.

The population proportion used reflects the latest available mid-year estimate published by the Office for National Statistics (ONS). The treasury notifies the Welsh Ministers of the population proportions that will be used in advance. For the 2004 spending review, the 2003 mid-year estimates were applied. Wales's population as a proportion of the population of England was 5.89%.

⁵ <http://www.wales.gov.uk/organiccabinet/content/statements/2005/061005-barnett-e.doc>

⁶ The year immediately preceding a Spending Review



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A Hypothetical Worked Example⁷

Change to the Department of Health DEL and Department of Work and Pensions DEL and consequential change to the Welsh Assembly DEL:

Department of Health DEL change	+ £150 million
Comparability factor	99.5%
Population factor	5.89%
Consequential adjustment = £150m X 0.995 X 0.0589 = + £8.791 million	
Department of Work and Pensions DEL change	+ £150 million
Comparability factor	6.4%
Population factor	5.89%
Consequential adjustment = £150m X 0.064 X 0.0589 = + £0.565 million	

Calculations are made for each departmental programme in DEL and the sum of the results represents the aggregate net change to the assigned budget element of the DEL within the Welsh block. It is for the Welsh Ministers to allocate spending within this budget according to the priorities of the Welsh Assembly Government.



Further Information:

For further information on the topics below, double click on the links.

Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly [A Statement of Funding Policy \(July 2004\)](#)

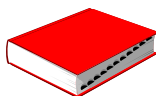
The 2004 Spending Review [Chapter 23 – Regions and Devolved Administrations](#)

ESRC Devolution Programme Discussion Paper [The Regional Distribution of Public Expenditures in the UK: An Exposition and Critique of the Barnett Formula](#)



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Glossary of terms

[Glossary of Public Finance Terms](#)

⁷ Reproduced from the Welsh Assembly Government Cabinet Written Statement