

Grant to Scottish Government, and Scotland Office funding



Day-to-day Spending (Resource DEL) Scottish Govt 5% of total Resource DEL

Increase in budget from last year: **£99 million (0.6%)**

This year's budget includes **£151million** more of Barnett Consequentials than last year's final budget. Other changes mean the overall net increase in Resource DEL is £99 million.

Spending Review 2015

The 2015 Spending Review planned modest nominal increases (but **real terms decreases**) to the Scottish Government's Resource DEL over four years, driven by budget changes for UK departments such as Health, where equivalent functions in Scotland are devolved and Scotland receives "Barnett consequentials".

Changes since the 2015 Spending Review Settlement

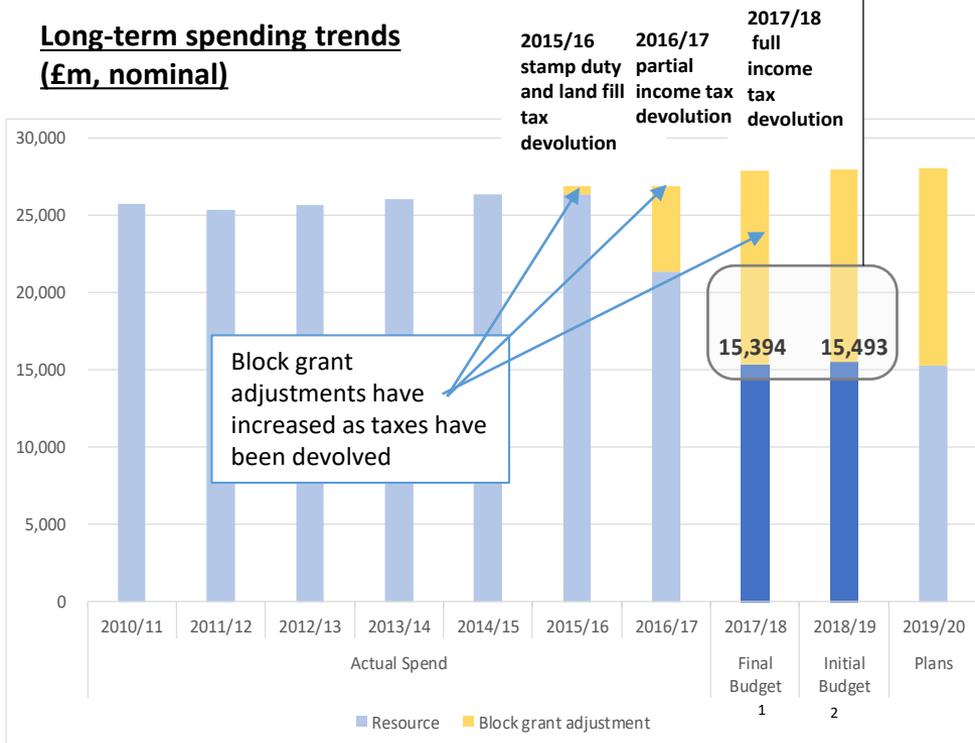
Since the 2015 SR, the Scottish Government's Resource DEL has been reduced to reflect the devolution of taxes (stamp duty, landfill tax and income tax). The reductions (known as "block grant adjustments") reflect assumptions about what Scotland would receive from these taxes, if Scotland maintained the same tax policies as the rest of the UK.

The Scottish Government now determines its own policies and rates for devolved taxes, although in the case of income tax, the amounts collected under rates set by the Scottish Government is collected by HMRC and passed over to the Scottish Government separately. Since the 2015 Spending Review Settlement, the following changes have been made to the planned Scottish Government Resource DEL for 2018-19:

Increases of
- **£500 million of further "Barnett Consequentials"**- additional funding for Scotland, given because the UK Government has decided to allocate additional money for other parts of the UK for functions that are devolved in Scotland. For a detailed break-down, see Main Estimate Memorandum (Section 5).

A decrease of
- **£12,472 million block grant adjustment** to take into account some taxes are now devolved, and the Scottish Government receives or collects revenue from these separately.

Long-term spending trends (£m, nominal)



¹ Final budget at Supplementary Estimates 2016-17 (Feb 2017)
² Initial budget as at Main Estimates 2017-18 (April 2017)

Excluding the effect of block grant reductions, there has been a 4% nominal increase (which is real terms reduction of 1%) in the Scottish Government's Resource DEL since 2015-16. The further Barnett Consequentials set out above have meant that the grant has not reduced as much in real terms as expected in the 2015 Spending Review plans

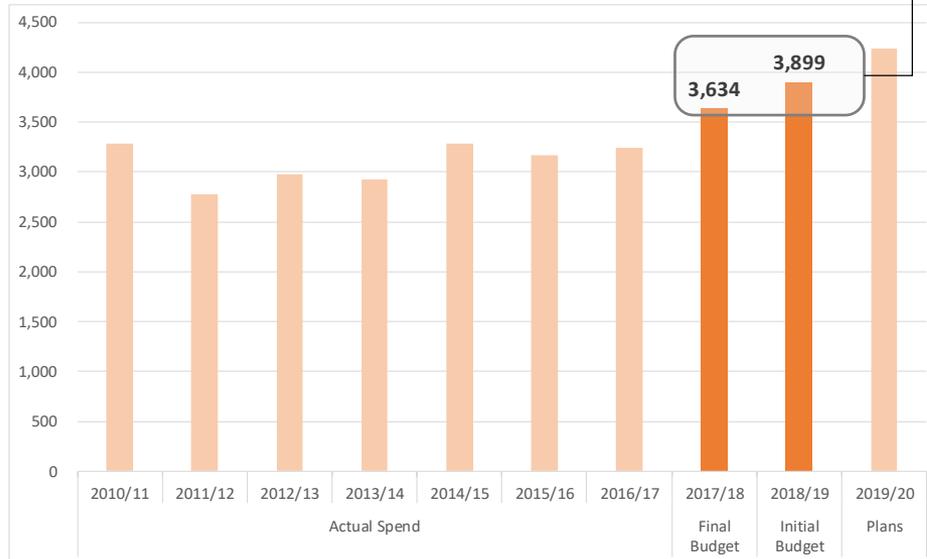
Scottish Govt 6 % of total Capital DEL

Investment Spending (Capital DEL)

Increase in budget from last year: **£265 million (7%)**

This year's budget includes £206 million more of Barnett Consequentials than last year. The Spending Review Settlement for 2018-19 also planned for approx £50 million higher capital budget than the previous year.

Long-term spending trends (£m, nominal)



Spending Review 2015

The Spending Review planned modest nominal increases to the Scottish Government's Capital DEL over four years, driven by increases for UK departments such as Transport, where equivalent functions in Scotland are devolved and Scotland receives "Barnett consequentials".

Changes since the 2015 Spending Review Settlement

Since the 2015 Spending Review settlement, the following changes have been made to the Scottish Government's 2018-19 investment budget

Increases of

- £565 million Barnett Consequentials

Additional funding for Scotland, given because the UK Government has decided to allocate additional money for other parts of the UK, and needs to give Scotland an equivalent amount. For a detailed break-down see Main Estimate Memorandum (Section 5)

- Additional funds for City Deals – Aberdeen (£18 million investment); Edinburgh (£20 million investment); Inverness (£8 million investment) *(Note in addition Inverness has been awarded £3 million resource)*

*Overall, there has been a real terms **increase of 17%** in the Scottish Government's capital DEL budget since 2015-16*

¹ Final budget at Supplementary Estimates 2016-17 (Feb 2017)

² Initial budget as at Main Estimates 2017-18 (April 2017)



What shows up in the Estimate:



The Scotland Office Estimate includes:

- ✓ **Cash grant to Scotland Government** - this is derived from Scotland Government's budget [[Resource DEL](#) + [Capital DEL](#) + Annually Managed Expenditure] *with adjustments taking out non-cash items such as depreciation and for timing differences*

Cash grant is **£17,324 million** (3% greater than last year's revised budget)

- ✓ **Pay-over of income tax** – this is income tax that HMRC collects on behalf of the Scottish Government and is then **paid over to the Scottish Government**.

Pay-over of income tax is **£12,115 million** (2% greater than last year's revised budget)



What shows up in the Estimate:

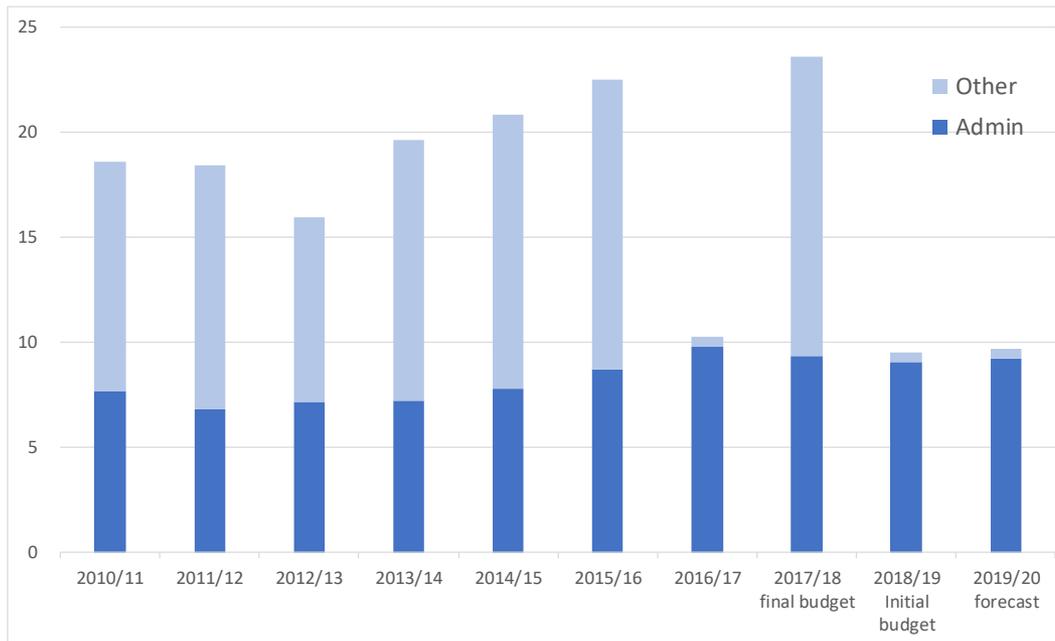


The Scotland Office Estimate includes:

✓ Funding for the Scotland Office

UK ministerial department responsible for the smooth working of the devolution settlement and relations between the UK and Scottish Government

Resource (day to day spending) DEL budget **£9.5 million** (£14million less than last year's budget which included expenditure for the General Election). **Chart below shows trend from 2010/11,** Capital (investment) DEL budget is small, **at £0.05 million**



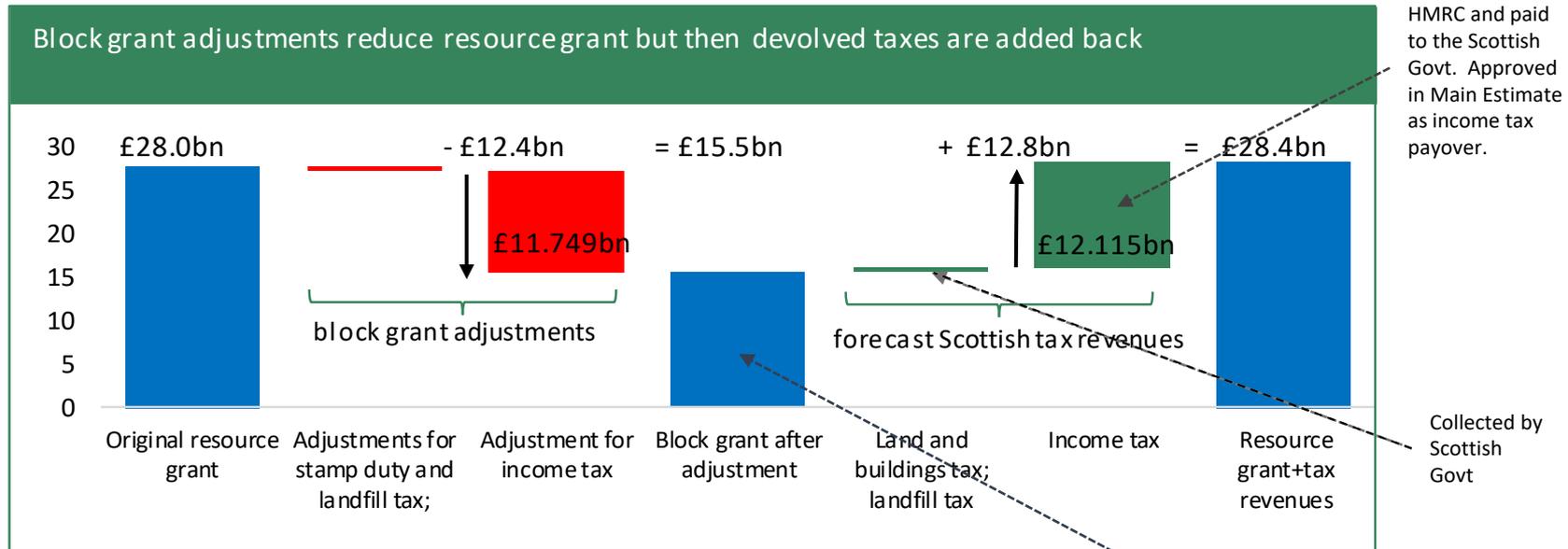
The 2015 Spending Review sought to protect the spending of Territorial Offices in real terms. This is by and large happening for the core Scotland Office administration budget.

The large fluctuations in “other” expenditure in the years 2015/16 onwards are due to election spending in particular years.



CONTEXT: How block grant adjustments work from the Scottish Government perspective?

After the block grant has been adjusted and devolved tax revenues accounted for, the Scottish Government's tax decisions are forecast to add **around £0.4 billion of additional funding in 2018/19**



Based on diagram in <https://secondreading.parliament.uk/parliament-and-elections/devolution/devolution-part-2-changes-to-devolved-funding/>

Notes:

Forecast Scottish tax revenues in the Main Estimate are Scottish fiscal forecasts from the Scottish Draft Budget 2018-19 (January 2018). <https://digitalpublications.parliament.scot/ResearchBriefings/Report/2017/12/18/Draft-Budget-2018-19#Block-grant-adjustment--BGA->
The forecasts have been revised slightly since then.

Block grant adjustment also include other minor adjustments such as for fixed penalties etc. These are excluded from the block grant adjustment in this analysis to more clearly show the impact of taxes.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669844/Block_Grant_Transparency.xlsx



Scottish Income Tax :

In 2017/18, the **2016 Scotland Act** in relation to income tax came into effect. This means **the Scottish Parliament has the power to set all income tax rates and bands** (except the personal allowance, which remains reserved)

Scottish tax payers pay more tax:

Scottish Parliament set the following income tax rates and bands for 2018-19

- Starter rate £11,850 - £13,850 – 19%
- Basic rate £13,850-£24,000 – 20%
- Intermediate rate £24,000- £43,000 – 21%
- Higher rate £43,430- £150,000 – 41%
- Top rate above £150,000 – 46%

Rest of UK tax rates

- £11,850 - £46,350 Basic rate 20%
- £46,351 - £150,000 Higher rate 40%
- Over £150,000 Additional rate 45%

Block grant adjustment for Scottish Rate of income tax:

Reduction of £11.749bn

This is how much Scotland's block grant is reduced by because **Scotland now receives additional revenue from its own taxes** .It is an estimate of income Scotland would receive, had the Scottish government retained taxes in line with the rest of the UK. *It is determined by rates of income tax in the rest of the UK*



Pay-over of Scottish income tax:

Transfer of £12.115bn to Scottish Government

The HMRC collects income tax in Scotland on behalf of Scottish Government. Then **this tax is transferred from HMRC back to Scotland**
Pay-over of Scottish income tax is determined by rates of income tax in Scotland



Pay-over of Scottish income tax **>** Block grant reduction
£12.115bn **£11.749bn**

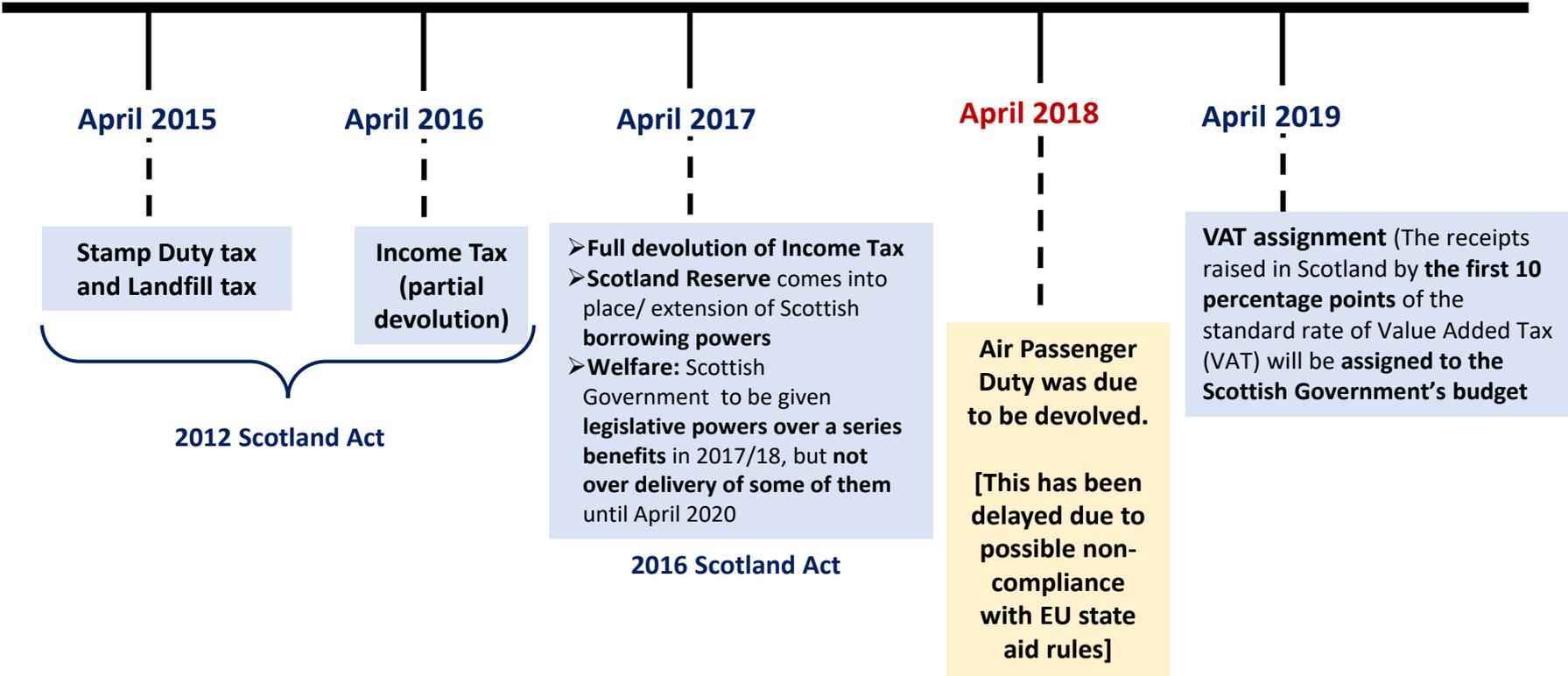
The difference reflects the higher amounts of tax the Scottish Govt expects to receive for devolved taxes, compared to what would have been received had Scotland kept these taxes in line with the rest of the UK



Devolution of Powers: **TIMELINE**

Holyrood

ADDITIONAL POWERS DEVOLVED:



The Barnett Formula

