Introduction

This Help Sheet provides a supplement to the discussions of debates over welfare funding in the devolved administrations addressed in the Companion and should be used in conjunction with Help Sheet 3.

The Pre-2016 Fiscal Framework in Scotland, Wales and Northern Ireland

Until 2016 responsibility for fiscal policy, revenue raising and public expenditure across the UK rested with the Treasury and the main sources of finance for the devolved administrations were the block grants allocated by the UK Government. Like departmental allocations these were determined by the Spending Review, with those for the devolved administrations calculated according to the population-based Barnett Formula. Once set, the respective administrations determined how their ‘share’ was spent according to their objectives and priorities for the areas within their differing powers.

Though the Spending Review and associate processes remain key, since 2016 there have been varying degrees of fiscal devolution. This has been most pronounced in Scotland where there have been significant funding changes and a rebalancing of the devolved and reserved powers of the Scottish and UK Governments.

Fiscal Devolution In Scotland and the Budgetary Process in Scotland

The changes in Scotland mean that much of the Scottish Government’s spending is funded from Scottish taxes, with the rest from the block grant and borrowing. It also has new powers over welfare (social security) spending. These changes are enshrined in:

The 2012 Scotland Act

This empowered the Scottish Parliament to:

- introduce and set a Scottish rate of income tax (SRIT) for Scottish tax-payers, administered by HM Revenue and Customs (implemented in 2016);
- raise taxes on land transactions and landfill waste disposal (replacing the existing system from 2015);
- establish new taxes in Scotland.

The 2016 Fiscal Framework Agreement

In publishing the Fiscal Framework Agreement (summarised later) detailing the arrangements for fiscal devolution February 2016 the UK and Scottish administrations held this meant that from 2016 over 50% of the Scottish Government’s Budget would be funded from Scottish taxes.

The income tax powers under the 1998 Scotland Act were not used. Under the 2012 legislation UK income tax rates do not apply to Scotland. Instead the UK element of income tax is 10 per cent lower than the rest of the UK with the Scottish Parliament setting its element which may equal the 10 per cent or be lower/higher. The administration of other taxes is the responsibility of Revenue Scotland, established in 2015.
This agreement between the Scottish and UK Governments provides the basis for the devolution of a range of fiscal powers, its key provisions being:

- confirmation of the devolution of powers over Scottish income tax;
- an adjustment to the block grant to reflect the changes in the Scottish Government’s powers, with the Barnett formula being retained and extended to cover the areas of devolved welfare and the method used to calculate it ensuring no detriment as a result of the new tax-raising powers;
- arrangements for additional new borrowing powers for the Scottish Government;
- independent forecasts of the Scottish tax revenue, demand-led welfare spending and onshore GDP to be provide by the Scottish Fiscal Commission;
- the block grant adjustments to be subject to independent review by the end of 2021 with a method for calculating the grant from the 2022 financial year to be jointly agreed by the two Governments;
- UK financial support (£200 million) to help implement the new powers.

**The 2016 Scotland Act**

Underpinned by the Fiscal Framework Agreement this is an enabling act that amended and extended the 1998 and 2012 Acts and gave extra powers to the Scottish Parliament and Government, including:

- the creation of Scottish tax-payers income tax rates and bands (from 2017 under the Fiscal Framework);
- setting the rate of other taxes including air passenger duty (from 2018 under the Fiscal Framework);
- the right to receive half the VAT raised in Scotland (from 2019–20 under the Fiscal Framework);
- control over aspects of a range of welfare and housing-related benefits, Personal Independence Payments and Disability Living, Attendance and Carer’s Allowances and various one-off payments;
- topping up reserved benefits including UK tax credits and jobseeker’s allowance;
- providing employment programmes.

**The Scottish Fiscal Commission**

Founded in 2014 and placed on a statutory basis in 2016, this independent watchdog is tasked with scrutinising the Scottish Governments’ economic and fiscal forecasts, including (as noted above) tax receipts, demand-driven welfare spending and onshore GDP.³

**The Budget Process**

Whilst fiscal devolution entails greater complexity, more public consultation and extensive lobbying both within the Government as Ministers press their case and by pressure groups, the budgetary process revolves around a number of steps, ordinarily commencing in the autumn:

- The Draft Budget Scrutiny Phase, which centres on the presentation of the Government’s plans, priorities and tax policies for the following year. An Equalities Statement is published alongside it. The draft Budget is then subject to public consultation/ commentary from various experts

³ Forecasts for devolved taxes are also provided by the Office for Budget Responsibility (OBR) up to 2018/19 (see Help Sheet 3).
and affected bodies as well as scrutiny by the Parliamentary Subject Committees that cover the various Ministerial portfolios. It is also examined by the Finance Committee, which draws the various recommendations together in a report for Parliamentary debate, the outcomes of which feed into the next phase.

• The Budget Bill Phase, which opens with the introduction of the finalised bill, followed by a three-stage consideration by Parliament comprising a debate, a Finance Committee evidence session and a final debate.

Once passed and given the Royal Assent the bill is enacted as a Budget (Scotland) Act. In addition in the Parliamentary session prior to the UK Spending Review there is a Budget Strategy Phase. In a process that can flow into the Government’s planning, this enables Parliamentary Committees to scrutinise the Government’s progress and priorities, with a Finance Committee report providing the basis for a debate.

Fiscal Devolution and the Budgetary Process in Wales

Fiscal devolution has been slower in Wales than Scotland, but from 2018 under the 2014 Wales Act the Government will have gained:

• Assembly powers to set new rates for a Welsh rate of income tax, subject to a referendum;
• powers to create new taxes in the future (subject to the agreement of the UK Parliament and the Assembly);
• greater borrowing powers;
• some tax-raising powers (the land transaction and landfill taxes, replacing stamp duty land and landfill waste disposal taxes.

The Act also opened the way for establishing a Wales-specific Fiscal Framework. Further proposals for fiscal devolution to largely parallel those given to Scotland from 2017 were made by the UK Government in 2015–16.

The OBR provides tax forecasts. In line with the 2015 Well-Being of Future Generations (Wales) Act Budget planning focuses particularly on programme level outputs and population outcomes and is accompanied by lobbying within and beyond the Government over allocations to different ministerial portfolios (the main expenditure groups) and programme spending areas.

The formal Budget process operates in two phases normally starting in the autumn:

• The presentation of the Draft Budget Proposals, which are published along with a Strategic Impact Assessment covering both equalities issues and the rights of the child. The Proposals both draw on and allow for various forms of consultation with service users, front-line staff, affected agencies and the public. Once tabled it is also scrutinised by Subject Committees (covering different Ministers’ areas of responsibility) and the Finance Committee. The latter presents an overarching report for consideration by the Assembly that can feed into the finalisation of the Budget.
• The Final Budget/Annual Budget Motion, which is restricted to voting on the finalised Budget, though the debate allows MPs to voice any concerns.

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4 This is complemented by provisions in 2016 for a Welsh Revenue Authority to oversee the collection of devolved taxes (with HMRC retaining responsibility for income tax).

The Fiscal Framework and Budgetary Process in Northern Ireland

Fiscal devolution in Northern Ireland is limited, though corporation tax rate setting will be devolved from 2018, the Executive has relatively extensive borrowing powers and there are pressures both for a stronger fiscal framework with an independent watchdog and for a rebalancing on the lines set by Scotland and Wales. The OBR is responsible for providing tax forecasts.

The power-sharing system means that negotiations over the Budget, department’s bidding and external lobbying are highly complex. But the formal Budget process, which ordinarily commences in the autumn, entails:

- The presentation of a Draft Budget laying out the Executive’s spending plans and priorities and departmental allocations for the following year and including a consideration of equalities impacts. This is then subject to a period of extensive public consultation as well as scrutiny by the Statutory Assembly Committees (there is one for each Minister).
- The final Budget Bill is then considered by the Assembly, starting with its formal introduction, followed by the second stage debate, the consideration and further consideration stages and the final debate and vote.

Once it has received the Royal Assent it is passed as a Budget (Northern Ireland) Act.

Further Reading

The background to and the debates over public spending and taxation in the devolved nations can be in Part IV of the Companion. Their governing party’s/parties’ fiscal policies and spending plans can be found at: www.gov.scot; www.gov.wales; www.northernireland.gov.uk.