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The OBR's role in the devolved fiscal frameworks

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This article explains the OBR's role in the devolved fiscal frameworks, including how our forecasts are used as part of the calculation of devolved government funding.

Introduction

1 The current system of fiscal devolution to Scotland, Wales and Northern Ireland began in 1998 with the passing of the Scotland Act, the Government of Wales Act, and the Northern Ireland Act. Since then, further devolution has occurred through subsequent agreements and fiscal frameworks between the UK and devolved governments.

2 The OBR's remit requires us to report on the status of the whole of the UK's public finances. This means that we forecast the total spending and tax revenues of the devolved governments, as these form a key component of the overall UK public finances. However, we also have some specific roles in the devolved fiscal frameworks where our forecasts are used to set part of the funding for devolved governments. This article explains the OBR's role in the devolved fiscal frameworks in more detail.

Background to devolved government funding

3 To understand the OBR's role in the devolved fiscal frameworks it is necessary to understand how the devolved governments are funded. Chart 1 breaks down the major funding components of the Scottish Government, Welsh Government and Northern Ireland Executive budgets in 2024-25.[1] It shows that:

- The block grant from the UK Government accounted for around 58, 80 and 95 per cent of funding of the Scottish Government, Welsh Government and Northern Ireland Executive budgets, respectively, in 2024-25. The grant is set at UK Government spending reviews and updated at fiscal events. It is largely determined by the Barnett formula, which adjusts devolved funding in line with changes in comparable spending

[1] We exclude from these calculations UK Government-funded annually managed expenditure (AME), which reflects demand-led spending funded by the UK Government, such as certain public service pensions, student loans and Northern Ireland social security. We also exclude funding for non-cash items such as depreciation and student loan write-offs.

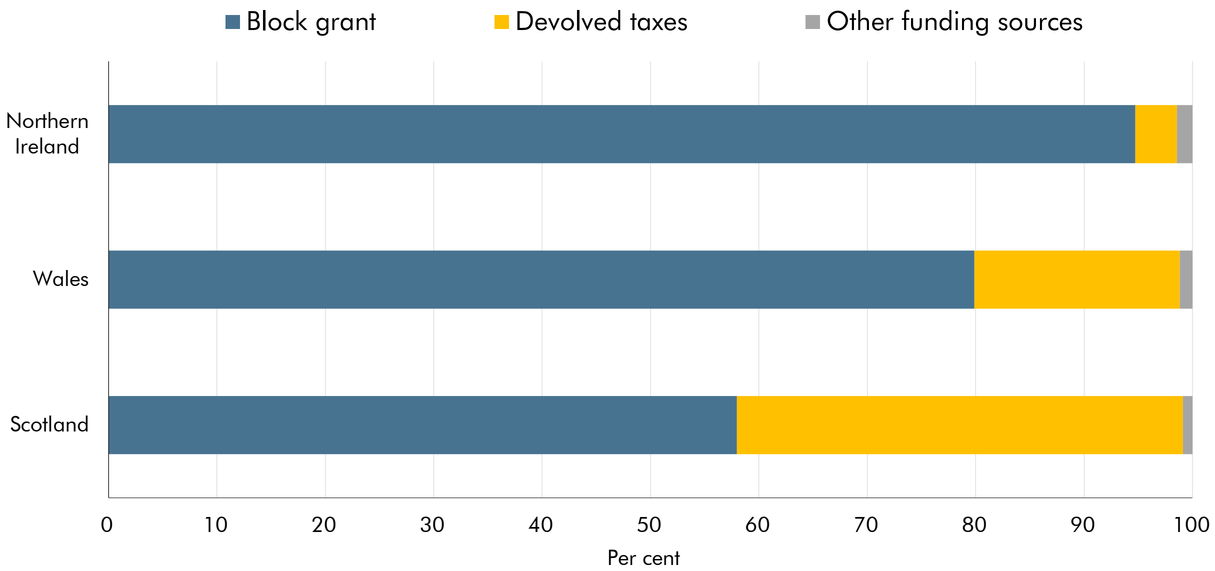
by UK Government departments.[2] Devolved governments also receive some funding through the block grant which is not based on the Barnett formula.

- Devolved taxes constituted around 41, 19 and 4 per cent of total funding of the Scottish Government, Welsh Government and Northern Ireland Executive budgets, respectively, in 2024-25. In Scotland and Wales, non-savings non-dividend (NSND) income tax is the largest component of this. For Scotland, all rates and bands of NSND income tax are devolved except for the personal allowance, whereas for Wales only the first 10p of each NSND band is devolved. Income tax in Northern Ireland remains reserved to the UK Government so is not part of the Executive's funding, with only local taxes and long-haul air passenger duty devolved.

- Other funding sources are much smaller and include other revenue sources, as well as the use of specific reserves and borrowing powers, the extent of which varies between the devolved governments.[3]

Chart 1: Components of devolved budgets

Funding components of the Northern Ireland Executive, Welsh Government and Scottish Government budgets in 2024-25



Note: The block grant is presented net of block grant adjustments and reconciliations. Other funding sources include borrowing and the use of reserves. We exclude from these calculations UK Government-funded annually managed expenditure (AME) and funding for non-cash items such as depreciation and student loan write-offs.
Source: HM Treasury, Northern Ireland Fiscal Council, Scottish Fiscal Commission, Welsh Government, OBR

4 Since the 2010s, changes to the block grant, known as block grant adjustments (BGAs), have been made to reflect the devolution of tax and social security powers. These

[2] The Barnett formula takes the change in the relevant UK Government department's budget for a devolved service, and scales it by relative population and a 'comparability factor' reflecting the extent to which the service is devolved. For Wales and Northern Ireland, there are additional 'needs-based' factors, and a 'VAT abatement factor' for the latter.
[3] Specifically, all devolved governments have resource borrowing powers for in-year cash management and capital borrowing powers. The Scottish and Welsh Governments also have resource borrowing powers to address forecast errors associated with devolved tax revenues or social security spending and the corresponding block grant adjustments, and the power to issue bonds for capital borrowing with Treasury agreement.

adjustments reduce funding from the UK Government to reflect the devolution of tax powers and, for the Scottish Government, increase funding to account for the devolution of social security powers. The BGAs are calculated separately for each tax and spending stream and change from year to year based on how taxation and spending are expected to evolve in the 'rest of the UK'.[4] This means that the devolved governments retain the budgetary impact of differences in the growth of devolved tax revenues and social security spending relative to the rest of the UK.

5 In Scotland, the BGAs are calculated using an 'indexed per capita' method, through which they are grown in line with the equivalent revenues (or spending in the case of social security) per person in the rest of the UK. In Wales, the BGAs are calculated using the 'comparable' model, under which the previous year's BGA is increased or decreased by Wales's population share of the change in equivalent cash revenues for the rest of the UK adjusted by a comparability factor (which reflects tax revenue per person in Wales as a proportion of revenue per person in the rest of the UK at the time of devolution).[5]

6 We have no role in the calculation of the block grant or BGAs, which fall under the Treasury's remit. However, the BGA calculations draw on our forecasts for 'rest of the UK' taxation and social security spending, described further below.[6]

The OBR's role in the devolved fiscal frameworks

7 The OBR only has a formal role within the Scottish and Welsh fiscal frameworks. This relates both to the way in which the funding formulas have been designed and to differences in the devolved tax and social security powers that underpin the frameworks.

8 The Scottish Government and Welsh Government fiscal frameworks require the OBR to publish forecasts of the relevant UK Government taxes and spending, which are used to calculate the BGAs.[7] The largest component of this is UK Government NSND income tax (specifically NSND income tax in England and Northern Ireland). As detailed data for NSND income tax, including by geography, is only available with a lag and to ensure consistency with our overall UK income tax forecast, our forecast for England and Northern Ireland NSND income tax is based on taking our overall UK forecast and subtracting forecasts of the Scottish and Welsh shares of total UK liabilities from this. For other taxes and social security spending, where UK Government revenues and spending are separately identifiable on a more timely basis, we forecast these streams separately. We publish these UK Government tax and spending forecasts alongside our forecasts for devolved tax revenues in our Devolved tax and spending forecasts document, which accompanies each Economic and fiscal outlook.

[4] 'Rest of UK' refers to those parts of the UK where the corresponding tax or spending responsibility has not been devolved, and therefore differs by tax and spending area.
[5] For more detail on differences between the Welsh and Scottish block grant adjustment mechanisms, see Box 5.1 of our November 2025 *Devolved tax and spending forecasts*.
[6] An exception to this is in Northern Ireland where the air passenger duty block grant adjustment is based on passenger numbers.
[7] Specifically, revenues in England and Northern Ireland, with the exception of Scottish aggregates tax, which is based on revenues in England, Wales and Northern Ireland.

9 For Scotland, these include the forecasts for land and buildings transaction tax, Scottish landfill tax and Scottish aggregates tax and their UK Government equivalent taxes. In addition, we publish forecasts of social security spending in England and Wales which form the basis of the social security BGAs. While our forecasts for Scottish devolved tax revenues feed into our UK receipts forecasts, the official forecasts for the Scottish Government are produced by the Scottish Fiscal Commission (SFC).

10 For Wales, we publish forecasts of Welsh rates of income tax, land transactions tax and landfill disposals tax and their UK Government equivalents (specifically revenues in England and Northern Ireland), which form the basis of the BGAs. Since 2019, we have also provided the official forecasts of devolved Welsh taxes for the Welsh Government. We work closely with Welsh Government colleagues to produce these forecasts, which are also published in the Welsh taxes outlook (WTO), alongside the Welsh Government's draft and final budgets.

The net tax position

11 Devolved governments base their budgets on projections of the net tax position: the difference between the revenue raised from devolved taxes and the corresponding block grant adjustment. This measure summarises whether tax devolution is increasing or reducing the funding available to the devolved administrations. Our recent analysis shows that both Scotland and Wales have a positive net tax position driven primarily by income tax. In Scotland, this is due to increases to income tax rates since devolution, with those on higher incomes taxed relatively more than in the rest of the UK. In Wales, although income tax rates have remained aligned with those in England and Northern Ireland, the positive net position reflects the interaction between UK Government threshold freezes and the Welsh income distribution. Because Wales has a relatively higher proportion of taxpayers at the lower end of the income distribution, relatively more taxpayers have been brought into paying income tax or into higher tax bands than in England and Northern Ireland, resulting in a larger increase in average tax rates.[8]

12 As Scottish Government and Welsh Government budgets are based on forecasts, funding is subsequently adjusted to reflect differences between forecast and outturn. For devolved taxes other than income tax, this is mostly managed in-year. However, because outturn income tax receipts are only available with a lag, differences between forecast and outturn are instead reflected through a later 'reconciliation' applied to a subsequent budget. In Scotland, income tax reconciliations reflect differences between the SFC's forecast of Scottish income tax revenues and the OBR's forecast of equivalent England and Northern Ireland receipts used to calculate the corresponding BGA. We are exploring the implications in Scotland of using forecasts from two separate institutions for income tax further with colleagues at the SFC and will publish an article on this later this year.

[8] For more details on the impact of fiscal drag on the Welsh income tax net position, see Box 5.1 of our WTO.

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