

# A Public expenditure by country, region and function

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**A.1** This chapter presents analyses of public expenditure by country, region and function. Data in this Chapter for all years are National Statistics. Readers need to bear in mind two points about this chapter:

- most public spending is planned to benefit categories of individuals and enterprises irrespective of location, or where locations are prioritised using national criteria. The regional analyses presented in this chapter show where the individuals and enterprises that benefited from public spending were located. It does not mean that all such spending was planned to benefit a particular region, though a proportion of public spending is planned on a regional basis; and
- the information in **Chapters A and B** was gathered in a separate data collection exercise during the summer of 2011. Therefore, the figures in these chapters are not entirely consistent with the figures in the other PESA update tables published alongside the CRA.

## How public expenditure is planned and controlled

**A.2** Public expenditure is planned and controlled on a departmental basis, except where devolved responsibility lies with the Scottish Government, Welsh Assembly Government or Northern Ireland Assembly, or with local government. This means that in several areas expenditure is planned on a UK-wide or GB-wide basis rather than by reference to a single country. For example the Department for Work and Pensions (DWP) is responsible for the operation of the social security benefit system throughout Great Britain.

**A.3** The Country and Regional Analysis (CRA) exercise is a statistical analysis. It plays no direct part in resource allocation.

## The tables

**A.4** Most of the tables in this chapter provide an analysis of spending for the period 2006-07 to 2010-11. Information on methods and data quality is provided in the sections below.

**A.5** **Table A.1** shows identifiable public sector expenditure on services by country and region. **Table A.2** shows this spending on a per head basis. **Table A.3** is in real terms and **Table A.4** shows this real terms spending on a per head basis.

**A.6** **Tables A.5 to A.14** each focus on a particular function, showing current, capital and total public sector expenditure by country and region.

**A.7** **Table A.15** shows identifiable public sector spending by function, country and region on a per head basis. **Table A.16** shows these per head figures as percentages of the UK totals.

**A.8** **Tables A.17 to A.20** provide a sectoral breakdown of **Tables A.1 and A.2**. **Table A.17** shows the country and regional allocations of local government expenditure, and **Table A.18** shows this on a per head basis. **Tables A.19 and A.20** show the equivalent presentations for combined central government and public corporation spending.

**A.9** For Scotland, Wales and Northern Ireland, **Table A.21** shows the relative contributions of the devolved administrations, Whitehall departments and local government under each functional heading. This table covers 2010-11 only.

**A.10** Shortly after the publication of this PESA update, the Treasury will publish supplementary tables on its website. This will include the information in **Table A.21** for earlier years, as well as interactive tables that allow users to choose how they view the data.

## Methods

### The process of apportioning expenditure by country and region

**A.11** In order to provide information on the allocation of expenditure by country and region, the Treasury asks the UK government departments and devolved administrations to undertake an annual statistical exercise. The exercise is based on devolved administration spending and the subset of departmental spending that can be identified as benefiting the population of individual regions. It asks departments and devolved administrations to apportion that spending between countries and regions following guidance issued by the Treasury. The Treasury then collates departments' returns and combines these with the known spending of local government to produce the analyses of public expenditure by country and region that are published in this chapter and in Departmental Reports.

**A.12** The figures in this chapter include a wider coverage of expenditure for Scotland, Wales and Northern Ireland than that for which the devolved administrations and the Secretaries of State for Scotland, Wales and Northern Ireland are directly responsible.

### How to attribute expenditure to countries and regions

**A.13** Expenditure is attributed to a specific country or region using the 'for' basis, which records the regions that benefited from the spending, or whom the spending was for, rather than the location where the spending took place (the 'in' basis). For most spending the 'in' and 'for' bases would in practice offer the same result.

**A.14** A number of issues can be identified limiting the ability to offer a complete picture of 'who benefits':

- **practical difficulties:** for example, schools are not used solely by the residents of the region in which the facility is located. Definitional and border problems become increasingly significant the smaller the geographical unit considered;
- **conceptual problems:** for example, agricultural support is treated as benefiting the farmers who receive subsidies rather than the final consumers of food; and
- **data collection issues:** departments are encouraged but not required to allocate all expenditure on the basis of 'who benefits'. If spending is not significant (less than £20m annually on capital or current) and/or relevant data for allocating this to regions are not available, departments may use some statistical proxy instead. This might include using straight population shares, or using the same regional allocation proportions as other related spending. It is not considered practical or cost effective to collect local government spending data on the basis of 'who benefits'. Instead, local government spending is assumed to benefit the area where the expenditure is incurred.

The other main limitation of the 'for' basis is that this can only cover the amount of spending (currently approximately 83 per cent of Total Managed Expenditure (TME)<sup>1</sup>) that can be identified as benefiting individual regions. The remainder cannot be attributed as benefiting specific regions (such as most defence spending) and so is considered to benefit the UK as a whole.

### Identifiable expenditure on services

**A.15** The country and regional analyses are set within the overall framework of expenditure on services (TES), which broadly represents total current and capital spending of the public sector. See **Annex E** for further information on this framework. For the country and regional analyses, expenditure on services is divided into identifiable and non-identifiable expenditure:

- **identifiable** expenditure is that which can be recognised as having been incurred for the benefit of individuals, enterprises or communities within particular regions. Examples are most health, education, and social protection spending; and
- **non-identifiable** expenditure cannot be classified as benefiting particular regions or countries and is deemed to be incurred on behalf of the United Kingdom as a whole. Examples include the majority of expenditure on defence, overseas representation, and tax collection.

**A.16** Where precise accounting data on the recipients' location are not available, allocation is based on other available information, following rules set down in the Treasury's guidance for departments. For example, administration costs incurred centrally in support of regional spending are attributed to regions in the same proportions as the spending that they support. In other cases, departments approximate regional benefits where the immediate beneficiaries' head office locations mask the final recipients' location.

**A.17** Expenditure financed by EU receipts can be classified as identifiable or non-identifiable depending on the characteristics of the expenditure itself. Receipts from the EU are treated as non-identifiable within TES. Consequently, regional expenditure includes the expenditure financed by EU receipts. Payments to the EU are attributed to 'outside UK' as these are transfer payments that the EU then spends.

### Data on public expenditure by country and region

**A.18** The tables present the spending attributed to the English regions alongside the spending attributed to Scotland, Wales and Northern Ireland. Although the figures are comparable, care is still needed when making comparisons because of the different scope of public sector activities in different countries. For example, water supply is a public sector function in Scotland and Northern Ireland, but is in the private sector in England and Wales.

**A.19** The data cover central government, local government and public corporations.

**A.20** The information in this chapter on the spending of Whitehall departments and devolved administrations is based on aggregate data recorded on the Treasury's public spending database for the National Statistics release in July 2011. This is to allow departments and devolved administrations sufficient time to complete the regional allocation exercise.

**A.21** Information on local government spending in the CRA is based on data supplied by the departments for Communities and Local Government (CLG), Education (DfE), and Work and Pensions (DWP), as well as the devolved administrations. English local government spending is attributed to regions by the Treasury using information supplied by CLG.

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<sup>1</sup> TME outturn figures are consistent with the joint ONS/HMT Monthly Public Sector Finance Statistics release of 21 June 2010.

## Data quality

**A.22** The CRA is intended to give a broad picture of relative spending for the benefit of different regions and countries. Small differences in regional spending should not be treated as significant. Figures are presented un-rounded in this chapter to provide readers with precise figures for use in calculations without introducing rounding errors.

**A.23** The presentation of un-rounded figures can overstate the accuracy of the numbers provided. The CRA will be subject to imprecision because:

- the concept of who benefits is open to interpretation;
- simplifying assumptions are made in order to reduce the reporting burden for government bodies;
- the robustness of allocation methods varies according to the availability of data. Public service pension spending can be allocated on the basis of the postcodes of recipients, giving a very accurate regional allocation. Other apportionments require a higher degree of estimation; and
- Treasury asks the largest departments to allocate their spending by country and region, whereas spending for the remaining departments (*de minimis*) are pro-rated using the total expenditure of the larger departments.

**A.24** Some of the steps that departments and the Treasury undertake to ensure that data is of sufficient quality to be used in the CRA include:

- the issuance of clear guidance by the Treasury to departments in order to obtain consistency where possible;
- meetings between departments and the Treasury to discuss methods of allocation;
- considerable resources devoted by departments to the work, including the involvement of statisticians in preparing their returns to the Treasury. The return is signed off by a statistician, finance director, or a senior accountant in the department as being produced in accordance with the CRA guidance, and where applicable accompanied by a statement on data quality (see below); and
- for many departments, an extract from the CRA appears in their Departmental Report, providing them with a direct interest in the quality of the data that they supply.

**A.25** In their accompanying statements on data quality some departments have identified areas of their CRA return where methods have been used that are either provisional or do not fully meet the methodology set out in the CRA guidance. Specific comments made by departments on data quality are:

- **Department for Transport** – a robust methodology is not available to allocate all expenditure to regions on a 'who benefits' basis. This is particularly a problem for spending on motorways and trunk roads (by the Highways Agency) and on the rail network, which in total comprises the majority of DfT expenditure. This expenditure is therefore allocated on an 'in' basis;
- **DCMS** had difficulty in obtaining full details of spending from all of its arm's length bodies and in a number of cases has to make assumptions based on data for previous years.

- **Health and Education** have carried out a restructuring of their data on the COINS database. In some cases this has affected the detail of their functional spending breakdowns and comparisons with previous years.