

**PES (2011) ANNEX B  
GUIDANCE FOR ALLOCATING EXPENDITURE TO COUNTRIES AND REGIONS**

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**1. Introduction and Background**

1. This note provides guidance for departments, their agencies and other public bodies on how to allocate spending by region for the Country and Regional Analysis (CRA) exercise. This is the first CRA exercise to be carried out under a new timetable, with the data being consistent with outturn published in the July 2011 Public Expenditure Outturn White Paper (PEOWP). We expect to send forms to departments by **Friday 22<sup>nd</sup> July 2011** as Excel spreadsheets. Departments are asked to return these forms by **Friday 16<sup>th</sup> September 2011**, **giving 8 weeks to complete this year's data collection exercise.**

**1.1 Contacts**

If any department requires any further assistance in completing their CRA return, they are asked to contact the central CRA coordinator in their own department, or contact PESA branch in the Treasury:

Mohammad Huq	0207 270 6170	<a href="mailto:Mohammad.Huq@hmtreasury.gsi.gov.uk">Mohammad.Huq@hmtreasury.gsi.gov.uk</a>
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## 1.2 What we ask you to provide

2. All UK departments are asked to provide a breakdown of their expenditure on services by country/region, covering the five outturn years including financial year 2010-11. These data are combined with (a) estimates of local authority spending by region from CLG and the devolved administrations, (b) data on spending by the devolved administrations and other departments with a single territory jurisdiction, to provide a full analysis of identifiable spending by country and region for UK public expenditure. How we use the data is outlined in Annex A.

3. For the previous CRA exercise we introduced some significant changes to the data request that substantially reduced the reporting burden for participating departments. We will be continuing with these measures for the upcoming exercise.

4. These measures included reducing the number of PO Groups, whilst ensuring that the CRA form covers 95% of departments' identifiable spending. We will also remove the majority of PO Groups against which less than £100m aggregate expenditure are reported between 2005-6 and 2010-11 (period 2005-06 will not appear in this year's CRA forms).

5. Plans years will be excluded from this year's exercise. In previous years exercises it was felt that the regional allocations for future plans years suffered from low data quality. The new timetable effectively aligns the CRA to the PEOWP 2010-11 release of July 2011. Hence, the second CRA of 2011 will only cover outturn periods 2006-7 to 2010-11.

6. Pre-populating the CRA forms for past outturn years. For this year's exercise, this means that 2006-7 until 2008-09 will already be completed and only need to be changed in the case of methodology changes. Departments should note that any changes to the PO Group structure will limit our ability to pre-populate the forms and they should contact HMT as soon as possible if they are planning any such changes.

### 1.3 Departmental Reports

7. For certain departments CRA returns will also be used to produce 'UK public expenditure by region' tables for Departmental Reports. The mandatory tables in the spring Departmental Reports will cover the years 2007-08 to 2011-12.

### 2. Guidance for 'Identifiable' spending

8. For each department, the split between their identifiable and non-identifiable spending is set out in a worksheet included in the Excel spreadsheet with their CRA forms ('Main ID\_non-ID report'). Some departments only have identifiable spending; some only have non-identifiable spending; and some have both. The split of each department's spending into identifiable and non-identifiable spending has been determined by the Treasury, following the principles set out in Annex C of this PES paper. In many cases this has been complemented by discussions with departments about the details of spending in particular programmes. If any department needs to discuss any further details of the split of their spending then they are asked to contact [PESA branch](#).

#### 2.1 Basis of spending data in the CRA forms

9. CRA forms will use data extracted from the COINS database consistent with the Public Expenditure Outturn White Paper (PEOWP) for 2010-11.

10. The COINS data are based on the Treasury's measure of 'expenditure on services', details of which can be found [here](#) alongside these Annexes. The key point to note is that expenditure on services is a cash-based measure (so excludes non-cash items) and does not include support paid to local authorities as we use local authorities' own spending data to produce public sector aggregates.

#### 2.2 Geography of regions

11. The regions used for the CRA exercise are the nine Government Office regions for England, plus Scotland, Wales and Northern Ireland. This corresponds to the top level

(NUTS1) in the EU's Nomenclature of Territorial Units for Statistics. Details of the coverage of the 12 NUTS1 regions are set out in Annex C. For the purposes of the CRA exercise, departments will also have the option of allocating spending to a 13<sup>th</sup> region, 'outside UK', in cases where the benefits from spending fall abroad (e.g. overseas aid). The internationally agreed terminology for the 13<sup>th</sup> region is *extra-regio* and it is set out as such in EU regulation (ESA95 and NUTS).

12. Where departments or their agencies and NDPBs are organised for administrative purposes around regional boundaries that are different from NUTS1, departments are asked to use appropriate statistical methods to derive estimates of their spending on a NUTS1 basis.

### 2.3 Devolution

13. We ask departments to check their allocations to devolved authorities and ensure they are consistent with the Statement of Funding Policy. This is available on the Treasury website at:

[http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_funding591.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_funding591.pdf)

14. The definition of what is devolved and reserved is determined by the devolution legislation and varies between Scotland, Wales and Northern Ireland.

15. Broadly speaking education, health, DCMS and CLG functions are almost all devolved, much of transport and DEFRA functions are devolved, Home Office and legal functions are generally devolved in Scotland, some BIS functions are devolved, social security is devolved in Northern Ireland. A more detailed description of what is devolved can be found in annex C of the [Statement of Funding](#), above. If in doubt you should consult your policy division or Keith Jarrett in the DCU (Devolved Countries Unit) at the Treasury, on 0207 270 4809, or [Keith.Jarrett@hmtreasury.gsi.gov.uk](mailto:Keith.Jarrett@hmtreasury.gsi.gov.uk)

### 2.4 Use of relevant indicators

16. This guidance sets out the principles that the Treasury would like departments to follow in allocating their spending data by region. But we fully appreciate that departments may not have actual data that allows them to follow these principles. In such cases we would ask departments to produce best estimates of approximations of these allocations, for instance based on partial data or relevant indicators that best approximate actual data. Where departments have to use estimation techniques then we expect them to involve their statisticians, or other specialists who might have an overview of data available to the department, and are able to provide some quality assurance to the estimates, which will be used as National Statistics.

17. Departments should provide detailed information about the assumptions, methods and any changes in the relevant column in the CRA forms. All departments should provide this or other detailed documentation so HM Treasury can understand and deal with queries on the data. It means that HM Treasury has an audit trail for National Statistics and it enables us to comment on data quality in PESA. It also helps departments with documentation.

18. Departments should ensure that similar areas of expenditure in their CRA forms (e.g. spending on museums) use comparable methodology in allocating spend to regions. This is to ensure consistency of approach in determining 'who benefits' from the spending.

### **3. Concepts of spending by region**

19. Identifiable expenditure will fall into one of the following categories of spending:

- current transfer payments (current grants and subsidies);
- capital grants;
- spending on public services to individuals;
- spending on collective services (where most of this spending is delivered and consumed locally); and
- capital expenditure (capital formation) .

20. How spending should be allocated by region will depend on which of the above categories of spending it falls into. Detailed guidelines are set out in the following sections.

To help departments apply these rules, the CRA forms show these categories of spending within the raw data.

21. The aim is to find the region that contains the people who benefit from the spending. That may be difficult to determine at the conceptual or the practical level.

22. Sometimes the concept is clear: the residence of an individual in receipt of a social security grant tells you which region benefits. The postcode of the recipient can be mapped to the regions using a spreadsheet, which can be provided by the Treasury. At other times a judgment needs to be made: Who benefits from a grant to a company? Consumers, shareholders, suppliers or workers?

The guidance gives practical rules that work to give a reasonably accurate result assessed on a consistent basis across the range of government activities.

### **3.1 Current transfers**

23. Current transfer payments by government can be to households (e.g. social benefits), to the company sector (subsidies), to non-profit-making institutions (some current grants), or to overseas recipients (current grants abroad). The general principle for allocating transfer payments by region should be with reference to the residence/location of the recipient, or direct beneficiary. All transfer payments are identifiable by region. Net transfer payments should be allocated separately if the regions are different with reference to the location of the beneficiaries of both the gross payments and receipts.

24. Where grants are paid out by non-departmental public bodies (NDPBs), usually financed by a grant from the sponsor department, it is the spending on grants of those NDPBs that should be allocated by region, on the basis of residence of the grant recipient. Research councils are a good example ([see box on scientific research and research councils](#)). In such cases, departments will need to collect information of the regional distribution of their grant spending from their NDPBs.

25. ***Current grants paid to households*** should be allocated according to the region of permanent residence of the recipient. By convention, students and long-term hospital patients should only be treated as residents of their 'host' region if they have stayed there on a continuous basis for more than a year. Otherwise they should be treated as residents of their 'home' region.

26. ***Current grants paid to non-profit-making institutions*** should normally be allocated on the basis of the location of the institution receiving the grant, as that will normally be a good proxy for location of benefit from that spending. But where payment is made to a head office that then distributes the money to a number of units in different locations, allocation should be on the basis of location of the units that benefit, not the location of the head office. (Where the institution is a regional or local one, location of head office will be an acceptable proxy.)

***Exception:*** Where a current grant paid to non-profit-making institutions is intended to directly finance provision of a public service, allocation of that government expenditure to region should "look through" the non-profit-making institution to the beneficiary from that service.

27. ***Current grants paid abroad*** should be allocated to 'outside UK'.

***Exception:*** Where a current grant paid abroad is for the direct benefit of the UK, expenditure should be allocated as non-identifiable after discussion with [PESA Branch](#). Examples include transfers to international research councils (e.g. medical research council).

28. ***Subsidies to companies*** should be allocated on the basis of location of the company receiving the subsidy, as that will normally be a good proxy for location of benefit from that spending. As with non-profit-making institutions, allocation should be on the basis of location of the unit or subsidiary that directly benefits, not on the location of the head office that first receives the money.

***Exception:*** Where a subsidy paid to a company is intended to directly subsidise provision of a public service, then allocation of that government expenditure to region should "look

*through” the company to the beneficiary from that service. For example, subsidies to Bus Service Operators to provide passenger services should be allocated on the basis of residence of the passengers to whom the subsidized services are provided.*

#### **Net pension payments by the seven main departmental occupational pension schemes**

Pensions schemes data included in the CRA consist of just the **cash** payments to pensioners, coded as NAC D4001 on COINS, **less** cash receipts from departments, coded as NAC D4002.

Guidance for the seven main departmental occupational pension schemes<sup>1</sup> is that these net NAC D40 payments should be allocated according to the regional distribution of the **gross** cash payments to pensioners, excluding bulk transfer payments.

### **3.2 Capital grants**

29. **Capital grants** are transfer payments made for the specific purpose of financing capital expenditure. They are normally made to companies or non-profit-making institutions. Where capital grants are made by NDPBs, e.g. research councils, it is the grant spending of the NDPB (not the funding grant from the department to the NDPB) that needs to be allocated by region.

30. **Capital grants** should be allocated on the basis of location of the recipient of the grant. As with current grants and subsidies, allocation should be on the basis of location of the unit or subsidiary that benefits from the grant, not on the location of the head office that first receives the money. In most cases, location of the investment financed by a capital grant will be a good proxy for location of benefit from that spending.

#### ***Exception:***

- *Where a capital grant paid to a company is intended to directly finance provision of a public service, allocation of that government expenditure to region should “look through” the company to the beneficiary from that service. For example, capital grants to Network Rail should be allocated on the basis of residence of the passengers to whom the services are provided.*

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<sup>1</sup> PCSPS, Judicial Pension Scheme, DfID: Overseas Superannuation, Teachers’ Pension Scheme, NHS Pension Scheme, UKAEA Superannuation Schemes, Armed Forces retired pay and pensions

### Scientific research and research councils

Spending on basic research carried out by a government body will usually be classed as non-identifiable by region, as it represents spending on collective services for the benefit of the country as a whole. But much of government spending on research is in the form of grants to institutions and individuals, often through the medium of research councils (classified as NDPBs). As transfer payments, all spending on grants by central government bodies, including transfer payments made by research councils is identifiable by region and should normally be allocated on the basis of location/residence of the recipient institution or individual.

### 3.3 Services to individuals

31. Much government expenditure finances provision of public services to individuals/households typically provided free at the point of use. Public services to individuals include the following services: education, health, social welfare, sport, recreation and culture, housing, and operation of the transport system.

32. The general principle for allocating spending on public services to individuals over regions is similar to that for transfer payments. Spending should be allocated on the basis of permanent residence of the individuals who consume the services provided. In practice, residence of customer for the service and place of delivery of the service are likely to be the same at the NUTS1 level for most of public expenditure on services to individuals.

33. Wherever possible, regional allocation of spending on public services to individuals should be based on residence of the customers. However information on residence of customers may not be readily available in many cases, whereas information on place of service delivery generally will be. In most cases allocation of spending to regions on place of service delivery will be a good proxy for residence of customers, and can be used.

#### **Exceptions:**

*(1) Where there are good reasons to believe that using the place of service delivery will give an answer that does not properly reflect the regional distribution of residence of the*

*beneficiaries from those services. Then the allocation should be based on residence of customers. If good data on residence of customers are not available, then an allocation method should be used that takes proper account of the differentials between residence of customers and location of service delivery bodies. A good example is national museums, mostly located in London but whose visitors are drawn from all over the country and indeed from overseas. Allocating spending on the British Museum to London on the basis of location is likely to produce a distorted picture of the regional distribution of the benefits from that spending. In this case, allocation of spending over regions needs to take some account of where museum visitors come from.*

*(2) Allocation of 'corporate administration costs', e.g. the costs of central government departmental headquarters. Spending on corporate administration costs should be spread over regions according to the regional allocation of the programme spending that this central administrative spending supports, rather than allocated on the basis of actual location of the headquarters.*

### **3.4 Collective services**

34. Spending on collective services will only be classed as identifiable where services are delivered and consumed at a regional or local level. Such spending will typically be delivered by a regional authority (devolved administration or RDA) but can also be delivered by a central government body. Collective services delivered and/or consumed at a national level are classed as non-identifiable.

35. Collective services delivered and consumed at a regional or local level that are provided by a regional or local body should be allocated on the basis of location of the spending authority, e.g. spending by an RDA in its home region, and LA spending according to the region of each local authority.

36. Spending on collective services by central government bodies that is classed as identifiable by region will be so classed because it is both delivered in a specific region and is (mostly) for the benefit of a regional or local community, rather than the national community. Where region of delivery is a good proxy for the benefit from this expenditure,

allocation should be according to the region of delivery. Some environmental protection spending, e.g. flood defences, meets this description.

**Exception:**

*(1) Where it is clear that region of delivery will not be a good proxy for location of benefits, estimates of the regional benefit of spending should use information on the residence of users/beneficiaries.*

*(2) Where spending is administrative spending in support of collective public services that are delivered and consumed by region, it will normally be classed as identifiable expenditure. Such spending should be allocated in proportion to the regional allocation of the collective services spending that the administrative expenditure supports.*

**Central services in support of regional collective services**

For a number of areas of collective public services, spending by central government departments is for the most part delivered and consumed regionally, but there are a number of smaller sub-programmes that are national by nature. For spending in these areas, the 'national' sub-programmes should be regarded as central services in support of the main regionally delivered services, and allocated over regions in proportion to the regionally delivered spending that they support. These services include (examples of central services in brackets):

- policing (forensic science service, national criminal intelligence service);
- administration of justice (legal services commission);
- fire service (fire service college);
- secondary schools (qualifications framework);
- road transport (highways agency administration).

In some cases, e.g. policing, secondary schools, the majority of spending is by local authorities, and the proportions used to allocate central service spending by region should take account of the regional distribution of LA spending in that service area.

**3.5 Capital expenditure (capital formation)**

37. The general principle for allocating identifiable capital expenditure by region should be to identify which current expenditure the capital spending supports, and allocate spending to beneficiaries according to the regional distribution method of current spending on those services. For capital spending in support of public services supplied to individuals, and also in support of transfer payments, the general principle for allocating capital spending should be with reference to the residence/location of the recipient, or direct beneficiary of the current expenditure.

38. Where the public services that capital spending supports are collective services, allocation of capital spending by region will depend on whether the associated services are delivered nationally, or regionally/locally. Capital spending in support of collective services that is delivered nationally will be classed as non-identifiable expenditure; departments are not being asked to allocate such spending by region.

39. For most capital spending in support of services to individuals and transfers, it will be possible to use place of delivery of the capital asset (generally location of the government unit taking delivery of the asset) as a proxy for location of benefits. But there will be some cases where place of delivery is not a good proxy.

***Exception:***

- *Where it is clear that place of delivery of capital asset will not be a good proxy for location of benefits, estimates of the regional allocation of spending need to use information on the regional distribution of the services that the capital spending is expected to support. An example is IT assets delivered to a central computer centre that supports services over the country as a whole, or over a number of regions.*

40. As with current expenditure, capital spending in support of collective services provided at a regional or local level should be allocated on the basis of location of spending authority, or, where delivered regionally or locally by a central government body, on the basis of region of delivery.

***Exception:***

- *Where it is clear that region of delivery of capital asset will not be a good proxy for location of benefits, estimates of the regional benefit of spending should use*

*information on the regional distribution of the benefit from the services that the capital spending is expected to support.*

41. Capital spending in support of collective services provided at a national level should be regarded, like current spending on such services, as non-identifiable by region; departments are not being asked to allocate such spending by region.

42. Capital spending by PCs should be allocated by region on the basis of the beneficiaries of the service provided. Given that PCs are trading bodies this will usually be with reference to the location of the customer.