
HM Treasury

Public Expenditure System

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Secretariat: 020 7270 5525

PES (2006) ANNEX C - GUIDANCE FOR ALLOCATION OF SPENDING TO REGIONS FOR THE COUNTRY AND REGIONAL ANALYSIS (CRA) DATA COLLECTION

Introduction and Background

1. This note provides guidance for departments and their agencies and other public bodies on how to allocate spending by region for the Country and Regional Analysis (CRA) exercise. We expect forms to be sent to departments on **Thursday 21 December**, as Excel spreadsheets. Departments are asked to return these forms by **Friday 9 February 2007**.

What's New This Year

2. This year two substantive changes have been made to the guidance:

- Para 5; Data coverage (inclusion of some data in the CRA exercise previously classified as non-identifiable) The 2007 CRA exercise identifies collective services expenditure as identifiable where there is equivalent spending in the Devolved Administrations. ;
- Para 6: Data coverage ('asymmetry' issue). This year we are asking the DAs to undertake an exercise to allocate some areas of expenditure in accordance with the CRA guidance where there is comparable spending by Departments is assumed to benefit Scotland, Wales or Northern Ireland;

Minor changes to the guidance have also been made to:

- Para 13; ensuring consistency of approach amongst similar areas of spending in allocating spend to regions;
- Para 14; we are using COINS to extract the data for the first time, but the format of the CRA forms we send you will not change.

Please contact us if you have any concerns or questions about any of these changes (see para. 4 for contacts).

3. The guidance is based upon a memorandum that the Treasury and ONS have written jointly on the principles of measurement of public spending by region. This is available on the Treasury website at: <http://www.hm-treasury.gov.uk/media/E13/8B/CRA%20memorandum.pdf> and was published for consultation to implement one of the recommendations from the McLean Research Report.

Contacts

4. If any department requires any further assistance in completing their CRA return, they are asked to contact the central CRA co-ordinator in their own department, or Martin Phillips at the Treasury, on 0207 270 5988, or martin.phillips@hm-treasury.gsi.gov.uk. (Alternatively, contact Jonathan Driscoll on 020 7270 5640, or jonathan.driscoll@hm-treasury.gsi.gov.uk)

Fraser of Allander Report - inconsistency and asymmetry issues

5. Following criticisms made by the research institute Fraser of Allander, we intend to improve the allocation of spending in the CRA. The report identified an inconsistency in the CRA treatment of some expenditure within the scope of the Devolved Administrations (DAs) where the equivalent spending by UK departments in England was treated as non-identifiable, for example spending on prisons. In order

to address this inconsistency we are now including this spending in the CRA exercise from this year. The principles for allocating this expenditure should follow the same methodology as the rest of the data included in the CRA exercise.

6. The report highlighted a further issue, that of asymmetry. This is expenditure in England (eg museums) that benefits residents of Scotland, Wales and Northern Ireland and is correctly assigned as such by departments. Previously comparable expenditure by the DAs was assumed to benefit that particular country. Whilst initial estimates suggest the impact of asymmetry is small we are asking the DAs to identify these particular areas of expenditure, and then consider how to allocate this expenditure in accordance to the CRA guidance as part of the 2007 exercise.

What we ask you to provide

7. All UK departments are asked to provide a breakdown of their expenditure by territory/region, covering the latest five outturn years, and forward years until 2007-08. These data are combined with (a) estimates of local authority spending by region from DCLG 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 territory and region for UK public expenditure. How we use the data is outlined in Annex A.

Departmental Reports

8. CRA returns will also be used to produce UK public expenditure by region tables for Departmental Reports from Spring 2006. Guidance for departments on the spring 2006 Departmental Reports will be issued in December. The mandatory tables in the spring Departmental Reports will cover the years 2001-02 to 2007-08.

Separate forms - and guidance - for 'Identifiable' and 'Non-identifiable' spending

9. Departments are asked to complete up to two CRA forms, contained as separate worksheets in the Excel file sent to each department:

- The main CRA form for 'identifiable' spending, which is spending that can be identified as benefiting individual regions. This includes most transfer payments (subsidies and grants), services to individuals, and collective services (services provided collectively to whole communities) where these are provided at local or regional level, or there is equivalent spending in the Devolved Administrations, and associated capital spending.
- A CRA form for 'non-identifiable' spending, which is spending that cannot be identified as benefiting individual regions. This consists of collective services that are provided at a national level. The CRA form asks departments to provide a regional breakdown within non-identifiable spending for employments costs only.

10. ***The rules for allocating spending to regions in each of the two CRA forms are different. These are set out in two separate sections in the guidance.*** Please see:

- Section 1 of the guidance, below, for rules to allocate spending on the main form for ***identifiable*** spending,
- or
- Section 2 of the guidance, below, for rules to allocate spending on the new form for ***non-identifiable*** spending.

11. For each department, the split between their identifiable and non-identifiable spending is set out in a printout included in the Excel spreadsheet with their CRA forms. 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 E](#) of this PES paper, and in many cases following 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 Martin Phillips urgently - please see contact details in para 4 above.

Use of relevant indicators

12. 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 be able to provide some quality assurance to the estimates, which will be used as National Statistics. 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.

13. Departments should ensure that similar areas of expenditure in their CRA forms (eg 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.

Basis of spending data in the CRA forms

14. CRA forms will use data extracted from the COINS database on 18 December. Please note that although we are using COINS to extract the data for the first time the format of the forms we send to you will not change. Departments should submit any adjustments onto COINS that they wish to be included in the CRA forms by 12 December. If you have any concerns or questions about this please contact us (contact details at para 4). The COINS data are based on the Treasury's measure of 'expenditure on services', details of which are set out in Annex G of this guidance.

15. As in the previous two years, in order to reduce the compliance costs for departments, Treasury is not insisting that departments undertake a separate regional breakdown for their smallest program object groups. However, in order to maintain the quality of the regional figures departments are asked that at the minimum they individually establish the regional breakdown of:

- At least 95% of the overall total of net expenditure on all program object groups.
- All individual program object groups, split by capital and current expenditure, with an expenditure of £20m (either positive or negative) or more in any year.

These limits are minima and departments are encouraged to provide the regional split of as many programme object groups as possible. In future years the requirement is likely to be more demanding. Departments are also reminded that the CRA data will be used to produce tables contained within Departmental Reports, and they may be asked to explain the basis of the regional breakdown of their expenditure figures. Any remaining program object groups that departments have not individually broken down by region should then be allocated to individual regions on a pro-rata basis of the expenditure already assigned, unless departments are aware of a more appropriate method to do the allocation.

Geography of regions

16. 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 H](#) of this PES paper. For the purposes of the CRA exercise, departments will also have the option of allocating spending to a 13th region, 'outside UK', in cases where the benefits from spending fall abroad (eg. overseas aid). The internationally agreed terminology for the 13th region is extra-regio and it is set out as such in EU regulation (ESA95 and NUTS).

17. 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.

Devolution

18. We ask departments to check their allocations to devolved authorities and ensure they are consistent with annex C of the [Statement of Funding Policy](#).

19. The definition of what is devolved and reserved is determined by the devolution legislation and varies between Scotland, Wales and Northern Ireland (devolution is currently suspended in Northern Ireland and NI departments report to the Secretary of State).

20. Broadly speaking education, health, DCMS and DCLG functions are almost all devolved, much of transport and DEFRA functions are devolved, Home Office and legal functions are generally devolved in Scotland, some DTI 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 Policy](#) available from the Treasury website - Statement of Funding Policy. If in doubt you should consult your policy division or Keith Jarrett in the DCR (Devolved Countries and Regions) team at the Treasury, on 0207 270 4809, or Keith.Jarrett@hm-treasury.gsi.gov.uk

Section 1. Rules to allocate identifiable expenditure, on the main CRA form

Concepts of spending by region

21. Spending should be allocated to the region that benefits from that spending. In many cases, where payments are made or services provided to individual households or companies, this will mean the region of residence of the recipient.

22. 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);
- capital expenditure (capital formation).

23. 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 each program object groups.

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

! Sometimes the concept is clear: the residence of an individual in receipt of a social security grant tells you which region benefits. At other times a judgment needs to be made: who benefits from a grant to a company? The consumers, shareholders, suppliers or workers?

Therefore the guidance gives practical rules that in general work to give a reasonably accurate result assessed on a consistent basis across the range of government activities. However, in some cases following the guidance would clearly give a sub-optimal result when you know that you can get closer to assessing who benefits. If so, talk to us.

Current transfers

25. Current transfer payments by government can be to households (eg. 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, with the one exception highlighted in para 34 below, 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.

26. 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.

27. **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.

28. **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**, then allocation of that government expenditure to region should "look through" the non-profit-making institution to the beneficiary from that service.

29. **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**, then expenditure should be allocated as non-identifiable after discussion with HMT (contact as para 6 above). Examples include some international subscriptions abroad that benefit directly the UK (eg OECD subscription) and some transfers to international research councils (eg medical research council). If you think that a current grant paid abroad by your department falls into this category you can contact us by the end of November at the contact details given in para 6 above.

30. **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 Train Operating Companies to provide passenger services should be allocated on the basis of residence of the passengers to whom the subsidised services are provided.

Net pension payments by the seven main departmental occupational pension schemes

As in previous CRA exercises pensions have been included in the CRA exercise, due to the move to using the functional categories of Classification of Functions of Government (COFOG, which is the UN functional classification system followed by National Accounts). As part of the COFOG changes, public sector net pension payments become included within our public expenditure aggregate 'expenditure on services'. These net pension payments consist of just the cash payments to pensioners, coded as Economic Category (NAC) D40 on COINS, less cash receipts of aslcs from departments, coded as negative NAC D40. Under COFOG, these net pension payments are classified as Public Sector Occupational Pensions, within the main Social Protection function. Guidance issued to the seven main departmental occupational pension schemes is that these net EC D40 payments should be allocated according to the regional distribution of the gross cash payments to pensioners, excluding bulk transfer payments

Capital grants

31. 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, eg 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.

32. **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**, then allocation of that government expenditure to region should "look through" the company to the beneficiary from that service. For example, capital grants to Train Operating Companies should be allocated on the basis of residence of the passengers to whom the services are provided.

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.

Services to individuals

33. 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, operation of the transport system.

34. 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.

35. 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. But not in all cases - see exceptions below.

Exceptions:

· (1) Where there are good reasons to believe that **using 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 that is where it is located 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 costs incurred.

Collective services

36. 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.

37. **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, eg. spending by an RDA in its home region, and LA spending according to the region of each local authority.

38. 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, eg. 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. Administrative spending in support of collective services delivered regionally is to be interpreted widely - see box on central services in support of regional collective services.

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, eg. 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.

Capital expenditure (capital formation)

39. 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.

40. 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 delivered nationally and classed as non-identifiable expenditure should also be treated as non-identifiable expenditure.

41. 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 (see below).

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.

42. 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.

43. **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.

44. **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.

Section 2. Rules to allocate non-identifiable expenditure

45. For non-identifiable expenditure, departments are only asked to allocate the employment costs element by region. Data should be provided for all years.

46. **Employment costs that are part of non-identifiable expenditure** should be allocated by place of employment. This includes employment costs that are part of 'corporate administration costs' (which are allocated in this non-identifiable spending according to where the staff are employed, i.e. where the spending takes place, which is not necessarily the same as where the service is delivered.) Where the place of employment is overseas, employment costs should be allocated to 'outside UK'. 'Mobile' staff, who do not work in a fixed location (eg. ONS field researchers), should be allocated to the head or regional office that employs them. Staff who spend the majority of time working away from their main base should still be allocated to their main base.