

MEMORANDUM BY HM TREASURY AND ONS: MEASURING GOVERNMENT EXPENDITURE BY REGION

Introduction

This memorandum considers the different statistical methods that can be applied to measure regional government expenditure. It explains the advantages and limitations of each approach, and which approach has been used by the ONS and the Treasury in which context, and for what purpose. It also sets out the rules for constructing measures of regional spending under each method.

Origins and purpose of this memorandum

2. This memorandum has been produced in response to an ODPM research report, *"Identifying the flow of domestic and European expenditure into the English regions"*, published on 5 September 2003. This report, by a team led by Professor Iain McLean of Nuffield College, Oxford, was the final report of a research project that examined the quality of official data on government spending in the English regions and identified methods that might be used to improve estimates of regional spending.

3. This research was commissioned by ODPM, with support from HM Treasury and DEFRA, and represents an important contribution towards improving the evidence base for regional policy. The ONS were involved in the research project due to their related work on sub-regional government accounts.

4. An issue discussed in that report was the distinction between measuring spending by region on the basis of who benefits from that spending – the 'for' basis – and measuring on the basis of which region the actual spending took place – the 'in' basis. The report describes the difference as follows:

*"It is possible to classify regional public expenditure in two distinct ways: expenditures made directly **in** a region (irrespective of where the benefits which accrue from the expenditure occur), and expenditure **for** a region (or 'regionally relevant' expenditure) where the benefits are calculated irrespective of where the inputs/expenditure are made."*

5. One of the recommendations of the report was that:

"The Treasury and ONS should jointly produce a memorandum on the rules for coding expenditure as 'for' and 'in' and publish it for consultation with users of National Statistics on the technical issues involved in the definitions of expenditure 'in and for', 'in but not for' and 'neither in nor for' a particular region."

This note has been produced in response to that recommendation and is now being published for consultation to seek the views of others.

6. The section of this memorandum, below, that sets down how government expenditure is measured by region on a 'for' basis, has been used as the basis for the methodology for the analyses of public spending by country and region that will be published by H M Treasury in Public Expenditure Statistical Analyses (PESA) 2004 on 19 April 2004.

7. The need for a reasonable consultation period on this memorandum means that this consultation exercise will necessarily have to be run alongside the data collection exercise for the country and regional analyses to be published in PESA 2004. However the results of this consultation will be considered, alongside other developments, in the lead-in to the data collection exercise for the country and regional analyses for PESA 2005.

8. Although the country and regional analyses published in PESA use the 'for' definition, other statistics published by the ONS make use of the 'in' definition, and of both definitions. There are benefits in both measures of spending, as discussed in the first section of the memorandum below.

9. After the McLean report was published, the first and the final reports from the Allsopp review¹ have now also been published. These reports endorsed the conclusions of the McLean report and recommended² the construction of regional estimates of specific components of the expenditure measures of GDP, including gross fixed capital formation (GFCF), and government final consumption expenditure, with the work on the latter building on the McLean recommendations. The final report from the Allsopp review also recommends that the production of the government final consumption expenditure should be a first step towards the possible development of fuller regional government accounts.

10. This memorandum has been written in response to the recommendation from the McLean research report set out in para 5 above. It does not necessarily reflect future developments by the ONS or HM Treasury in response to the Allsopp review, although it may provide useful background. Again, as far as Treasury regional analyses are concerned, any further developments in response to the Allsopp review will be taken forward after the next country and regional analyses are published in PESA 2004, along with the results from this consultation.

11. This memorandum focuses on measures of regional spending at the NUTS1 level³, which divides the UK into 12 regions – 9 Government Office Regions in England, plus Scotland, Wales and Northern Ireland. However the same principles will apply when constructing measures at different levels of disaggregation, eg. NUTS2.

Comments invited from users

12. Users of National Statistics are invited to comment on the issues discussed in this memorandum, at an early date and before the end of June 2004. Comments should be sent via:

email, to: pesa@hm-treasury.gov.uk

or to: economy@statistics.gov.uk

or by post, to: HM Treasury

PESA branch, Public Sector Delivery Analysis team, Room 1/E2
1 Horse Guards Road, London SW1A 2HQ

¹ Review of Statistics for Economic Policymaking. Final Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician, by Christopher Allsopp, in March 2004.

² Recommendation 12 from the Allsopp review, above.

³ Nomenclature of Units for Territorial Statistics (European classification of the regional breakdown of the EU's economic territory)

Structure of this memorandum

13. This memorandum is divided into two main sections:

- [SECTION 1](#) looks at the use of the alternative approaches to measuring spending by regions.

This section considers the bases of the two main statistical methods, the so-called 'in' and 'for' approaches, and the difference between them. It explains the advantages and limitations of each approach, and which approach has been used by the ONS and the Treasury in which context, and why.

- [SECTION 2](#) discusses rules for apportioning spending between regions under each of these main statistical methods. This section is split into two further sub-sections:
 - [SECTION 2A](#) discusses rules for measuring spending on a 'for' basis;
 - [SECTION 2B](#) discusses rules for measuring spending on an 'in' basis;

This section concludes with a [table](#) which summarises the allocation rules under the 'for' and 'in' approach.

14. This memorandum also has two Annexes, which contain extracts from guidance issued by HM Treasury, based on this memorandum, as part of the instructions for government departments supplying data for the country and regional analyses that will be published in *Public Expenditure Statistical Analyses 2004* (PESA 2004).

- [Annex A](#) contains the main guidance to departments on the allocation of spending to regions;
- [Annex B](#) contains guidance to departments on the classification of spending as identifiable or non-identifiable.

Please note that these Annexes are provided primarily for completeness. There is a lot of repetition between the Annexes and Section 2A of this memorandum. The Annexes show how the material discussed in Section 2A of this memorandum has been taken forward and used as the basis of the guidance for departments for the country and regional data collection exercise for PESA 2004.

SECTION 1: USE OF ALTERNATIVE APPROACHES TO MEASURING SPENDING BY REGION

'For' versus 'in'

15. Most public expenditure in the UK is undertaken by UK government departments or by local authorities. Only a small proportion of government departments spending is undertaken by (NUTS1 level) regional and country authorities, and the bulk of that is spending by the devolved administrations in Scotland, Wales and Northern Ireland. The main issue is how to measure spending by UK government departments by region.

16. In deciding how to measure expenditure in or for a particular area, there is a key choice to be made between measuring spending on the basis of the location of the government unit making the transactions, and measuring spending on the basis of residence of the 'counterpart' for these transactions. The 'for' approach is based on counterparts – and specifically on identifying the recipients of the services or transfers that government expenditure finances, and allocating spending according to the

residence of these recipients. This works well for distributive transactions – transfer payments (grants and subsidies) and public services to individuals ('social transfers in kind' in the European System of Accounts 1995 - ESA95) – but less well for capital expenditure (Gross Fixed Capital Formation - GFCF) and, especially, public services for collective consumption, where it is difficult to identify who the recipients of the services are.

17. The 'in' approach is based on allocating spending by the location of the government unit making the transaction. This works well for government output, whether measured net of inputs (roughly equals employment costs) or gross (government final expenditure, including intermediate purchases) - although it can be argued that allocation of intermediate purchases, and thus gross output, by region on the basis of location of government purchaser is of limited interest. The 'in' approach also works for capital spending (GFCF), though with similar qualifications about the usefulness of information of investment by location of government unit doing the purchasing. An 'in' approach could be applied to transfer payments, ie. spending could be allocated on the basis of location of the government unit that makes the payments, but there would not seem to be much benefit in following this approach, rather than one of allocating by location of recipients.

18. An example of the difference between the 'for' and 'in' approaches might help to further clarify this distinction. One example that emerges in the second section of this memorandum occurs with spending on services to individuals on museums. Here the 'in' approach would measure all this spending at the site of the government spending, which occurs in the region where the museum is located. However the 'for' approach would consider where the visitors and other users of the museums services came from, and, if enough of them lived outside the region where the museum was located, then this approach would measure the spending as spread across the regions where the users lived. Furthermore, if the museum were to house a large-scale exhibit that involved significant procurement and production costs, then neither measure would consider which region had produced that exhibit. Here, the 'modified in' approach, discussed in the following paragraph, might be more helpful.

19. A variant of the simple 'in' approach of allocating all government output on the basis of location of the government unit involved would be to just follow the 'in' approach for net output (employment costs), and allocate intermediate consumption on the basis of location of actual production. A similar approach would be followed for investment (GFCF). Such a 'modified in' approach might provide a more useful measure of the regional impact of government spending than a simple 'in' measure. However there are considerable difficulties that would need to be overcome to construct such a measure.

Spending by regional and local authorities – a third approach

20. There is a third approach, applicable for spending by a regional or local authority, which is to allocate all spending by that authority to the region that the authority is located in. This will be applicable when the jurisdiction of an authority lies entirely or mostly within a single region. Where the focus is, as here, on NUTS1 regions, this will encompass practically all regional and local authorities, including the devolved administrations. Where the focus is at a lower level of disaggregation, the number of authorities with single region jurisdiction will be reduced, eg. at the NUTS2 level, the devolved administrations and the English regions will no longer be included.

21. One advantage of this approach, when grafted onto a 'for' approach to measuring spending by region, is that it provides a basis for allocation by region some part of spending on collective consumption services, namely that part that represents spending by regional and local authorities, which it is reasonable to assume is mainly, if not exclusively, for the benefit of regional or local communities rather than for the national community.

The choice between 'in' and 'for' measures

22. The choice between an 'in' measure and a 'for' measure of government spending by region will depend to a large extent on what it is desired to measure. There are a number of different questions that a measure of government expenditure by region might be trying to answer:

- What is the share in regional GDP created by government's purchases of intermediate goods and services and of capital assets on account of its production of (mostly) non-market services?
- What are the non-monetary regional benefits from consuming government's public goods (and from using its infrastructure assets)?
- What is the contribution to regional GDP of government's production of (mostly) non-market services and of government's fixed capital formation?
- What is the impact of government's redistributive transfers (social benefits, subsidies, other grants)?

23. There is no single measure of government spending by region that can provide an answer to all these four questions. The 'for' approach can provide answers to the second question (in respect of public services) and to the fourth question (in respect of spending transfers). The simple 'in' approach can provide an answer to the third question in respect of government output. The more complex 'modified in' approach can help to provide an answer to the first question.

24. Some users look to regional spending statistics to try to answer the question of how the different regions compare in receiving their share of government spending, i.e. to look at the equity of the distribution. Any measure of spending can be used for this purpose, and each will produce different answers, depending on what is being measured. This comes back to the different purposes or questions answered by the different definitions, as set out above. The 'in' definition will capture the direct government outputs in each region. Some of those outputs may directly benefit the immediate region, such as government employment costs, but others may not, where the government purchases goods produced in other regions, or where the beneficiaries from the spending live elsewhere. The 'for' definition captures the relative benefits for consumers of government services or recipients of government spending, but only where that spending can be identified as benefiting individual regions, which excludes public services for collective consumption at a national level. The more complex 'modified in' approach could potentially show the relative benefits by region of government spending in terms of where economic activity is generated, but would not provide information about the location of consumers of government services.

Regional government accounts – a mixed approach

25. The ONS recently took part in a pilot project (funded by the European Commission) to produce sub-regional government accounts for the UK. These accounts were for a

single year (1998) and were published in October 2002 as experimental statistics. In line with Eurostat guidance, these were not a full set of national accounts by region for the general government sector, but a selection of accounts, aimed at answering some but not all of the questions in para 22 above. In particular, the accounts constructed provide no answers to the first question on the share of regional GDP created by government intermediate purchases, where there are complex information requirements involved (such as the need for regional import and export data). And the accounts only provide a limited answer in respect of the second question, on the benefits of public goods consumption.

26. The accounts incorporated two different approaches to allocating spending by region. There are estimates of government (gross) output – employment costs plus intermediate expenditure – and of capital expenditure (GFCF) measured on an ‘in’ basis, with all spending allocated by location of government unit making the transactions. This shows the government contribution to regional GDP, measured on an expenditure basis, in each region.

27. There are separate accounts that measure the flows of distributive transfers from government to the regions, which when set alongside estimates of taxes paid by regions provide a measure of regional “adjusted disposable income”, and of the distributive impact of government spending and taxes on regional GDP. Transfers here include spending on provision of public services to individuals (“social transfers in kind”), as well as grants to households and subsidies and capital grants to companies. Measurement of spending by region is on a ‘for’ basis.

28. The various regional government accounts tables published by ONS effectively cover all the angles for government spending – all spending is measured on either an ‘in’ basis or on a ‘for’ basis, and in the case of spending on public services to individuals, on both bases. But there is no single measure of total government expenditure by region that naturally emerges from regional government accounts.

PESA – a ‘for’ approach

29. In contrast, the regional public expenditure data published by H M Treasury in *Public Expenditure Statistical Analyses* (PESA) do look to provide a single measure of government spending by region, measured on a ‘for’ definition. But that measure does not cover all government expenditure, just government expenditure that is deemed to be “identifiable” by region (around 80 per cent of the total).

30. The PESA data thus illustrate the main problem with the ‘for’ approach – there will always be a substantial proportion of government expenditure that cannot be allocated by region (it is ‘non-identifiable’ in PESA terminology), because it represents public goods and services that are collectively consumed at a national level. If an allocation of non-identifiable expenditure by region on a ‘for’ basis is required, then it is necessary to adopt some convention such as population shares (which would imply that all the population benefit equally from nationally provided public services such as defence). This approach is followed by the Scottish Executive in their annual publication, *Government Revenues and Expenditure in Scotland (GERS)*, which draws on PESA data for public spending for Scotland.

SECTION 2: RULES FOR DEFINING EXPENDITURE IN/FOR A REGION

Types of spending

31. This memorandum attempts to set out some ground rules for defining government expenditure in/for a region, (a) on the basis of location of beneficiaries – the ‘for’ definition – and (b) on the basis of location of transactions/economic activity – the ‘in’ definition.

32. In order to do this, it is helpful to divide government expenditures into four main types:

- transfer payments to other sectors, mainly households and companies;
- public services delivered to individuals (‘social transfers in kind’ in ESA95);
- public services delivered collectively to a community (either the national community or a local community);
- expenditure on capital goods (GFCF).

33. The issues faced in defining spending in/for a region differ as between these four categories. The biggest problems arise with the latter two – collective public services and capital spending – whilst transfer payments are reasonably straightforward, at least for transfers to households.

SECTION 2A: MEASUREMENT ON A ‘FOR’ BASIS

34. The ‘for’ basis for allocating public spending by region focuses on who benefits from the spending – either the recipient of government funds or the consumer of the service provided with government spending. For much government expenditure, a direct beneficiary, or group of beneficiaries, can be identified. But where public services are consumed collectively, eg. defence, this may not be possible. The result is a sub-set of public spending that is non-identifiable by region on a ‘for’ basis.

Transfer payments

35. Transfer payments by government are generally either to households (eg. social benefits) or to the company sector (subsidies, capital grants), but can also be to non-profit institutions or to the ‘rest of the world’ sector, i.e. transfers made abroad such as overseas aid. 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 in principle identifiable by region.

36. The following issues may arise with classification of transfer payments by region:
- multi-residence of recipients (eg, students in higher education);
 - “head office” problems with subsidies to companies (subsidy is paid to head office but then passed through to subsidiaries in different locations);
 - subsidies paid to companies to provide public services (eg. subsidies for passenger transport services).

The solutions proposed in each case are set out below.

37. Current grants paid to households should be allocated according to the region in which the recipient permanently resides. The convention set out in ESA95 in respect of

students and long-term hospital patients is that they should only be treated as residents of their “host region” when they have stayed there in excess of a year. For grants to students in higher education, this will normally point to allocation by region of students’ home residence.

38. Subsidies to companies should be allocated on the basis of the location of the unit or subsidiary that benefits, not on the location of the head office that first receives the money.

39. 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.

40. Capital grants should be allocated on the basis of the location of the recipient of the grant. As with subsidies, there is a potential “head office” problem – capital grants should be allocated on the basis of the location of the unit or subsidiary that makes the capital spending that the grant finances, not on the location of the head office that first receives the payment. In most cases, location of the investment financed by a capital grant will be a good proxy for location of benefit from that spending. So grants to finance transport infrastructure spending would be allocated according to the location of the new infrastructure.

Public services to individuals (social transfers in kind)

41. Much government expenditure finances provision of public services to individuals/households, typically provided free at the point of use. In ESA95 such spending is termed “social transfers in kind”, and is distinguished from spending on provision of collectively consumed services (public goods).

42. Social transfers in kind in ESA95 include government expenditure on the following services:

- education;
- health;
- social welfare;
- sport, recreation and culture;
- housing;
- operation of the transport system.

43. The principle for allocation over regions of expenditure on public services to individuals on a ‘for’ basis is similar to that for transfer payments – spending should be allocated according to the place of residence of the consumer/customer for the service that the spending provides. In practice, residence of customer and place of delivery of the service (generally synonymous with location of the government unit delivering the service) are likely to be the same for most services, at least at the level of NUTS1 regions.

44. Where possible, regional allocation of spending on public services to individuals should be based on place of residence of customer. 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, 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, an allocation method should be used that takes proper account of this.

45. 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.

46. An issue that may arise with public services to individuals is the allocation to regions of the associated 'corporate administration costs', eg. the costs of central government departmental headquarters. Rather than allocate such spending on the basis of the location (at headquarters) of the employment and other costs incurred, such spending should be spread over regions according to the regional allocation of the programme spending that this central administrative spending supports.

Collective services (public goods)

47. Collective services are defined in ESA95 as services that are provided simultaneously to all members of the community or all members of a particular section of the community. Such services include defence, law and order, and protection of the environment. A key distinguishing characteristic of collective services is that they are neither traded, nor readily capable of being traded (unlike, eg. education and health services which could be produced privately and sold in a market).

48. Individual consumption of collective services cannot be observed or measured. This means that the only basis for allocation of spending by region on a 'for' basis is the location of the group or community to which the services are provided. Where this is the country as a whole, that spending is non-identifiable by region.

49. Collective services can be provided at a national level, eg. defence, or at a regional or a local level. The main example in the UK of services provided at a regional level is the services of the devolved administrations. There are a number of collective services provided at a local level, eg. policing, maintenance of local roads.

50. Spending on collective services provided at a regional or local level can be allocated to regions on the basis of location of the regional or local authority that provides the service. Whilst in practice there will be some spillover of benefits from spending in one region into other regions, a straight allocation of collective services expenditure by region of spending authority is likely to be a good proxy for the distribution of the benefits from that spending. It is also in practice likely to be the only basis on which spending can be allocated.

51. Some spending on collective services by central government bodies may also be identifiable by region 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. Some environmental protection spending, eg. flood defences, meets this description. So also

does most spending at a national level on transport, eg. maintenance of the national road network.

52. Spending on collective services that is provided at a national level and/or is for the benefit of the national community (eg. defence, tax collection) is non-identifiable by region on a 'for', or 'who benefits', basis. If a breakdown by region of such spending were required, then it would need to be calculated on the basis of some convention such as allocation by population shares (which would imply that all benefit equally from collectively consumed services).

Capital Expenditure

53. Allocating capital expenditure (gross fixed capital formation) in support of public services by region on a 'for', or 'who benefits', basis also raises issues as to identification of the beneficiaries, as capital spending now will largely help to deliver services in the future – and thus will benefit future customers for the service, rather than the present customers.

54. One solution would be to treat all capital expenditure as non-identifiable by region, on the above grounds. However this would be excessively purist, as there is an acceptable and practical alternative readily available – which is to assume that the regional distribution of benefits from future capital services (current capital spending) will match the regional distribution of services currently provided. Nevertheless, because of the different nature of capital spending, it is desirable that current and capital spending are presented separately in any regional analysis of public spending.

55. Therefore the principle to be followed for measuring government capital expenditure by region on a 'for' basis should be to identify which current services the capital spending supports and allocate spending according to the regional distribution of the benefits from current spending on those services. This principle should be followed in respect of capital expenditure in support of transfer payments and of supplying public services to individuals.

56. In practice it will be possible, for most government capital spending, 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 beneficiaries. But there will be some cases where place of delivery is not a good proxy, eg. IT assets delivered to a central computer centre that supports services over the country as a whole, or over a number of regions. In such cases, regional allocation of spending needs to use information on the regional distribution of the services that the capital spending is expected to support.

57. As with current expenditure, capital spending for collective services provided at a regional or local level can 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. So capital expenditure on infrastructure, eg. national roads, should be allocated on the basis of physical location, whilst recognising that some of the benefits from that spending will accrue outside of the "host region".

58. Capital spending on collective services provided at a national level to the national community is best regarded, like current spending on such services, as non-identifiable by region.

Spending by local and regional authorities

59. The principle to be followed for allocating spending by local and regional authorities should be to allocate all spending by each authority to the region in which that authority is located. This applies to all authorities whose jurisdiction lies entirely or mostly within one NUTS1 region. Whilst it would be possible to apply the same detailed criteria described in the preceding sections to the various categories of expenditure by local and regional bodies, simply allocating spending to the region where the spending body is located will in most cases be a very reasonable proxy – especially as actual measurement of local and regional spending on the basis of residence of recipient or place of service delivery might prove to be very difficult.

SECTION 2B: MEASUREMENT ON AN 'IN' BASIS

60. The 'in' basis for allocating public spending focuses on the location of spending transactions, and of the economic activity associated with that spending. This enables spending on national collective services – non-identifiable by region on a 'for' basis – to be allocated by region.

61. The simple 'in' approach (see para 17) allocates all spending, including capital, by region on the basis of location of the government unit that employs the staff and makes the purchases of goods and services needed to provide the associated public services (or distributive transfers). The 'modified in' approach described in para 19 allocates employment costs on the above basis, i.e. by place of employment, but seeks to better capture the regional economic impact of government spending by allocating intermediate purchases, both for consumption and capital spending, according to the place of output of the goods and services purchased.

62. The following sections describe first principles of regional allocation of spending under the simple 'in' approach and then go on to describe how allocation would differ under the 'modified in' approach.

Transfer payments

63. There is no real difference between the 'for' and 'in' approaches as regards the allocation over regions of transfer payments. Whilst it would be possible to allocate transfers spending on the basis of location of the government unit making the transfers, it is not clear that such a measure would be a particularly useful one. The most sensible basis for allocation of transfers looks to be a general rule of residence of recipients, whether the basis of measurement is intended to be a 'for' basis, or an 'in' basis.

64. The principles for allocation of transfer payments on an 'in' basis are therefore the same as those on a 'for' basis (see paras 35 to 40).

Public services to individuals (social transfers in kind)

65. The basic principle for allocating spending on services to individuals (social transfers in kind) to regions should be location of the government unit providing the services, i.e. where the spending takes place. Normally this will be the same as place of service delivery.

66. In practice, allocation of spending by region on a (simple) 'in' basis will be along similar lines to allocation on a 'for' basis (see paras 41 to 46) for most kinds of spending

on services to individuals, i.e. place of service delivery. There are, however, important differences. When measuring spending by region on a 'for' basis, allocation by place of service delivery is a proxy for allocation by residence of customer. Whereas when measuring spending by region on an 'in' basis, allocation by place of service delivery is the guiding principle of regional measurement.

67. This means that allocation on an 'in' basis should always be by place of service delivery. So the cases described in paras 44 to 46, where use of place of service delivery would not be appropriate for measurement on a 'for' basis, do not apply here. Spending should be allocated by place of service delivery, even where substantial cross boundary flows mean that residence of customer would give a substantially different answer. And corporate administration costs should be allocated on the basis of location of government unit, ie. to head quarters if that is where the staff are employed, and not spread over the full range of services that they support.

Collective services (public goods)

68. As with public services to individuals, spending on collective services should be allocated on the basis of the location of the government unit that carries out the spending. Spending that takes place overseas, eg. spending on UK embassies abroad and some defence spending, should be allocated to the 'overseas' region. There should be no non-identifiable spending when allocating over regions on an 'in' basis.

69. As with the 'for' approach (see para 57), the principle to be followed for allocating spending by local and regional authorities should be to allocate all spending by each authority to the region in which that authority is located. So spending by local and regional authorities on collective services would be allocated on the basis of location of spending authority.

Capital expenditure

70. Except where government produces capital assets directly, government expenditure on gross fixed capital formation (GFCF) will comprise of purchases from other sectors. Capital spending of both kinds should be allocated on the basis of location of the government unit that purchases and/or receives delivery of the capital asset.

Measurement of spending on a 'modified in' approach

71. The 'modified in' approach looks to better capture the regional economic impact of government purchases by allocating all purchases by government of goods and services, including capital purchases, according to the region of production.

72. Under the 'modified in' approach, allocation of transfer payments and of the employment costs part of spending on services (individual and collective) would follow the same principles and rules as outlined for the simple 'in' approach in paras 60 to 69 above. Actual production of capital goods by government, where there is any, would follow the rules in para 70. But all purchases of goods and services, whether for intermediate consumption by government or of capital assets for government investment, would be allocated on the basis of region of original production.

73. In practice, allocation by place of original production may not be feasible for most intermediate consumption purchases, as it is likely to prove very difficult, or impossible, to obtain the information needed. But it is important, if this approach is to be followed,

that some information by location of production be collected and reported at least for large procurement purchases. Allocation of spending on purchases of capital goods should also be on the basis of place of original production.

74. The end product of adopting a 'modified in' approach to measuring government spending by region may therefore be a full allocation of employment costs (and transfer payments) by region on an 'in' basis, together with a partial allocation of intermediate and capital spending on the basis of region of production, covering the larger purchases only – rather than the full allocation of all spending by region that is possible under the simple 'in' approach.

Summary of rules for measuring regional spending on an 'in' and 'for' basis

75. The table on the following two pages summarises the rules outlined in Section 2 of this memorandum for measuring regional spending on an 'in' and 'for' basis.

Conclusion, and comments

76. This memorandum has explained the principles of measuring regional spending under the different definitions of 'in' and 'for'; and explained how these methods of measurement are used by the Treasury and the ONS in different contexts, and set out some guidelines on how these methods can be realised in practice. The attached annexes show how these methods were taken forward in the analyses that will be published in PESA 2004. Comments are welcome, and should be sent to either of the addresses shown in para 12 above.

HM Treasury and ONS. April 2004.

Summary table of allocation rules under the 'for' and 'in' approaches

Category of spending	Allocation rules:		
	'For' approach	Simple 'In' approach	Modified 'In' approach
Transfer payments to other sectors outside the public sector. (Includes subsidies, and current and capital grants, and pension payments)	<p>Measurement basis: Residence/ location of recipient of transfer payments</p> <p>Comment: <i>Need to 'look through' subsidies to companies:</i></p> <ul style="list-style-type: none"> - payments to head offices should be allocated according to location of subsidiaries that benefit; - payments made to subsidise provision of public services should be allocated according to location of beneficiaries 	<p>Measurement basis: Same as 'for' approach</p> <p>Comment: <i>Same as 'for' approach</i></p>	<p>Same as 'for' approach</p> <p>Same as 'for' approach</p>
Capital spending in support of transfer payments as above.	<p>Measurement basis: Residence/ location of recipient of transfer payments</p> <p>Comment: <i>Can be simply allocated using the regional distribution of the transfer payments spending that this capital spending supports.</i></p>	<p>Measurement basis: Location of public sector/ government unit that purchases and/or receives delivery of capital asset.</p>	<p>Under the 'modified in' approach, public sector/ government spending on employment costs would continue to be allocated by location of employer. However intermediate consumption and capital purchases would, theoretically, be allocated to the region of production. However these data are not currently available, and may be difficult to obtain.</p>
Public services to individuals ('social transfers in kind')	<p>Measurement basis: Residence/ location of recipient of services.</p> <p>Corporate administration costs incurred by government department headquarters allocated according to regional allocation of spending that admin spending supports.</p> <p>Comment: <i>In most cases place of service delivery will be a good proxy for residence of consumers of services. But where this does not properly reflect regional distribution of residence of beneficiaries of these services, then an allocation method should be used that takes proper account of this regional distribution.</i></p>	<p>Measurement basis: Location of public sector/ government unit that does the spending.</p> <p>This also applies to corporate administration costs incurred by government department headquarters.</p> <p>Comment: <i>In most cases this will be the same as place of service delivery.</i></p> <p><i>But in other cases, the spending department may be in a different region to the service providers who are recipients of the government spending. And the service providers may receive payments at their headquarters, which may be in a different region to the place of service delivery.</i></p>	<p>Under the 'modified in' approach, public sector/ government spending on employment costs would continue to be allocated by location of employer. However intermediate consumption and capital purchases would, theoretically, be allocated to the region of production. However these data are not currently available, and may be difficult to obtain.</p>

Category of spending	Allocation rules:		
	'For' approach	Simple 'In' approach	Modified 'In' approach
Capital spending for public services to individuals	<p>Measurement basis: Place of residence/ location of recipient of services.</p> <p>Comment: <i>In most cases place of delivery of asset (generally location of government unit taking delivery) will be a good proxy for location of consumers of services.</i></p> <p><i>Alternatively, eg where this does not properly reflect regional distribution of residence of beneficiaries of services, this capital spending can be simply allocated according to regional allocation of spending that this capital spending supports.</i></p>	<p>Measurement basis: Location of public sector/ government unit that purchases and/or receives delivery of capital asset.</p>	<p>Under the 'modified in' approach, public sector/ government spending on employment costs would continue to be allocated by location of employer. However intermediate consumption and capital purchases would, theoretically, be allocated to the region of production. However these data are not currently available, and may be difficult to obtain.</p>
Public services delivered collectively to a local community	<p>Measurement basis: Location of regional or local authority that provides the service.</p> <p>Comment: <i>Assumes services consumed locally.</i></p> <p><i>If this is not generally the case, then this spending needs to be treated as non-identifiable: see next row below</i></p>	<p>Measurement basis: Location of public sector/ government unit that does the spending.</p> <p>Comment: <i>Spending by local/ regional authorities should be allocated to the region in which that authority is located</i></p> <p><i>In practice this amounts to the same thing as the 'for' approach</i></p>	
Capital spending for local collective services	<p>Measurement basis: Location of regional or local authority that provides the service.</p> <p>Comment: <i>Assumes services consumed locally.</i></p> <p><i>If this is not generally the case, then this spending needs to be treated as non-identifiable: see next row below</i></p>	<p>Measurement basis: Location of public sector/ government unit that purchases and/or receives delivery of capital asset.</p> <p>Comment: <i>Spending by local/ regional authorities should be allocated to the region in which that authority is located</i></p> <p><i>In practice this amounts to the same thing as the 'for' approach</i></p>	
Public services delivered collectively to the national community	<p>Termed 'non-identifiable' spending. This spending cannot be allocated by region on a 'for' basis, except by some convention, such as allocation by population share.</p>	<p>Measurement basis: Location of public sector/ government unit that does the spending.</p>	
Capital spending for national collective services	<p>Termed 'non-identifiable' spending. This spending cannot be allocated by region on a 'for' basis, except by some convention, such as allocation by population share.</p>	<p>Measurement basis: Location of public sector/ government unit that purchases and/or receives delivery of capital asset.</p>	

GUIDANCE ISSUED TO GOVERNMENT DEPARTMENTS FOR THE COUNTRY AND REGIONAL ANALYSIS (CRA) DATA COLLECTION FOR PESA 2004:

STATISTICAL METHODS FOR MEASURING (ALLOCATING) SPENDING TO REGIONS

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. Forms were distributed to departments on 22 December, as Excel spreadsheets. Departments are asked to return these forms by 6 February.
2. This year, following the publication of the McLean Research Report 'Identifying the Flow of Domestic and European Expenditure into the English Regions', the Treasury is asking departments to make various changes to improve the quality of their CRA returns. The background and changes are set out in PES papers PES(2003)19 and PES(2003)22 respectively. The letter to PFOs, MS PFO (03) 47 also refers.
3. The quality of departments' CRA returns is very important because these regional estimates will form the evidence base for government regional policy, and SR2004. This is covered in the above PFO letter, which also refers to Ministerial correspondence on this issue.
4. This guidance has been revised substantially to help implement these improvements.
5. This revised guidance is based upon a draft of a memorandum that the Treasury and ONS are writing jointly on the principles of measurement of public spending by region. This will be published for consultation, to implement one of the recommendations from the McLean Research Report.
6. 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 the Treasury CRA contact.

Use of CRA data

7. The CRA is a single data collection exercise that combines the separate Territorial Analysis (TA) and Regional Analysis (RA) exercises carried out in previous years. All UK departments are asked to provide a breakdown of their expenditure by territory/region, covering the latest five outturn years. These data are combined with (a) estimates of local authority spending by region from ODPM 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. The final aggregated data will be published as National Statistics in "Public Expenditure Statistical Analyses 2004", after the Budget, and presented to Parliament.
8. The published Country and Regional Analyses are National Statistics that will be used as part of the evidence base for regional policy. The Treasury, ODPM, DTI and other departments with key regional policy targets attach a great deal of importance to these National Statistics for this purpose, reflecting the priority of the government's

regional policy agenda. These National Statistics are widely used as the main source of regional spending data by analysts inside and outside government.

Separate forms – and guidance - for ‘Identifiable’ and ‘Non-identifiable’ spending

10. 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 all 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, and associated capital spending.
- a new 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. For this year, as a first step, the new CRA form asks departments to provide a regional breakdown within non-identifiable spending for employments costs only.

11. ***The rules for allocating ‘identifiable’ and ‘non-identifiable’ 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 I of the guidance, below, for rules to allocate spending on the main form for ***identifiable*** spending,

or:

- Section II of the guidance, below, for rules to allocate spending on the new form for ***non-identifiable*** spending.

12. 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, and in many cases following discussions with departments about the details of spending in particular subprogrammes. If any department needs to discuss any further details of the split of their spending then they are asked to contact the Treasury CRA contact urgently.

Use of relevant indicators

13. 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 would ask 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

Basis of spending data in the CRA forms

14. Data in the CRA forms was extracted from the PES database on 18 December, consistent with datasets sent to departments on that date. These data are based on the Treasury's measure of 'expenditure on services', details of which are set out in Annex F of PES(2004)01. In particular, this measure excludes non-cash items, and excludes all transfer payments within the public sector, including finance to local authorities. It aims to measure spending as it leaves the public sector, including actual spending by NDPBs, and actual spending by local authorities. (Data for local authority spending is added in directly by the Treasury – see para 7 above.)

Geography of regions

15. 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 G 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).

16. Where departments or their agencies and non-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.

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

Concepts of spending by region

17. 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.

18. 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).

19. 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 subprogramme.

Current transfers

20. 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 are identifiable by region.

21. 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.

22. **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.

23. **Current grants paid to non-profit-making institutions** should normally be allocated on the basis of the location of the institution receiving the grant. 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.)

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

25. **Subsidies to companies** should be allocated on the basis of location of the company receiving the subsidy. 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

This year is the first year 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 (EC) D40 on PES, **less** cash receipts of aslcs from departments, coded as negative EC D40. Under COFOG, these net pension payments are classified as Public Sector Occupational Pensions, within the main Social Protection function.

For the 2004 CRA exercise, 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

26. 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.

27. 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. So grants to finance transport infrastructure spending would be allocated according to the location of the new infrastructure.

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 be allocated on the basis of location/residence of the recipient institution or individual.

Services to individuals

28. 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.

29. 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.

30. 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 is 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

31. 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.

32. ***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.

33. ***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. Such spending should be allocated according to region of delivery. Some environmental protection spending, eg. flood defences, meets this description. So also does most spending at a national level on transport, eg. maintenance of the national road network.

Exception:

- 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)

34. The general principle for allocating identifiable capital expenditure by region should be to identify which current services the capital spending supports and allocate spending according to the regional distribution of the benefits from current spending on those services. This principle should be followed in respect of capital expenditure in support of public services supplied to individuals, and also in support of transfer payments.

35. 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.

36. 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.

37. 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. So capital expenditure on infrastructure, eg. national roads, should be allocated on the basis of physical location.

38. ***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.

Section II. Rules to allocate non-identifiable expenditure, on the new CRA form

39. Departments with non-identifiable expenditure are only asked to allocate the employment costs element by region.

40. ***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.

GUIDANCE ISSUED TO GOVERNMENT DEPARTMENTS FOR THE COUNTRY AND REGIONAL ANALYSIS (CRA) DATA COLLECTION FOR PESA 2004:

CLASSIFICATION OF SPENDING AS 'IDENTIFIABLE' OR 'NON-IDENTIFIABLE'

1. For the purposes of the Country and Regional Analyses (CRA) exercise, all departmental expenditure on services is classified either as "identifiable" as benefiting particular region(s) or "non-identifiable", i.e. cannot be identified as benefiting a particular region. Since the main CRA exercise allocates spending by region on the basis of which regions benefit from the spending, the scope of the main CRA analysis is limited to identifiable spending only. Non-identifiable spending falls outside the main CRA analysis.
2. This annex sets out the principles that the Treasury proposes to follow for the 2004 CRA data collection in classifying spending as identifiable or non-identifiable.

Transfers

3. All transfers (subsidies, current grants, capital grants) by all departments are identifiable.
4. Transfers should be allocated by region of recipient, with possible exceptions for grants to companies, where recipients are company headquarters, or where the company is providing a public service, eg franchises to transport companies. Rules for allocation of all transfer payments, including details for these exceptions, are set out in Annex A.
5. Current grants abroad should be classified to a 13th region 'outside UK'.

Other current spending (other than transfers)

6. Other current spending (on goods and services, which includes employment costs) takes the form of spending on services that are either 'services to individuals', which are by definition identifiable, or 'collective services', which, where they are delivered nationally, are not identifiable as benefiting individual regions. The distinction between services to individuals and collective services is set out in the European System of Accounts (ESA) 95, which sets the framework for the UK National Accounts.
7. ESA 95 (para 3.85) states that, for goods and services provided by government, the borderline between individual versus collective goods and services is drawn on the basis of the Classifications of the Functions of Government (COFOG). Expenditure on goods and services under the following COFOG functions is treated as services to individuals:
 - Education
 - Health
 - Social Security and Welfare
 - Sport and Recreation
 - Culture
 - Provision of Housing

- Collection of Household Waste
- Operation of the Transport System (public transport)

8. Spending under other COFOG functions is generally treated as collective services.

9. Where collective services are delivered nationally, then they are non-identifiable. Again according to ESA 95, national collective services include the following COFOG functions:

- Management and Regulation of Society
- Provision of Security and Defence
- Economic Development
- Tax Collection

10. However where collective services are delivered locally (within a region), **and** consumed for the most part locally (by the population of that region), then the Treasury would also propose to treat such local collective services as identifiable, since they clearly benefit the region in which the service is consumed. Examples of such local collective services that are consumed locally and which are therefore treated as identifiable include:

- All local authority spending
- Central government spending on Regional Development Agencies
- Central government spending on police and local courts
- Overseas aid (delivered and consumed outside the UK)

11. Examples of collective services that are delivered locally but which are **not** consumed locally, and which are therefore treated as non-identifiable include:

- spending on high courts
- spending on prisons

Spending on administration, and central and corporate services

12. The Treasury propose that spending on administration and central and corporate services, including policy formulation, should be classified in the same way as the service it supports. So, for instance, administration and corporate services spending on social security and welfare would be treated as identifiable, and distributed pro-rata to the regional distribution of the delivery of social security and welfare. But administration and corporate service spending on tax collection would be treated as non-identifiable.

13. 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 therefore identifiable, 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).

14. In some cases, eg. policing and 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 spending (other than capital grants)

15. Capital spending (other than capital grants) includes purchases of capital assets, net of asset sales, and a small amount of stockbuilding. The Treasury propose that capital spending should be classified in the same way as the service it supports. This means that capital spending in support of collective services delivered nationally will be classified as non-identifiable, in the same way that current spending on these services is classified.

Summary

	Identifiable	Non-identifiable
Transfer payments (subsidies, current grants and capital grants)	All transfer payments	
Other current expenditure (spending on goods and services, including employment)	Services to individuals. Includes certain COFOG categories: <ul style="list-style-type: none"> - Education - Health - Social security and welfare - Sport and recreation - Culture - Housing - Household waste collection - Public transport 	National collective services. Includes certain COFOG categories: <ul style="list-style-type: none"> - management and regulation of society - security and defence - economic development - tax collection
	Collective services delivered locally and consumed locally, within regions. Eg: <ul style="list-style-type: none"> - LA spending - CG spending on RDAs - CG spending on police, local courts - Overseas aid 	Collective services delivered locally but not consumed locally, within regions. Eg: <ul style="list-style-type: none"> - spending on high courts - spending on prisons
	Admin and corporate services are classified as identifiable or non-identifiable in the same way as the service they support	
Capital spending other than capital grants	Classified as identifiable or non-identifiable in the same way as the associated current expenditure	