



Northern Ireland
Assembly

Research and Information Service Briefing Note

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Public Finance Scrutiny Unit

Relative need and public expenditure data in the United Kingdom (updated)

Introduction

This Briefing Note is provided to support the drafting of the Committee for Finance and Personnel's (the Committee) report on its *Review into the Operation of the Barnett Formula*.¹ It specifically concerns the Holtham Commission's estimates of relative public expenditure need for each country in the United Kingdom (UK), which use England as the reference point.

It seeks to facilitate the Committee when comparing Holtham's estimated need with actual 2013-14 expenditure, using the most recent available source. Table 1 provides both Identifiable Total Expenditure on Services per head in 2013-14, by country, and Holtham's estimate of relative need. The expenditure data are drawn from the Treasury's annual *Country and Regional Analysis* publication.² RaISE has used such data to calculate an index of relative expenditure levels for each country, with England as the base.

¹See <http://www.niassembly.gov.uk/assembly-business/committees/finance-and-personnel/barnett-formula/>

²Tables B5 to B8, available at: <https://www.gov.uk/government/statistics/country-and-regional-analysis-2014>

Table 2 shows what the effect on the indexed expenditure would be if an even percentage reduction in expenditure per head were applied by a future UK Government Spending Review.

Table 1

<i>£ per head</i>	England	Scotland	Wales	Northern Ireland
Total 2013-14 expenditure	8677	10275	9923	10961
2013-14 expenditure indexed to England	100	118	114	126
Holtham relative need indexed to England	100	105	115	121

Table 2

<i>£ per head</i>	England	Scotland	Wales	Northern Ireland
with 10% reduction	7809	9248	8931	9865
Indexed to England	100	118	114	126
with 15% reduction	6638	7860	7591	8385
Indexed to England	100	118	114	126

To aid interpretation of Table 1, key terminology and caveats are explained in the below sections.

Terminology

Table 1 shows the expenditure on services per head in each UK country. These figures include the identifiable element of what the Treasury calls 'Total Expenditure on Services' (TES).

TES is divided into two elements:³

- Identifiable expenditure; and,
- Non-identifiable expenditure.

'Identifiable expenditure' is spending which has been classified as incurred for the benefit of individuals, enterprises or communities within particular regions. Examples are most health, education, and social protection spending.

'Non-identifiable expenditure' is deemed to be incurred on behalf of the UK as a whole. Examples include the majority of expenditure on defence, overseas representation, and tax collection. This expenditure is not attributed to devolved administrations or regions

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330717/PESA_2014_-_print.pdf (page 110-111)

because it is considered to be necessary for the nation state rather than particular parts of it. It is, therefore, not included in Table 1.

Caveats

Table 1 also confirms the Holtham Commission's estimated level of expenditure need relative to England.⁴

The following points regarding data quality should be borne in mind when interpreting Table 1:

- The Holtham Commission described the measure of relative need for Scotland and Northern Ireland as “*broadly indicative*”. The figures should therefore be seen as providing a reasonable base for comparison, but not as conveying a precise calculation.
- The Treasury's *Country and Regional Analysis* relies in part on estimates by UK Government departments of their own expenditure in each country. These estimates are made in a variety of ways:⁵
 - **Apportioned to Northern Ireland using population share.** The explanation provided by the spending department identifies that the expenditure is attributed (wholly or in part) on the basis of population statistics. This may not be unreasonable because a population-based approach is taken to calculation of the NI block funding that the Executive receives, and to Barnett consequentials as a result of changes to levels of expenditures. Northern Ireland's population is approximately 2.9% of the UK's;
 - **Apportioned to Northern Ireland using a proxy.** The explanation provided by the spending department identifies that the expenditure is attributed (wholly or in part) on the basis of alternative proxies to population (including surveys and other indicators of regional distribution). This category includes use of Northern Ireland's Gross Value Added (GVA), which is essentially the sub-national contribution to national Gross Domestic Product (GDP);
 - **Apportioned to Northern Ireland using actual data (such as postcode of recipient).** The explanation provided by the spending department identifies that the expenditure is attributed (wholly or in part) on the basis of actual data on the location of the recipient (for example, where a pensioner lives or where a supported business is based); or,
 - **Insufficient clarity.** The explanation provided by the spending department is insufficiently clear or detailed for categorisation, and therefore RalSe cannot comment further.

⁴ Independent Commission on Funding & Finance for Wales (2010) 'Final Report' see paragraphs 3.23-3.26.

⁵Source: information provided by Treasury officials to RalSe directly.

Concluding remarks

It should be noted that expenditure apportioned to Northern Ireland in the *Country and Regional Analysis* publication using actual data accounted for more than four-fifths of the overall total (i.e., the vast majority). Nevertheless, some caution is required in interpreting the Treasury's expenditure data. In other words, it would not be appropriate to assume that the figures are precise, but may be taken instead as a reliable approximation.

Bearing in mind the points highlighted throughout this Briefing Note, it remains apparent from Table 1 that expenditure in Northern Ireland in 2013-14 was above the need level estimated by the Holtham Commission.

It can also be seen from Table 2 that if there were to be an equal percentage reduction in expenditure per head due to future cuts, the relative levels between countries would not change.