



## BRIEFING PAPER

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# Public spending: a brief introduction

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## Summary

The government expects to spend £802 billion in 2017-18, the most it has ever spent in cash terms. This money can be categorised in a number of different ways, including the method by which the spending was planned, the governmental function it is spent on, the departments and public bodies doing the spending, and the geographical areas where the money is spent. This note describes the different ways in which public spending is categorised, and presents statistics and commentary on recent spending in each category.

### Types of spending

Public spending is planned under several intersecting sets of categories. The main ones are:

- Whether the spending can be planned long-term (this appears as Departmental Expenditure Limits or DEL) or is more demand-driven (Annual Managed Expenditure, AME);
- Whether the money is spent on assets (capital spending) or on things that are used up (current/resource spending);
- Whether the money is spent on a department's governmental functions (programme spending) or on running the department itself (administration spending).

Each of these categories appears in departmental spending plans and accounts. The amounts going to each vary according to departmental responsibilities and central government priorities.

### What does the government spend its money on?

Money is spent on a very wide range of areas, but social protection, health and education are consistently the areas receiving the largest amounts. In 2016-17, social protection accounted for £264 billion of total spending, health £144 billion, and education £87 billion. Most areas have been seeing reductions in spending over the past few years.

### Who spends the money?

Government departments each have their own budgets, which vary in size in line with the spending needs associated with their responsibilities. The departments with the largest budgets are consistently the Department for Work and Pensions, the Department of Health and the Department for Education, which taken together account for over half of the total 2017-18 planned spending.

Departments spend both centrally and by funding public bodies, which are used when spending needs a degree of operational or constitutional separation from government. The largest such bodies in terms of the amount of funding they receive are NHS England and the Education Funding Agency.

### Where is the money spent?

69% of all public spending in 2015-16 was in England, with Scotland, Wales and Northern Ireland seeing 8%, 4% and 3% respectively. Some also goes to the EU – the UK's net contribution in 2015-16 was £10.8 billion – and some is spent abroad as part of the international development budget.

## How does the UK's spending compare with other countries?

In absolute terms, the UK's public spending is similar to that of Italy. The UK is far from unusual in its spending among developed economies, either in the total amount that it spends or relative to the size of its economy – its spending as a percentage of GDP is very slightly below average amongst OECD members.

# 1. Types of spending

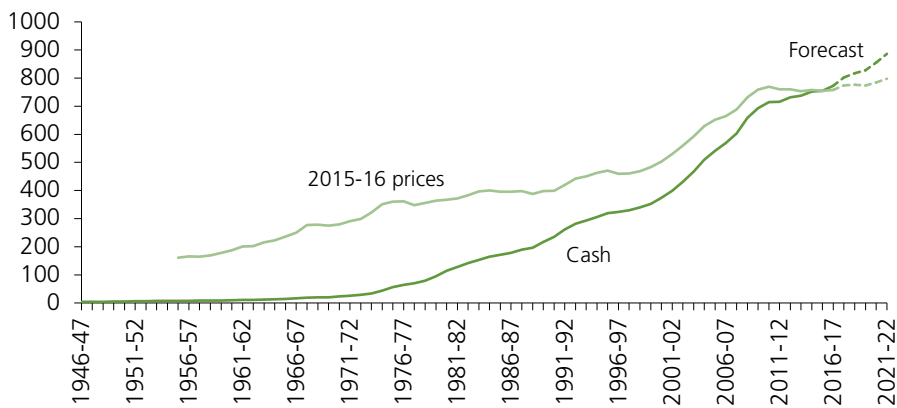
## 1.1 Total Managed Expenditure

Since 1998, total spending by the public sector over the year has been recorded as Total Managed Expenditure, or TME.<sup>1</sup> This is not necessarily all cash spending – some of it takes the form of future liabilities or accounting adjustments.

Total spending has increased in cash terms every year since 1948-49, and is forecast to continue to do so until at least 2021-22. When adjusted for inflation, total spending has fallen slightly since the 2008 financial crisis, but is forecast to begin to rise again towards 2020.

Public spending is recorded as Total Managed Expenditure (TME), itself split into Departmental Expenditure Limits and Annually Managed Expenditure.

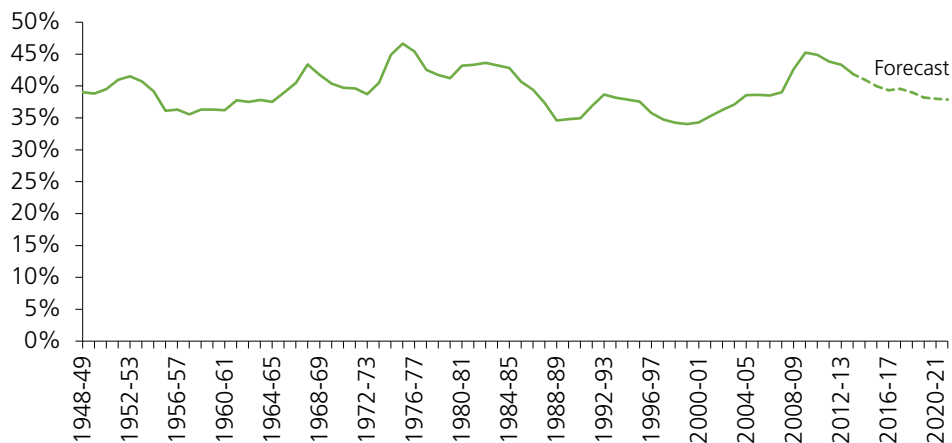
**Total managed expenditure, 1946-47 to 2021-22**  
£ billions



Source: OBR, Public finances databank, April 2017

It is often useful to look at total spending as a proportion of GDP, as this tells us how much is being spent relative to a country's overall economic activity – this is sometimes referred to informally as “the size of the state”, and is often a point of difference between political ideologies and parties. For example, in the below chart we can see a general fall in spending as a percentage of GDP during the Conservative governments of the eighties and mid-nineties, a gradual increase during the Labour government of the late nineties and 2000s, a large increase after the financial crisis in 2008, and a forecast fall under current spending plans. Despite these changes, spending as a proportion of GDP has consistently remained roughly within the 35%-45% range.

<sup>1</sup> This concept was introduced in Gordon Brown's [Modern Public Services for Britain: Investing in Reform](#), July 1998.

**TME as % of GDP, 1948-49 to 2021-22**

Source: OBR, *Public finances databank*, April 2017

## 1.2 Components of TME: DEL and AME

Ever since TME was introduced, it has been split into two components: Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL covers all the spending that can be reasonably planned in advance, with all of the less predictable spending coming under AME. This means that, to take the Department for Work and Pensions as an example, the Department's own staff costs and those of training programmes count as DEL, whereas social security payments are counted as AME.<sup>2</sup>

DEL budgets are set in advance at Spending Reviews, which generally come about every two to three years. These Spending Reviews also set the AME budget for the Government as a whole, but as its name suggests, AME is then allocated between departments on a yearly basis.<sup>3</sup>

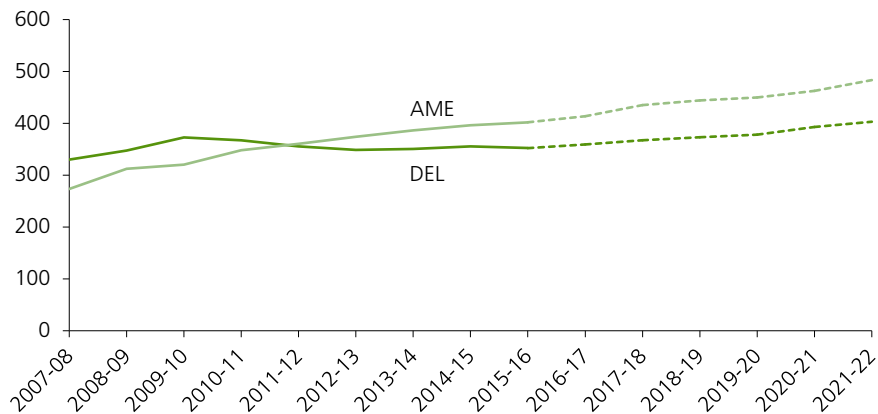
DEL used to make up a greater proportion of spending than AME, but since 2011-12 this has no longer been the case: AME is projected to remain higher than DEL until at least 2021-22.

<sup>2</sup> HM Treasury, *Main Supply Estimates 2015 to 2016*, HC 215 2015-16

<sup>3</sup> For more information on the 2015 Spending Review, see the Commons Library briefings on [the Review itself](#) and [its background](#).

### Public spending DEL vs AME, 2007-2022

£ billions, — outturn --- forecast



Source: OBR, March 2017 Economic and fiscal outlook fiscal supplementary tables: expenditure, Table 2.17

## 1.3 Resource and capital spending

Spending is further split into two categories based on whether the money is spent on an asset that lasts a number of years (such as a building or vehicle) or is spent on things that are used up (like salaries).<sup>4</sup> The former is referred to as “capital” spending, and the latter as either “resource” or “current” spending.

Resource spending is used up; capital spending is spent on assets that last a number of years.

Explicit capital and resource DEL budgets are included in Spending Reviews. In order to ensure that capital investment goes ahead, departments are not usually allowed to transfer money from their capital budgets to their resource budgets, although the reverse is permitted.

Capital budgets are lower than resource budgets for most departments (in the 2017-18 spending plans, resource spending makes up 90% of the total), but there are some exceptions: the only departments where capital DEL exceeds resource DEL for every year of the 2015 Spending Review period are the Department for Communities and Local Government, the Department of Energy and Climate Change, and the Department for Transport.<sup>5</sup>

<sup>4</sup> Capital spending also includes spending on improvement of existing assets, grants to other bodies to be spent on assets, and issuing loans.

<sup>5</sup> HM Treasury, [Spending Review and Autumn Statement 2015](#)

### Resource and capital DEL by department, 2017-18

£ millions

	Resource DEL	Capital DEL
Defence	36,035	8,530
Single Intelligence Account	2,401	610
Home Office	10,952	566
Foreign and Commonwealth Office	2,138	134
International Development	7,604	2,888
Health	119,244	6,084
Work and Pensions	6,410	378
Education	66,568	5,182
Business, Energy and Industrial Strategy	1,983	10,896
Transport	3,589	6,410
Exiting the European Union	101	0
Culture, Media and Sport	1,578	449
DCLG Communities	2,910	6,512
DCLG Local Government	6,728	-
Scotland	15,374	3,389
Wales	14,002	1,604
Northern Ireland	10,524	1,210
Justice	7,173	742
Law Officers' Departments	564	15
Environment, Food and Rural Affairs	1,873	685
HM Revenue and Customs	3,947	247
HM Treasury	169	187
Cabinet Office	502	97
International Trade	364	7
Small and Independent Bodies	1,495	249

Source: HM Treasury, *Public Expenditure Statistical Analyses 2017, Tables 1.3 & 1.8*

#### Box 1: Depreciation

Depreciation is part of the resource DEL budget, and describes the loss in value of fixed assets over their useful life, effectively spreading their initial capital cost over a number of years. Departments agree explicit depreciation budgets within the scope of their already-agreed resource DEL budget on an annual basis.



## 1.4 Administration and programme spending

At Spending Reviews, each department's resource DEL budget has one further split between the budget allocated for providing front line services (sometimes referred to as "programme" spending) and that allocated for supporting and running the department itself ("administration" costs). Administration costs are typically also reported separately in each department's Annual Report and Accounts.

### Box 2: GNI and GDP

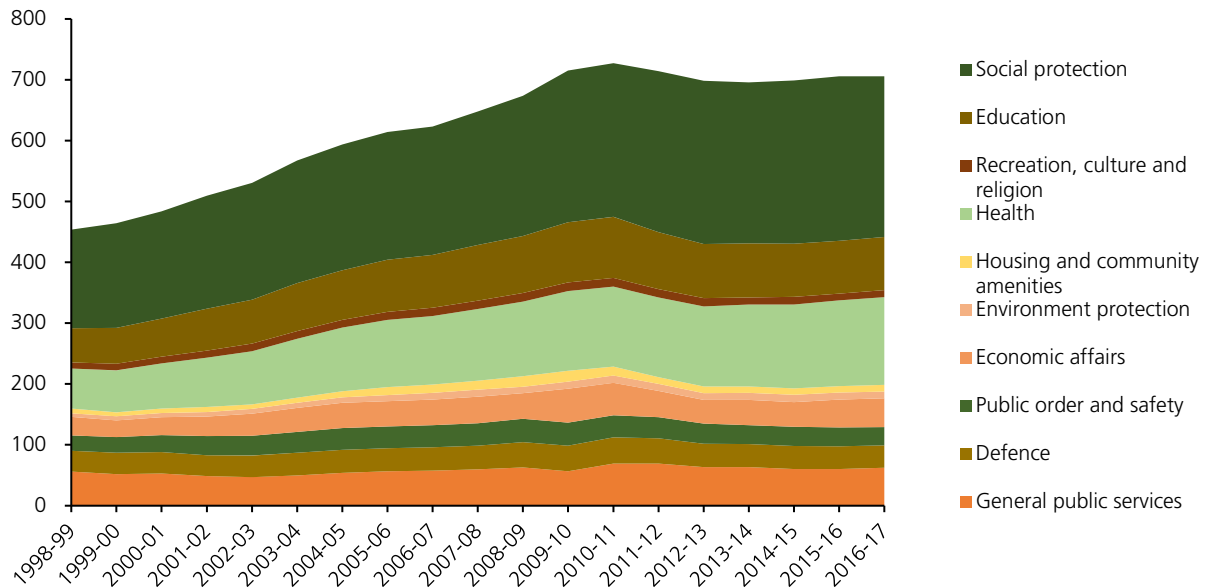
Public spending figures are sometimes expressed as a percentage of either Gross Domestic Product (GDP) or Gross National Income (GNI). Both of these measures are estimates of the size of the total economy, but take slightly different approaches: GNI (unlike GDP) includes the primary income balance on the current account, which mostly consists of income – in the form of profits, dividends and interest payments – from foreign investments, the balance being income from UK investments abroad minus income from foreign investments in the UK. In the case of the UK, GNI and GDP tend to be reasonably similar: in 2016 GNI was £1.92 trillion and GDP was £1.94 trillion.<sup>6</sup>

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<sup>6</sup> ONS, [UK Economic Accounts: main aggregates](#)

## 2. What does the Government spend its money on?

**Public spending by function, 1998-99 to 2016-17**  
 £ billions, 2016-17 prices



Note: Excludes EU transactions and accounting adjustments.  
 Source: HM Treasury, *Public Sector Statistical Analyses 2017*, table 4.3

Although there are always variations in the priorities that Government gives to its different functions, for the past 15 years or so its spending has been dominated by three major areas: social protection, education and health.

Public spending is dominated by social protection, education and health.

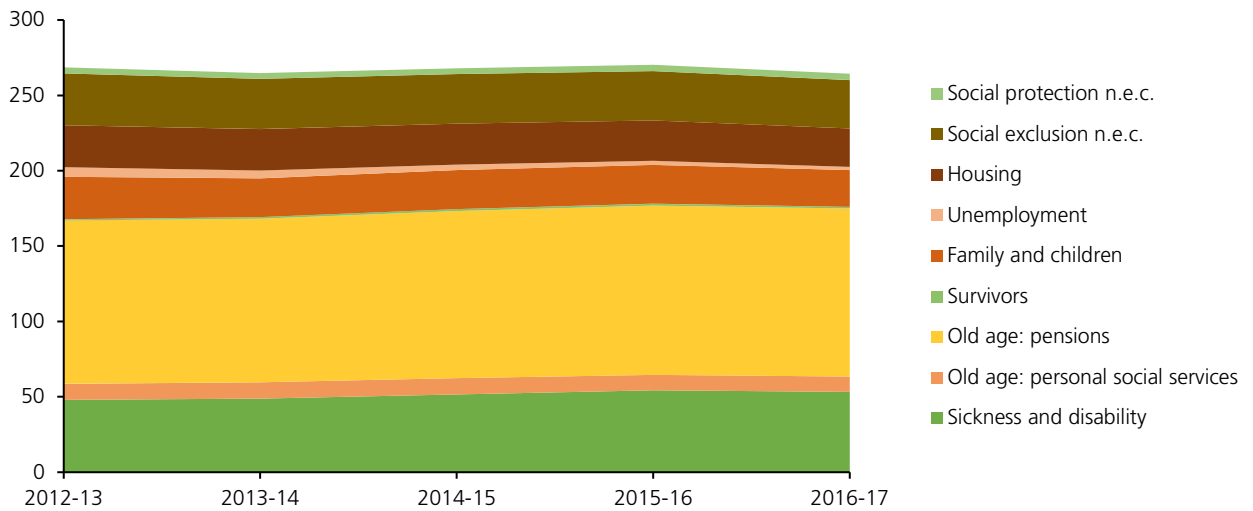
### 2.1 Social protection

Social protection is a wide-ranging area of spending, covering areas from housing benefit to pensions to supporting people who are otherwise excluded from society.

Spending in this area is dominated by pensions, a cost that continues to grow along with the UK's ageing population. Spending on all other aspects of social protection has remained essentially flat, with the exception of spending on unemployment, which has been falling recently as the unemployment rate decreases.

### Social protection spending by sub-function, 2012-13 to 2016-17

£ billions, 2016-17 prices<sup>a</sup>



Notes: "n.e.c" = "not elsewhere classified".

(a) Calculated using ONS GDP deflator, code YBGB.

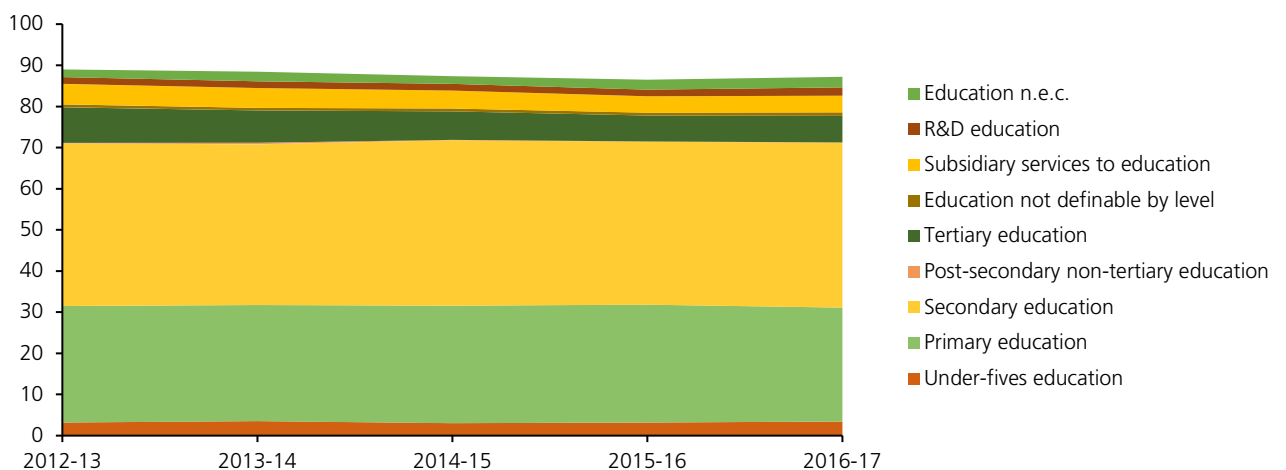
Source: HM Treasury, *Public Expenditure Statistical Analyses 2017, Table 5.2*; OBR, *Public finances databank, May 2017*

## 2.2 Education

The largest area of education spending by far is on schools, with secondary education taking a larger share than primary. Education spending as a whole has fallen for most of the past few years, with the largest decreases in tertiary education.

### Education spending by sub-function, 2012-13 to 2016-17

£ billions, 2016-17 prices<sup>a</sup>



Notes: "n.e.c" = "not elsewhere classified".

(a) Calculated using ONS GDP deflator, code YBGB.

Source: HM Treasury, *Public Expenditure Statistical Analyses 2017, Table 5.2*; OBR, *Public finances databank, May 2017*

## 2.3 Health

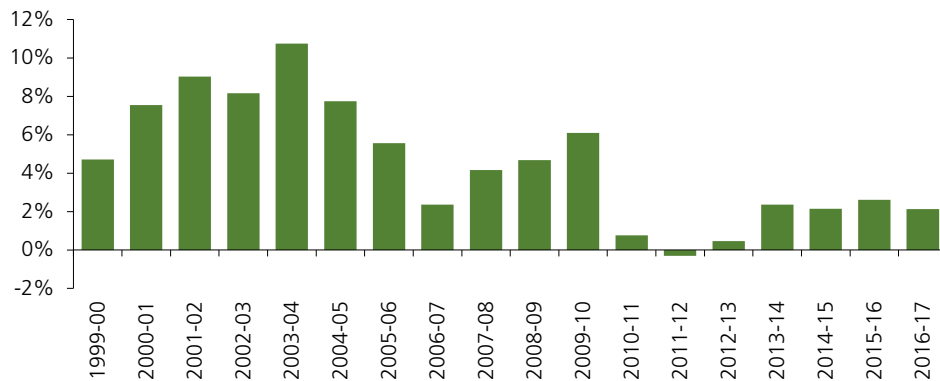
83% of health spending in 2016-17 was carried out by the Department of Health, mostly via NHS England, its executive non-departmental public body. The devolved administrations also spend on health – Scotland, Wales and Northern Ireland spent 9%, 5% and 3%

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respectively of all UK spending on health. Total UK-wide health spending saw a year-on-year increase in real terms every year from 1999-00 to 2016-17, with the exception of 2011-12 (when it fell by 0.23%);<sup>7</sup> it was the only function to see rises like this, which reflects the protection that successive governments have afforded it.

### Annual changes in health spending, 1999-00 to 2016-17

% change from previous year, real terms



Source: HM Treasury, *Public Sector Statistical Analyses 2017*, table 4.3

### Box 3: Protected budgets

A number of areas of public spending are at least nominally protected from cuts, either by Government policy or by legislation. The 2015 Spending Review listed the following commitments from the Government:<sup>8</sup>

- spend 2% of Gross Domestic Product (GDP) on defence for the rest of this decade
- spend 0.7% of Gross National Income on overseas aid
- provide the NHS in England £10 billion per year more in real terms by 2020-21 than in 2014-15
- increase the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week
- protect schools funding in England in real terms over the Spending Review period
- protect the national base rate per student for 16-19 year-olds in school sixth forms, sixth form colleges and further education colleges in England for the rest of the Parliament
- offer new financial support for further and higher education, with almost £1 billion of new loans by 2020-21 for part-time maintenance, postgraduate and higher level skills courses
- protect overall police spending in real terms over the Spending Review period
- maintain funding for the arts, national museums and galleries in cash terms over this Parliament

<sup>7</sup> Library calculation, based on HM Treasury, *Public Expenditure Statistical Analyses 2017*, table 4.3.

<sup>8</sup> HM Treasury, [Spending Review and Autumn Statement 2015](#), November 2015, section 3.2

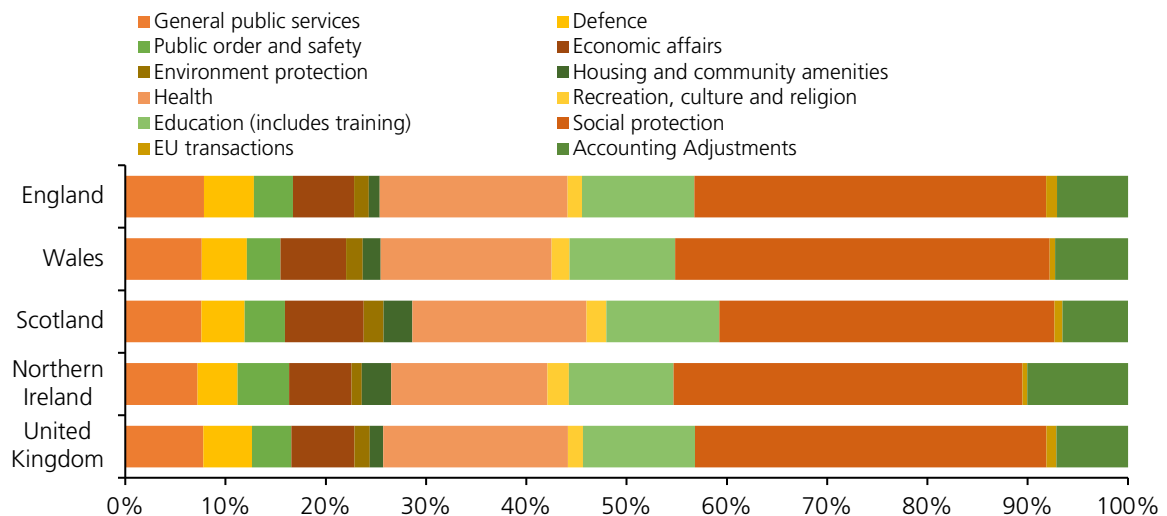
It is unclear whether all of these pledges will continue in the new Parliament. The 2017 Conservative manifesto makes the following commitments:

- Farm support will remain at “the same cash total” until the end of the Parliament;
- Spending on overseas aid will remain at 0.7% or more of GNI (this is in line with the International Development (Official Development Assistance Target) Act 2015<sup>9</sup>). However, the manifesto also says that the Government will seek to change the rules on what counts as aid, to “better reflect the breadth of our assistance around the world”;
- Spending on defence will continue to meet the NATO commitment of 2% of GDP, and the defence budget will also increase by at least 0.5 per cent above inflation in every year of the new Parliament;
- The schools budget will increase in real terms every year (the specific pledge is for an increase of £4 billion by 2022);
- NHS spending will increase by at least £8 billion in real terms over the next five years.

In recent years the Government has looked to reduce total departmental spending. Protecting some budgets has meant unprotected budgets have seen relatively large falls. The larger the size of the protected budgets, the more unprotected budgets have had to fall to meet the same overall reduction in total departmental spending.

## 2.4 Geographical variations

### Spending by function across the countries of the UK, 2015-16



Note: Accounting adjustments include depreciation, VAT refunds, and a number of small items that appear in budgets but not in TME.

Source: ONS, *Country and regional public sector finances: Financial year ending March 2016, May 2017, Figure 5*

Spending varies across the countries of the UK for two main reasons: first, the different needs of the countries in question mean that different types of spending are required (for example, the security situation in Northern Ireland has resulted in a higher proportion of spending on public order and safety there than in any other part of the UK). The second reason is that certain aspects of spending are the responsibility of the devolved administrations of the UK, and spending in these areas can vary based on their priorities.

The differences in spending between these countries are typically not enormous, but they are noticeable; for example, the Scottish and Northern Irish administrations spend proportionally more on housing

<sup>9</sup> [International Development \(Official Development Assistance Target\) Act 2015](#)

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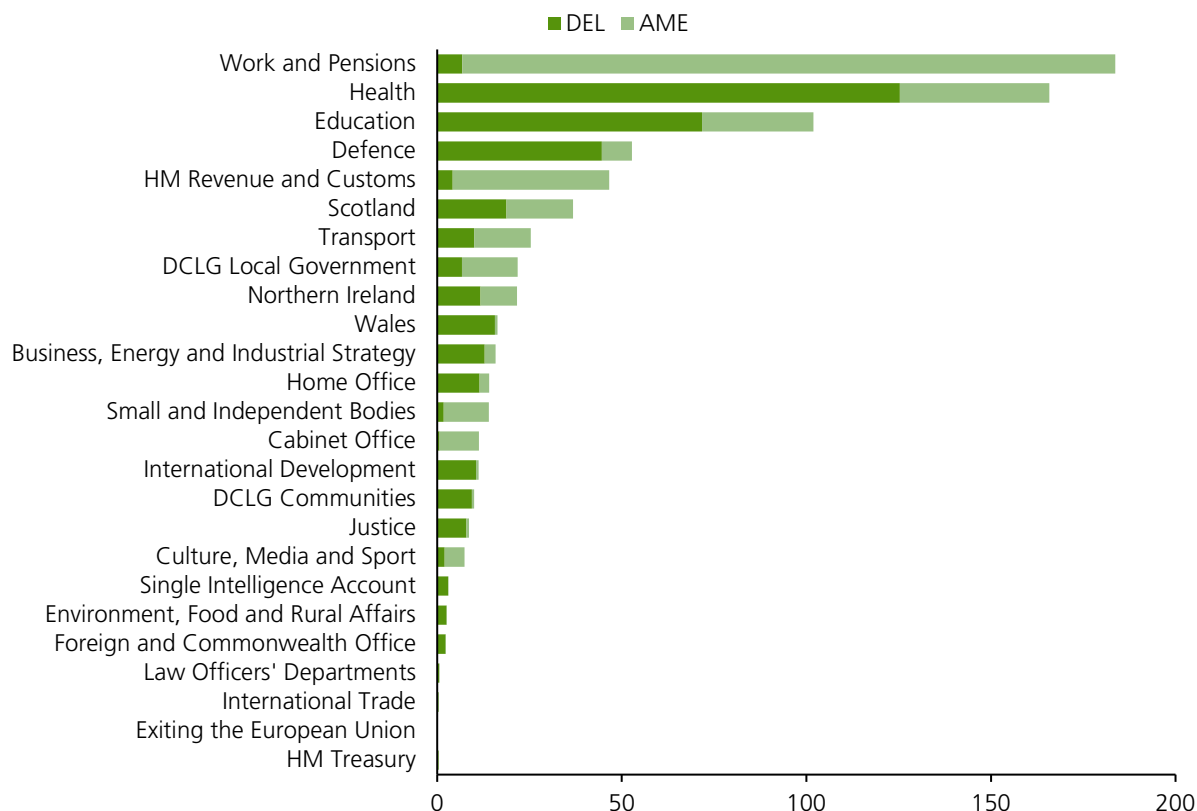
and community amenities than the UK generally, but less on social protection.

### 3. Who spends the money?

The budgets for 2017-18 across departments break down as follows.

#### Departmental budgets, 2017-18

£ billions



Source: HM Treasury, *Public Expenditure Statistical Analyses 2017*, Tables 1.3 and 1.8

Departments' budgets reflect the Government's major spending priorities as seen in chapter 2 – social protection (largely in the form of in-work benefits and pensions) is handled by the Department for Work and Pensions, and health and education spending are handled by their eponymous departments. It also illustrates the major divide between DEL and AME in spending – the Department for Work and Pensions and HM Revenue and Customs (HMRC) both spend far more on AME than they do on DEL, because their work is far more demand-driven than most departments (in HMRC's case, much of the spending is on tax credits and child benefit) and is harder to plan for.

#### 3.1 Departments and public bodies

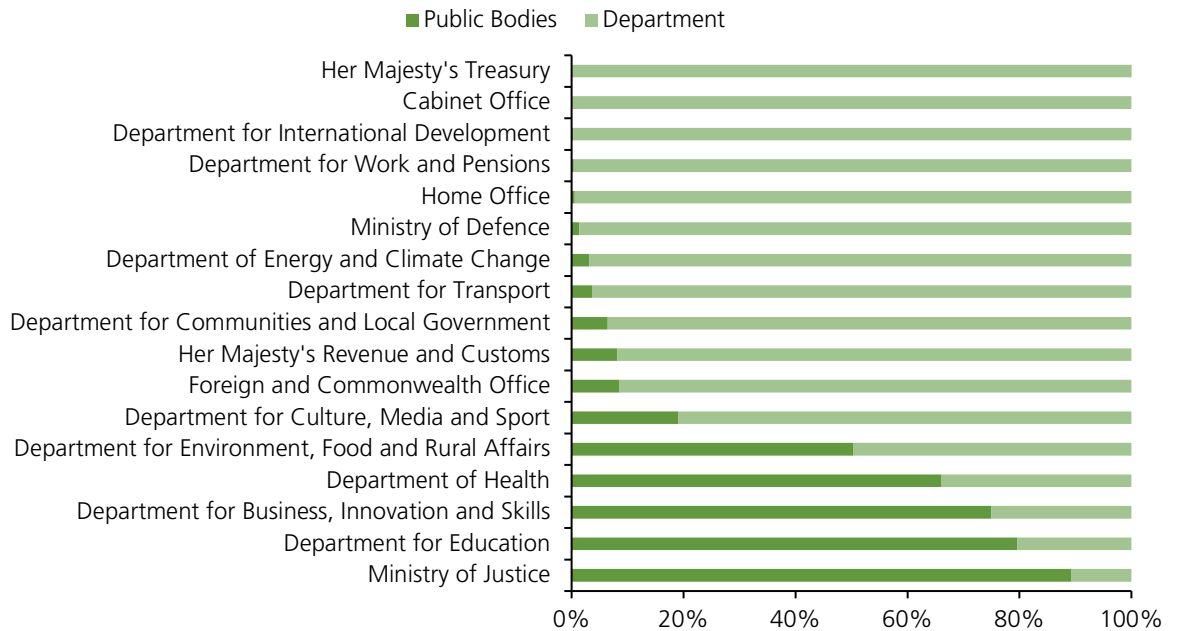
Departments administer some of their spending directly, but many also spend via their public bodies ("arm's length bodies" or ALBs<sup>10</sup>). These are used when it makes sense to take decisions or manage budgets with a degree of separation from central government, either for constitutional or operational reasons.<sup>11</sup>

<sup>10</sup> These bodies are also referred to, usually in a derogatory way, as "quangos".

<sup>11</sup> Constitution Committee, *The accountability of civil servants*, 20 November 2012, HL 61 2012-13, [chapter 5](#)

Different departments make widely varying use of public bodies, and in 2015-16 the amounts of their budgets they spent via these bodies ranged from less than 1% to 89%.

**Departmental spending by share attributed to public bodies, 2015-16**



Sources: HM Treasury, *Public Expenditure Statistical Analyses 2016*, Table 1.12  
 Cabinet Office, *Public bodies 2016 dataset*, December 2016

The two largest public bodies in terms of funding are NHS England (£100 billion in 2015-16) and the Education Funding Agency (£56 billion). Each of these receives more funding than all other public bodies put together (the next highest was Health Education England, with £5 billion).

Government departments are instructed<sup>12</sup> to only set up new public bodies when there is a "clear and pressing requirement"<sup>13</sup> to do so. All public bodies are reviewed regularly and have to publish reports; further information is available on the Cabinet Office's [Public bodies](#) webpage.

**3.2 Departmental spending trends**

Changes in DEL are planned several years in advance, so whether spending for a given department is increasing or decreasing should theoretically reflect the policy of the government. In the below table, we can indeed see that (for example) plans for 2017-18 saw an increase in DELs for many departments relative to the previous year, and that health spending remains at a low but steady rate of increase every year.

<sup>12</sup> Under guidance from (for example) HM Treasury, [Managing public money](#), July 2013  
<sup>13</sup> Cabinet Office, [Public bodies handbook](#), April 2016



**Changes in total DEL, by department, 2013-14 to 2019-20**

% change year-on-year, real terms

	outturn				plans		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Defence	-0.8%	-1.9%	1.4%	-1.6%	0.7%	0.9%	1.0%
Single Intelligence Account	-0.2%	3.1%	7.9%	5.6%	3.6%	-7.5%	5.5%
Home Office	-5.3%	1.8%	-6.6%	-0.3%	-1.5%	-1.3%	-2.1%
Foreign and Commonwealth Office	2.8%	-12.8%	0.5%	3.3%	6.6%	-39.4%	-0.6%
International Development	27.1%	-5.1%	-4.8%	6.4%	2.7%	15.9%	1.0%
Health	2.6%	1.8%	2.7%	0.8%	1.1%	0.4%	0.7%
Work and Pensions	-1.7%	-7.1%	-10.9%	-4.7%	3.3%	-8.0%	-10.4%
Education	-2.2%	0.6%	-0.7%	-1.5%	0.8%	1.0%	-2.7%
Business, Energy and Industrial Strategy	11.7%	-2.3%	7.2%	-1.8%	-0.4%	-3.6%	1.9%
Transport	-1.0%	-4.5%	-33.7%	-12.6%	16.9%	19.1%	26.6%
Exiting the European Union	0.0%	0.0%	14.3%	187.5%	334.8%	-3.0%	-6.2%
Culture, Media and Sport	-51.1%	30.6%	-4.3%	4.0%	7.0%	5.6%	0.9%
DCLG Communities	48.5%	10.6%	-6.3%	23.7%	20.6%	-6.3%	-9.3%
DCLG Local Government	-30.1%	-18.3%	-21.8%	-25.0%	-19.6%	-20.2%	-3.3%
Scotland	-0.1%	0.5%	-1.3%	-18.6%	-26.9%	-4.3%	-2.6%
Wales	1.2%	0.0%	-6.5%	-0.8%	1.4%	-0.7%	-0.4%
Northern Ireland	0.5%	-0.4%	-1.6%	0.1%	0.9%	-1.2%	-1.0%
Justice	-9.5%	-5.7%	-6.3%	-0.6%	-0.7%	-7.9%	-8.4%
Law Officers' Departments	-4.0%	-6.0%	-1.2%	-3.8%	3.9%	-2.1%	-3.1%
Environment, Food and Rural Affairs	-3.4%	3.9%	-9.9%	2.0%	2.4%	-7.9%	-11.7%
HM Revenue and Customs	-1.5%	-7.1%	2.3%	7.9%	-2.0%	-9.5%	-10.0%
Cabinet Office	-22.1%	59.9%	-20.6%	32.4%	17.1%	-49.5%	-12.9%
International Trade	36.1%	33.0%	21.7%	0.3%	4.0%	-9.4%	-1.8%
Small and Independent Bodies	0.0%	-8.1%	4.3%	10.3%	6.4%	-7.5%	-10.8%

Notes: Colour highlighting is scaled from &lt; -30% (bright red) to &gt; +30% (bright green).

HM Treasury is omitted from this list as its spending is negative in some years, making percentage changes incalculable.

Spending for departments that did not exist prior to 2016 is estimated based on departmental functions.

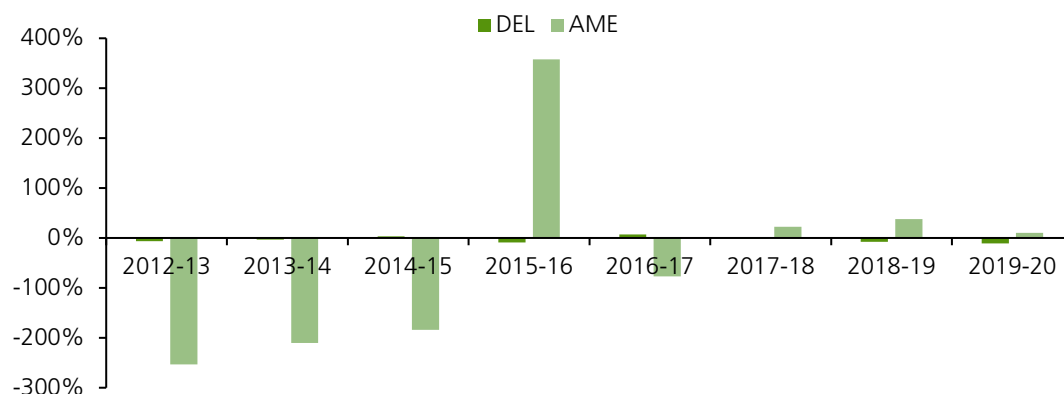
Source: HM Treasury, *Public Expenditure Statistical Analyses 2017*, Table 1.11

However, not all changes in departmental trends are policy-driven, and it is important to be aware of changes in classification or accounting that can make spending totals appear to change dramatically. The large decrease in the Department for Transport's DEL in 2015-16, for example, is because Network Rail spending was reclassified from DEL to AME in that year; similarly, DCLG Local Government saw a particularly large decrease in 2013-14 because of changes in the localisation of business rates and council tax benefit, and Scotland's planned decrease in DEL in 2017-18 reflects the devolution of tax-raising powers (because all of Scotland's self-financed spending will appear in its AME budgets).

Because AME is determined on a yearly basis, it varies considerably more than DEL. Two departments give particularly good examples of this: the Department for Environment, Food and Rural Affairs (DEFRA) and the Department of Energy and Climate Change (DECC).

### Changes in DEFRA's budgets, 2012-13 to 2019-20

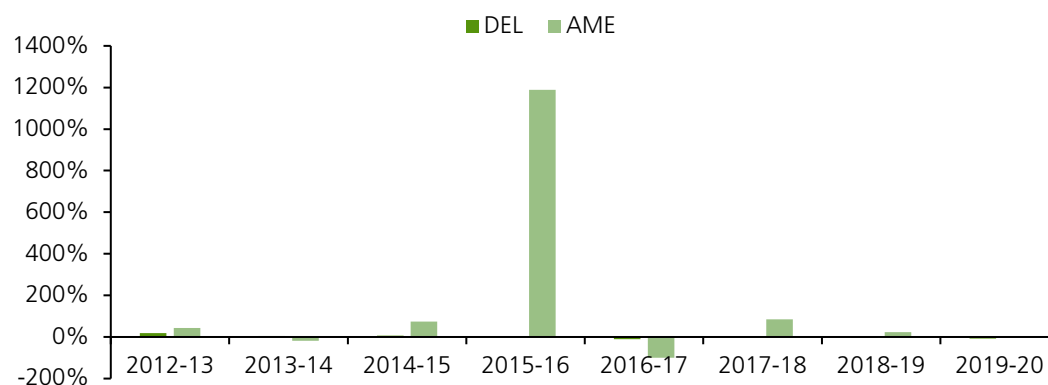
% change, real terms



Source: HM Treasury, *Public Expenditure Statistical Analyses 2016*, Table 1.4

### Changes in DECC's budgets, 2012-13 to 2019-20

% change, real terms



Source: HM Treasury, *Public Expenditure Statistical Analyses 2016*, Table 1.4

These charts show that although there are longer-term trends – for example, DEFRA has been seeing the scale of reductions in its AME budget decrease each year, and will start to see budget increases again into 2017-18 – changes in AME are almost always proportionally larger than those in DEL, and there can be very large changes in individual years.

In this case, the large spike in spending in 2015-16 is largely due to an accounting change. The Nuclear Decommissioning Authority, which draws its budget from DECC, keeps track of the total cost of cleaning up the UK's nuclear sites.<sup>14</sup> In 2015-16, the Treasury changed the rate at which costs in the future such as this are calculated,<sup>15</sup> resulting in a one-off cost in resource AME for a number of departments; in the case of DECC, the cost was £90 billion, while for DEFRA it was around £300 million.

<sup>14</sup> Nuclear Decommissioning Authority, [Nuclear Provision: the cost of cleaning up Britain's historic nuclear sites](#), 1 September 2016

<sup>15</sup> Department of Energy and Climate Change, [Supplementary Estimate 2015-16 Select Committee Memorandum](#), section 8.3

## 4. Where is the money spent?

### 4.1 Geographical breakdown

Around 12% of public spending cannot be identified with any particular region, the classic examples being spending on defence<sup>16</sup> and interest on government debt. A further 4% is spent outside the UK.

The remaining 84% can be identified as being spent in specific countries and regions of the UK, with 69% of the total going to England. Although the total amounts spent have increased, the proportions being spent in each country and region have varied very little over the past few years.

69% of public spending is spent in England, with the remainder going to Scotland (8%), Wales (4%) and Northern Ireland (3%).

#### Spending, by country and region, 2011-12 to 2015-16

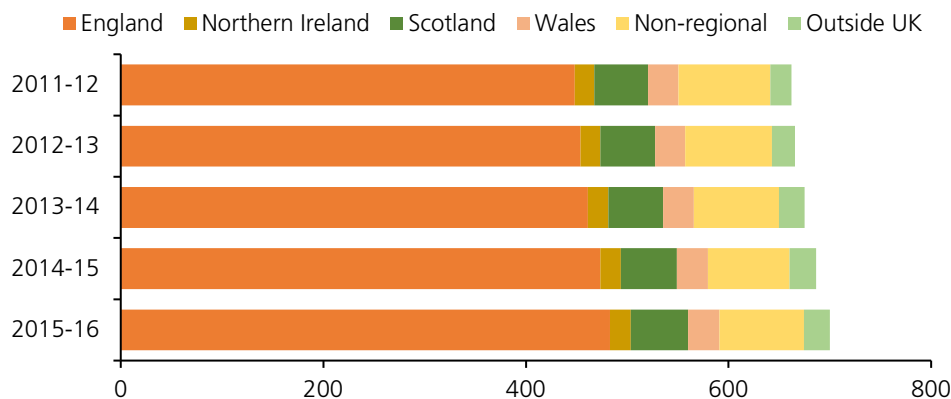
£ billions, cash

	2011-12	2012-13	2013-14	2014-15	2015-16
England	448	454	461	473	483
East	45	45	46	48	50
East Midlands	36	36	37	38	39
London	82	82	83	85	88
North East	24	24	24	25	25
North West	63	64	65	66	67
South East	64	66	68	69	71
South West	42	43	44	45	46
West Midlands	47	48	48	50	50
Yorkshire and the Humber	45	45	45	47	47
Northern Ireland	19	20	20	20	20
Scotland	53	54	54	55	57
Wales	30	30	30	31	31
Non-regional	91	86	84	81	83
Outside UK	21	23	25	26	26

Source: HM Treasury, Country and regional analysis 2016, November 2016

#### Spending by country, 2011-12 to 2015-16

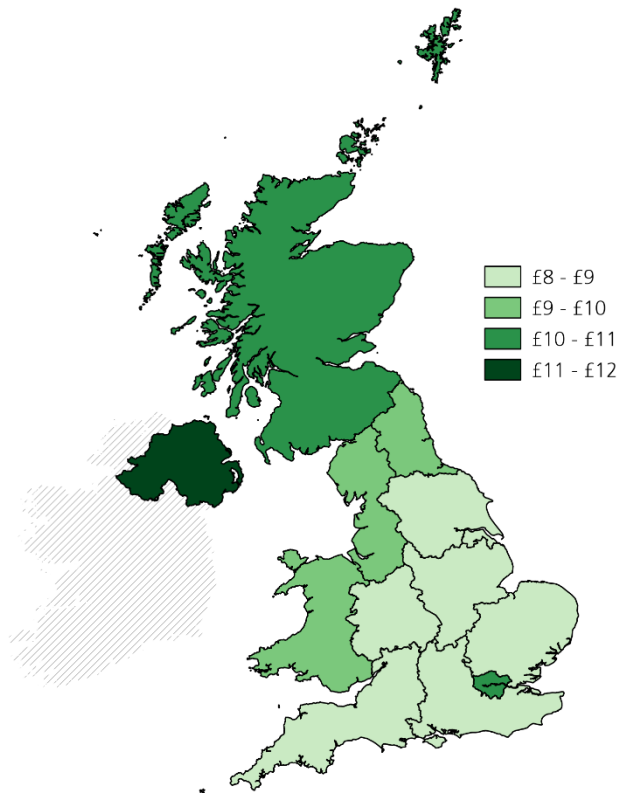
£ billions, cash



Source: HM Treasury, Country and regional analysis 2016, November 2016

<sup>16</sup> [Public Expenditure by country and region](#), Commons Library Research Paper 04033, 30 November 2016

### Spending per head, by country and region, 2015



© EuroGeographics for the administrative boundaries  
 Source: HM Treasury, Country and regional analysis 2016, November 2016; Eurostat population database demo\_r\_d2jan

## 4.2 The Barnett formula

The devolved administrations – Scotland, Wales and Northern Ireland – raise varying proportions of their own revenue (by the time the Scotland Act 2016 is fully in force, devolved revenues will make up around 50% of the Scottish Government’s spending). The remainder is made up of a number of grants, of which the block grant is the largest. Changes in the size of this grant are calculated based on the scale of changes to departmental budgets made in England, the degree to which those changes represent devolved decisions, and the relative sizes of the populations in the countries of the UK.

The Barnett formula ensures that changes in funding to England are also reflected in funding for the devolved administrations of the UK.

These factors come together in the Barnett formula, which has been used since the late 1970s to try to ensure that funding per-person changes each year by the same amount for comparable services in all the countries that make up the UK. The formula is calculated based only on changes to DEL budgets, and the size of the block grants is therefore typically only updated at Spending Reviews.

Because the Barnett formula is Treasury policy and not part of any legislation, it can in theory be changed or ignored at any time; however, the broad framework appears likely to remain in place, at least in the near future.

The Library briefing on [The Barnett formula](#) discusses the formula in greater detail, along with its history, assessments of its impact, and information its possible future.

### 4.3 The EU

As a member of the European Union, the UK makes contributions to the EU budget. The size of these contributions is assessed on three factors:

- 80% of customs tariffs and levies collected – the remaining 20% is held back to cover the cost of their collection;
- A percentage of VAT returns (nominally 0.3% of what the VAT base would be if each country followed EU VAT rules as written, but there can be further adjustments);
- A percentage of GNI – the exact percentage is set in order to make total revenues and spending balance across the whole EU, and in 2015 was 0.66%.

The UK contributes to the EU budget based on its income from several sources, spending £10.8 billion in 2015/16.

A rebate is then assessed for the UK (one year in arrears), reducing its total net contribution by around 66% (this proportion is not exact thanks to some spending not counting towards the total). The rebate is deducted from the UK's contribution before it makes payments. Many of the EU's programmes and projects then also result in funding returning to the UK, primarily in agriculture.

Taking all of these into account, the UK's payments to and from the EU in recent years look like the following:

#### UK Contributions to, and public sector receipts from, the EU budget, £ million

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<i>UK contributions to the EU</i>							
Customs duties and levies	1,975	2,234	2,205	2,171	2,200	2,263	2,314
VAT contributions	1,121	2,266	2,276	2,398	2,163	2,316	2,751
GNI contribution	10,637	11,092	11,218	12,303	13,845	14,154	12,570
Contributions	13,733	15,592	15,699	16,872	18,208	18,733	17,635
<i>UK rebate</i>	-4,218	-2,678	-3,516	-3,172	-4,130	-4,811	-4,068
Gross contributions	9,515	12,915	12,184	13,699	14,079	13,921	13,567
Total Public Sector Receipts	-4,788	3,998	4,771	4,022	3,856	4,690	2,811
<b>Net Contribution</b>	<b>4,727</b>	<b>8,917</b>	<b>7,413</b>	<b>9,678</b>	<b>10,223</b>	<b>9,231</b>	<b>10,756</b>

Source: HM Treasury, *Public expenditure statistical analyses 2016*, Table C.1, and previous editions

More details on EU funding are available in the Library's briefing paper [The UK's contribution to the EU budget](#).

### 4.4 Overseas aid

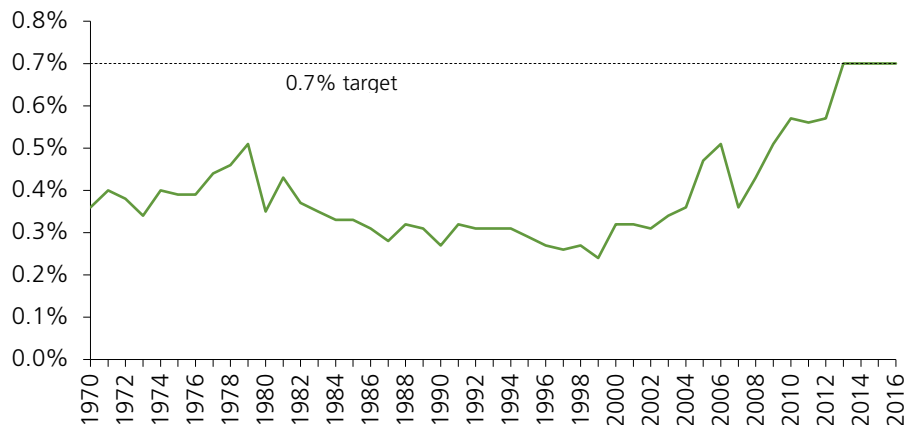
Since the passage of the [International Development \(Official Development Assistance Target\) Act](#) in 2015, the Government has been under a legal obligation to spend 0.7% of GNI on Official Development Assistance (ODA), the standard international definition of overseas aid.<sup>17</sup>

The 0.7% target was first agreed on an international basis by the General Assembly of the UN in November 1970, chosen based on some

<sup>17</sup> For more detail about what counts as ODA, see the OECD's publication [Is It ODA?](#)

earlier research suggesting that if a total of 1% of a country's income were to be given by each government and private citizens together, this would provide sufficient capital for low-income countries to develop properly.<sup>18</sup> The UK first reached the target in 2013, and has continued to meet it in each year since.

### UK ODA as a percentage of GNI, 1970-2016



Source: DFID, *Provisional UK ODA tables 2016*

Although the 0.7% target has not changed since 1970, the definition of GNI has. In 2016, the UK changed to using the ESA 2010 accounting standard<sup>19</sup> when calculating GNI for aid purposes. This resulted in the GNI total being higher than it would have been under the old standard, so its aid spending also had to be higher in order to continue to meet the target.

In cash terms, the UK gave £13.3 billion in aid in 2016. The UK aid strategy is to allocate 50% of the Department for International Development's spending to fragile states and regions;<sup>20</sup> the effect of this strategy can be seen in the fact that the top five recipients of UK aid in 2015 were Pakistan, Ethiopia, Afghanistan, Nigeria and Syria.<sup>21</sup>

<sup>18</sup> Center for Global Development, [Ghost of 0.7%: origins and relevance of the international aid target](#), September 2005

<sup>19</sup> This standard was adopted in other parts of government in 2014; the Library has produced [a briefing paper](#) explaining some of the changes.

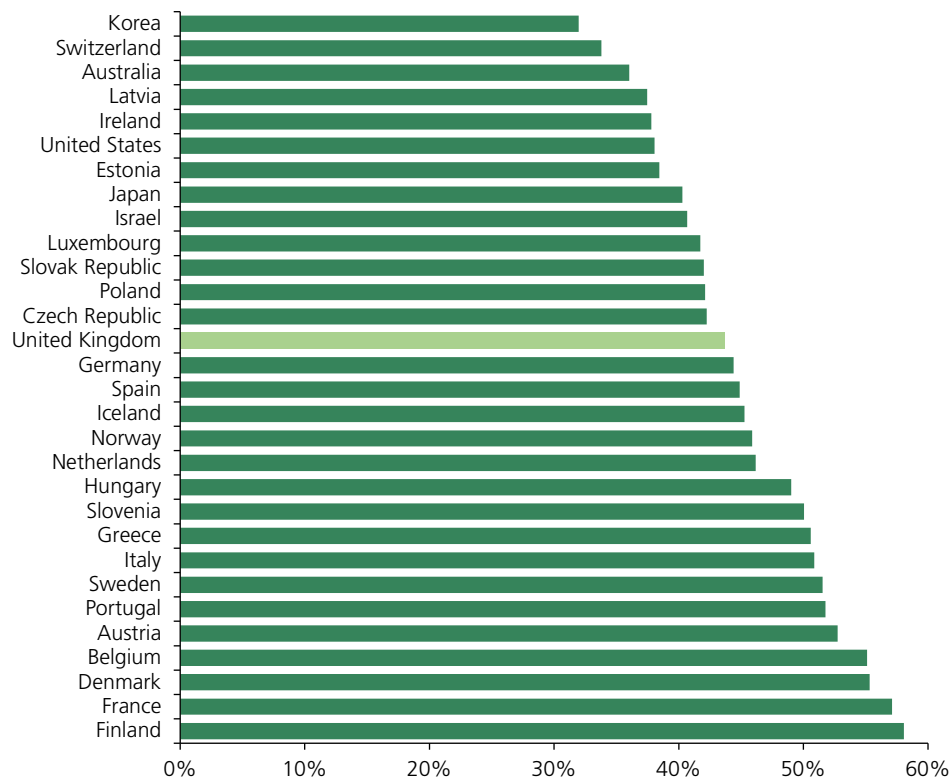
<sup>20</sup> HM Treasury and DFID, [UK aid: tackling global challenges in the national interest](#), November 2015

<sup>21</sup> Institute for Fiscal Studies, [The changing landscape of UK aid](#), 8 May 2017

## 5. How does the UK's spending compare with other countries?

Different countries will, of course, have varying incomes and spending priorities. However, there is surprisingly little variation among economically developed countries in the proportion of their GDP which goes out as spending.

### Public spending of OECD members as a % of GDP



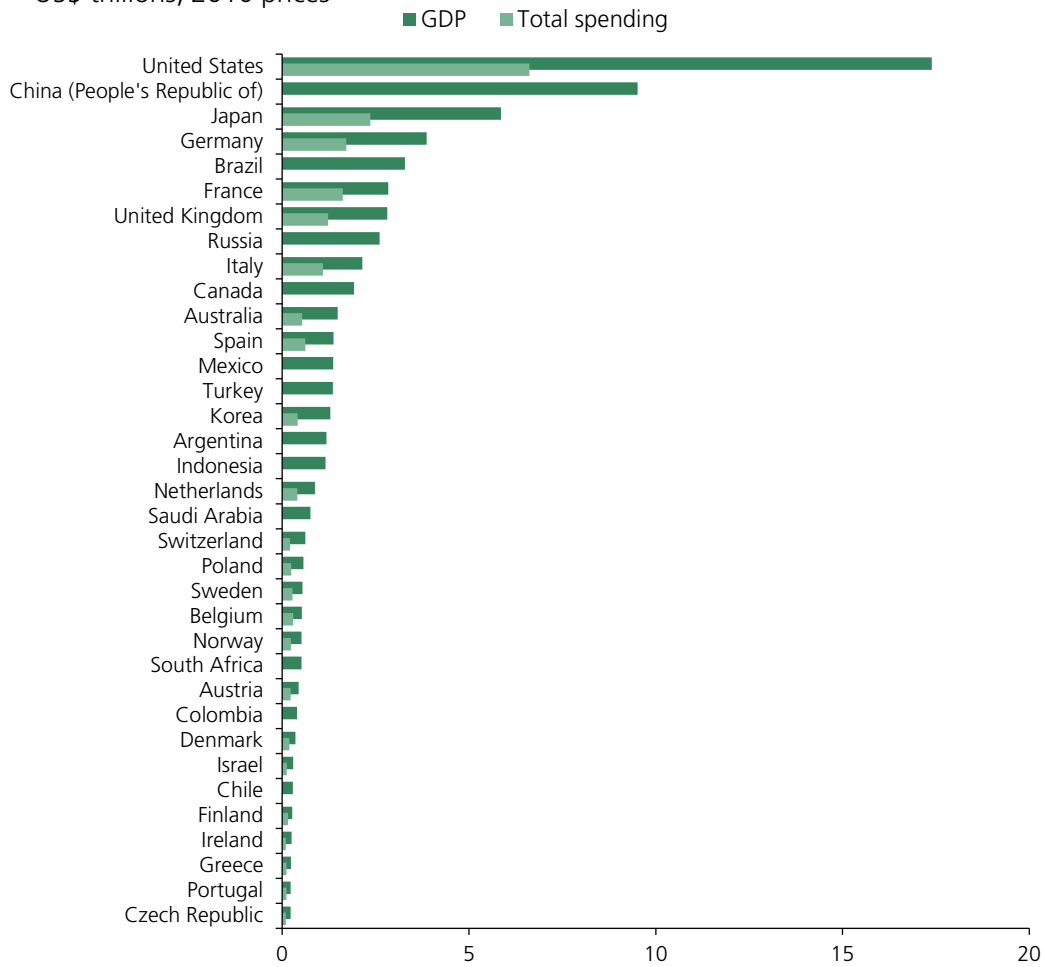
Note: Canada, Chile, Mexico, New Zealand and Turkey are also OECD members, but public spending figures for these countries are not available.

Source: *OECD.Stat National accounts, datasets 1 & 11*

This dataset, taken from 2014 as this is the most recent year for which extensive data are available, also indicates that the UK is far from unusual in the proportion of its GDP which it spends. It is also reasonably typical when it comes to the spending of the world's richest economies:

**Public spending and GDP of selected rich countries, 2014**

US\$ trillions, 2010 prices



Note: Bars for public spending have been omitted where figures are not available.

Source: OECD.Stat National accounts, datasets 1 & 11

This shows that in absolute terms, UK public spending is similar to that of Italy, although its GDP is closer to that of France. The United States spends more than any other country, but its economy is also much larger than any other.



## 6. Further reading and resources

### General briefings

The Office for Budget Responsibility have a [brief introduction to the public finances](#) on their website, as well as [briefings](#) and [working papers](#) on more specific topics, and [forecasts](#) of the components of DEL. A much more in-depth treatment of the subject is available in two papers from the Institute for Fiscal Studies, [one from 2007](#) which gives some history of DEL and AME, and [one from 2014](#) which gives a broader overview.

The Commons Library has produced [a briefing on the Estimates process](#), describing how departments request the money they need and how it is authorised by Parliament.

### Government statistics

HM Treasury produces its [Public Expenditure Statistical Analyses](#) (PESA) each year, generally in the summer or early autumn. These provide an overview of all spending in the public sector, broken down by budget type, government function, department and region. The Treasury also produces an annual [Country and regional analysis](#) document, estimating the amount of spending that goes to each region and country of the UK, along with an accompanying database showing each item of this spending.

The Cabinet Office produces a report called [Public bodies](#) each year, detailing all the spending by departments' ALBs, along with details on their governance, supervision and funding.

The Office for Budget Responsibility produces a number of regular reports and databases detailing the state of the public finances. Some of the most useful are the [Economic and fiscal outlook](#), and the [data](#) in the [Public finances databank](#) and [Historical official forecasts database](#).

### Debts and deficits

The Library has [a briefing paper on the budget deficit](#), and the Library blog ran [a post with a Q&A on public sector debt](#) in January 2016. The ONS's webpage "[The debt and deficit of the UK public sector explained](#)" is also a useful resource in this area.

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