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Public spending: a brief introduction



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Summary

The Government spent £1,094 billion in 2020/21, the most it has ever spent either in cash terms or real terms. This briefing 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 in most years social protection, health and education are the areas receiving the largest amounts (economic affairs replaced education as the third-largest area of spending in 2020/21, due to spending on support measures during the Covid-19 pandemic). In 2020/21, social protection accounted for £302 billion of total spending, health £223 billion, economic affairs £192 billion, and education £98 billion. Most areas have seen reductions in spending over the past few years, although this trend was already beginning to reverse before the pandemic.

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 usually the Department for Work and Pensions, the Department of Health and Social Care and the Department for Education, which taken together account for over half of the total 2021/22 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 and Skills Funding Agency.

Where is the money spent?

68% of all public spending in 2019/20 was in England, with Scotland, Wales and Northern Ireland seeing 8%, 4% and 3% respectively. 13% could not be identified with any particular region, and 4% was spent outside the UK.

Some money has typically gone to the EU – the UK's net contribution in 2020/21 was £8.2 billion, although this will change now that the UK has left the EU – and some is spent abroad as part of the international development budget.

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

In per-person terms, the UK's public spending is similar to that of Canada and New Zealand. The UK is far from unusual in its spending among developed economies, either in the amount that it spends per person or relative to the size of its economy – its spending as a percentage of GDP is fairly typical amongst [OECD members](#).

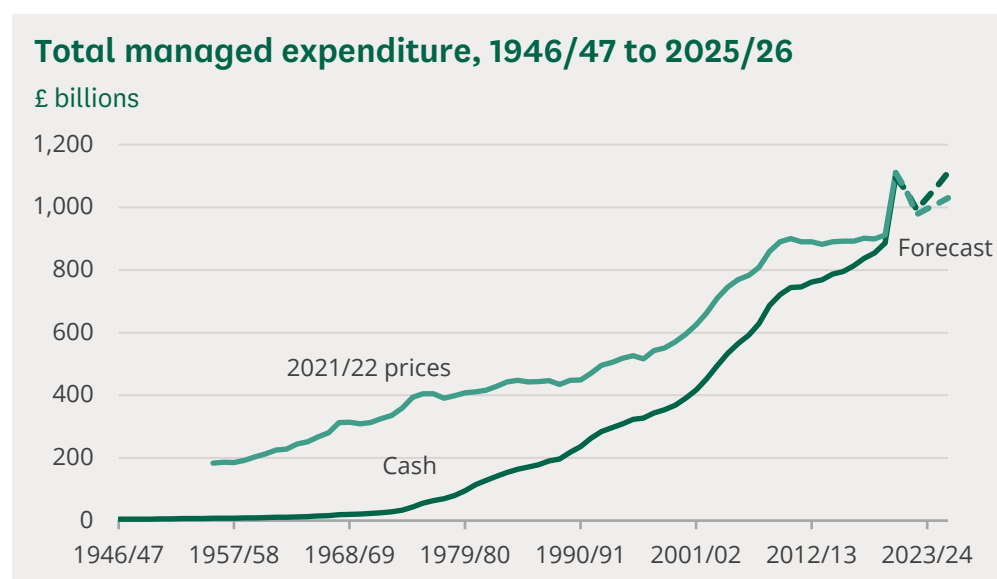
1 Types of spending

1.1 Total spending

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

Since 1998, total spending by the public sector over the year has been recorded as Total Managed Expenditure, or TME.¹ 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. Prior to the Covid-19 pandemic, it had been forecast to continue to do so until at least 2024/25; however, the very high spending in response to the pandemic in 2020/21 means that it is now forecast to fall back from this peak before resuming its increase. When adjusted for inflation, total spending fell slightly in the years immediately following the 2008 financial crisis, but started increasing again after that.



Note: Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors. OBR forecasts are used for 2021-22 and 2022-23.

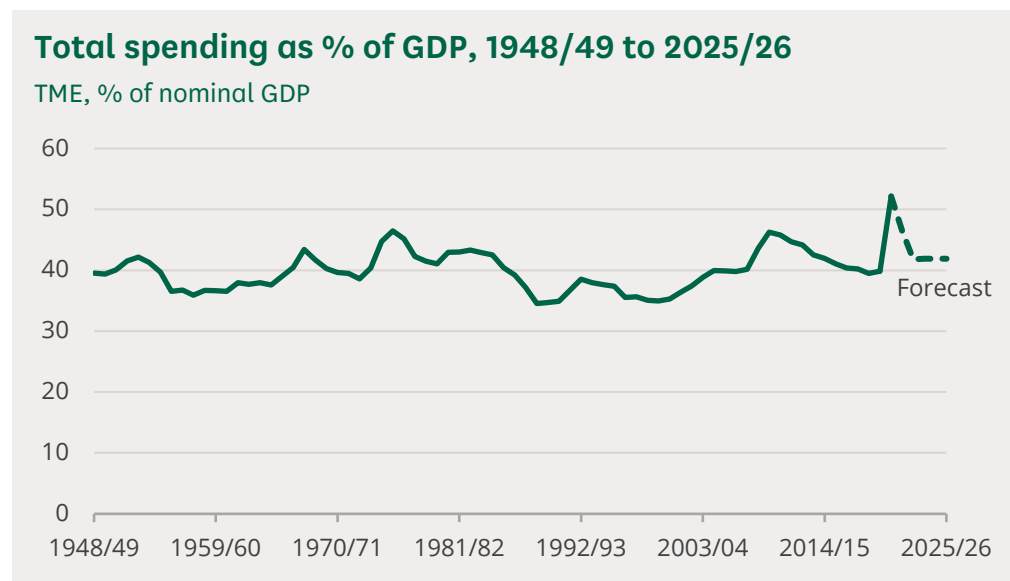
Source: OBR, [Public finances databank](#), July 2021

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

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

a point of difference between political ideologies and parties. For example, in the chart below 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 steady decrease from 2010/11 up until the Covid-19 pandemic.

Despite these changes, spending as a proportion of GDP consistently remained roughly within the 35%-45% range up until 2020/21. The pandemic resulted in spending increasing to 52% of GDP, higher than at any point since the Second World War; however, forecasts now suggest that spending will return to about 42% of GDP by 2022/23.



Source: OBR, [Public finances databank](#), July 2021

1.2

Components of TME: DEL and AME

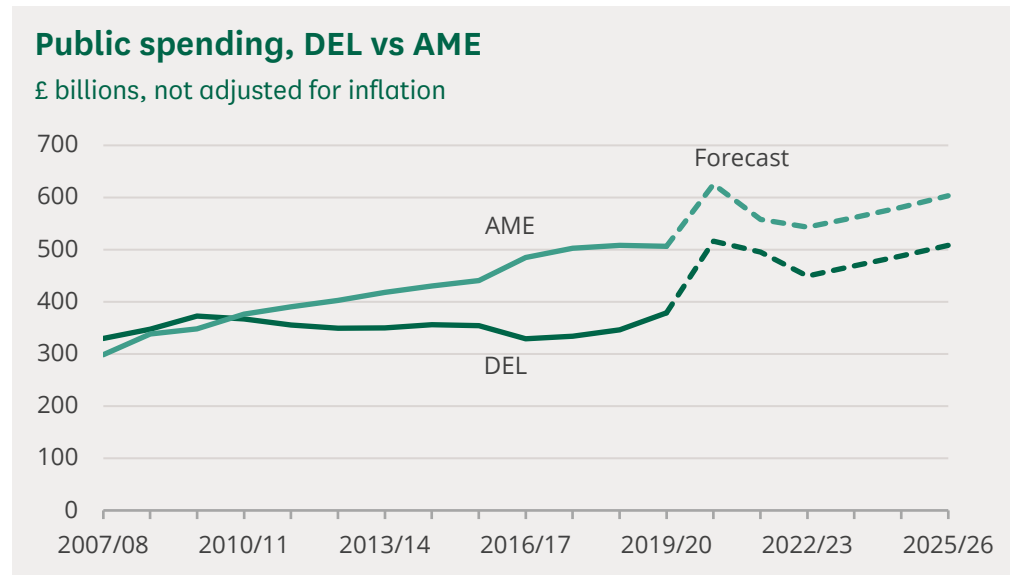
Ever since TME was introduced, it has been split into two components: Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL covers all the spending that can be reasonably planned in advance, with all of the less predictable spending coming under AME. This means that, to take 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.²

DEL budgets are set in advance at Spending Reviews, which generally come about every two to three years; the most recent full multi-year Review was in 2015. The Government had originally planned to hold a three-year Spending Review in 2019, alongside the Budget; because of uncertainties caused by Brexit and the Covid-19 pandemic, it ended up holding one-year reviews

² HM Treasury, [Main Supply Estimates 2020 to 2021](#), HC 293

instead in both 2019 and 2020. The next full three-year Review will take place on 27 October 2021, alongside the Autumn Budget.³ Spending Reviews also set some elements of the AME budget for the Government as a whole, but as its name suggests, AME is then allocated between departments on a yearly basis.⁴

DEL used to make up a greater proportion of spending than AME, but since 2010/11 this has no longer been the case: AME is currently projected to remain higher than DEL until at least 2025/26.



Source: OBR, [Economic and fiscal outlook – March 2021](#), Fiscal supplementary tables: expenditure, table 3.3, 3 March 2021

1.3

Resource and capital spending

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

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). The former is referred to as ‘capital’ spending, and the latter as either ‘resource’ or ‘current’ spending.⁵

Explicit capital and resource DEL budgets are included in Spending Reviews. 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.

³ HM Treasury, [Chancellor launches vision for future public spending](#), 7 September 2021

⁴ For more information on the 2015 Spending Review, see the Commons Library briefings on [the Review itself](#) and [its background](#). The Library also published background briefings on the [2019 Spending Round](#) and [2020 Spending Review](#).

⁵ Capital spending also includes spending on improvement of existing assets, grants to other bodies to be spent on assets, and issuing loans.

Capital budgets are lower than resource budgets for most departments (in the 2021/22 spending plans, resource spending makes up 84% of the DEL total), but there are some exceptions: the only departments where capital DEL exceeds resource DEL in the 2021/22 plans are the Department for Transport, the Department for Business, Energy and Industrial Strategy, and MHCLG's Housing and Communities budget.⁶

Resource and capital DEL by department, 2021/22		
£ billions		
	Resource DEL	Capital DEL
Health and Social Care	177.8	8.5
Education	91.1	5.6
Defence	41.9	14.3
Transport	17.4	19.5
Scotland	29.8	5.7
Business, Energy and Industrial Strategy	8.8	16.7
Wales	17.8	2.6
MHCLG - Local Government	17.5	-
Northern Ireland	14.8	1.9
Home Office	13.7	0.9
MHCLG - Housing and Communities	3.0	8.8
Justice	9.4	1.7
Work and Pensions	9.4	0.5
Foreign, Commonwealth and Development Office	7.4	1.9
HM Revenue and Customs	6.1	0.7
Environment, Food and Rural Affairs	4.4	1.5
Single Intelligence Account	3.0	1.0
Small and Independent Bodies	2.6	0.4
Digital, Culture, Media and Sport	2.0	1.0
Cabinet Office	1.3	0.4
Law Officers' Departments	0.7	0.0
International Trade	0.5	0.2
HM Treasury	0.3	0.0

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Tables 1.3 and 1.8, 20 July 2021

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

⁶ HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Tables 1.3 and 1.8, 20 July 2021

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

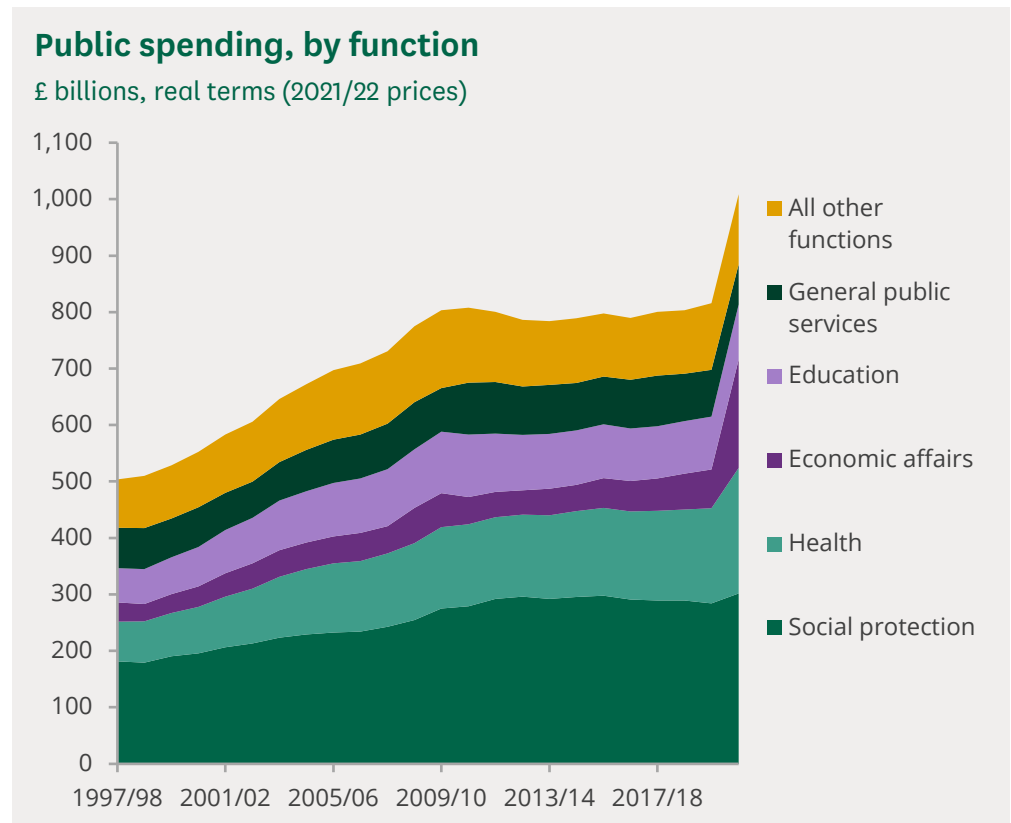
Public spending figures are sometimes expressed as a percentage of either Gross Domestic Product (GDP) or Gross National Income (GNI). Both of these measures are estimates of the size of the total economy, but take slightly different approaches: GNI (unlike GDP) includes the primary income balance on 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 2020 GNI was £2.07 trillion and GDP was £1.96 trillion.⁷

⁷ ONS, [UK Economic Accounts: main aggregates](#)

2

What does the Government spend its money on?

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



Note: Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 4.2, 20 July 2021

Although there are always variations in the priorities that Government gives to its different functions, government spending is generally dominated by three major areas: social protection, education and health.

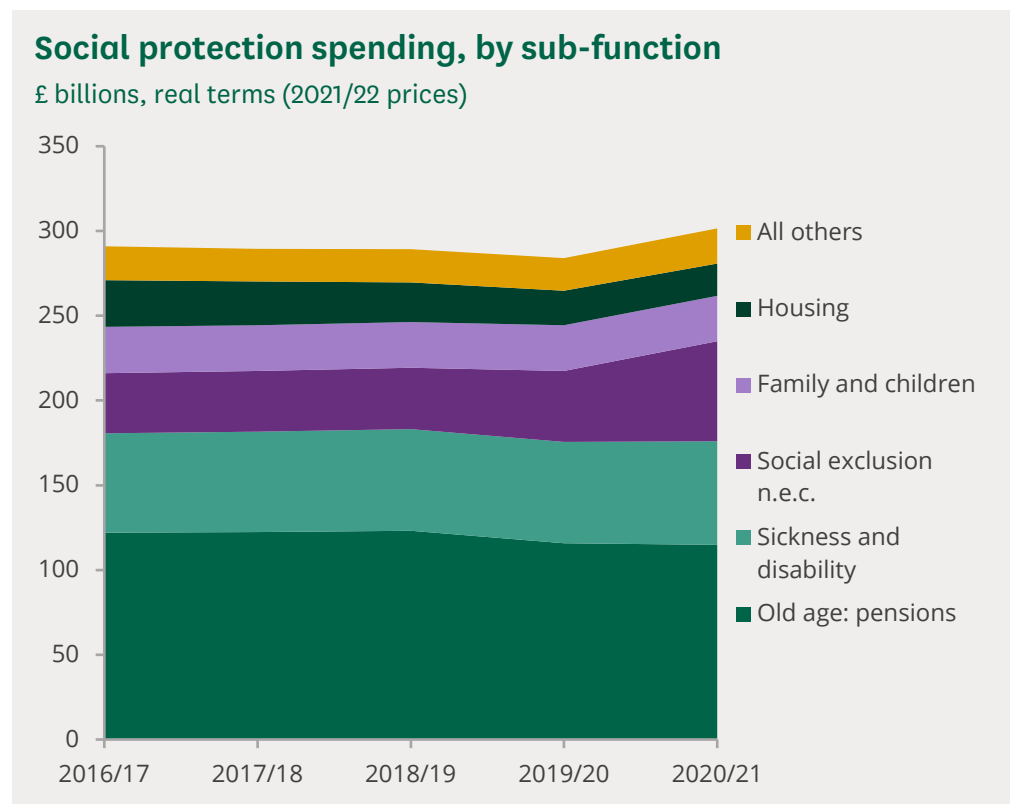
In 2020/21, this changed for the first time in over 20 years, when pandemic-related spending caused economic affairs to become the third largest area of spending instead of education. Much of the extra spending on economic affairs was HMRC's spending on the Coronavirus Job Retention and Self-Employment Income Support Schemes, and spending by the Department for Business, Energy and Industrial Strategy (BEIS) on business support grants and business interruption loan schemes.

2.1

Social protection

Social protection is a wide-ranging area of spending, covering areas like housing benefit, pensions, and supporting people who are at risk of exclusion from society, such as those on low incomes or refugees.

Spending in this area is dominated by pensions, a cost that is likely to grow in the future along with the UK's ageing population. Social protection spending in general decreased slightly in the years before the Covid-19 pandemic, particularly spending on unemployment, which has fallen as the unemployment rate decreases. In 2020/21, spending on "social exclusion, not elsewhere classified"⁸ drove an overall increase in social protection spending.



Notes: "n.e.c." = "not elsewhere classified". Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors

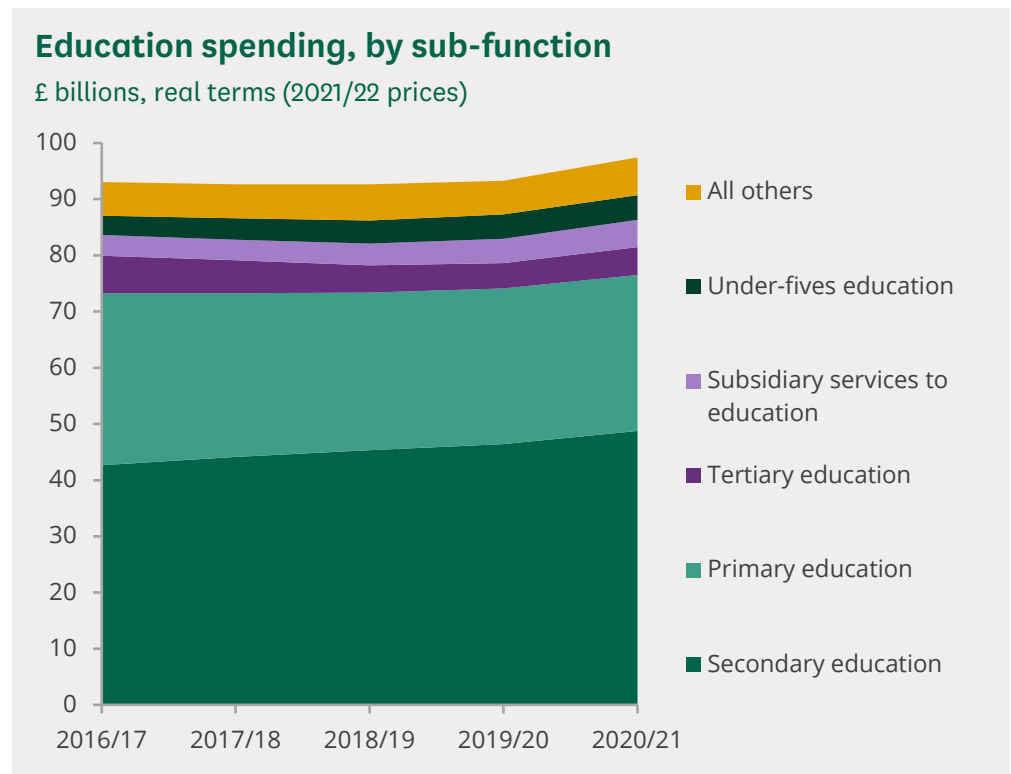
Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 5.2, 20 July 2021

⁸ This category includes benefits to people who are socially excluded or at risk of becoming so. The increase in this category in 2020/21 may be because of higher spending on homeless people during the pandemic.

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 mostly been steady for the past few years, with increases in spending on secondary education being offset by decreases in primary and tertiary education. Spending on all education sub-functions increased in 2020/21.



Note: Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors.

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 5.2, 20 July 2021

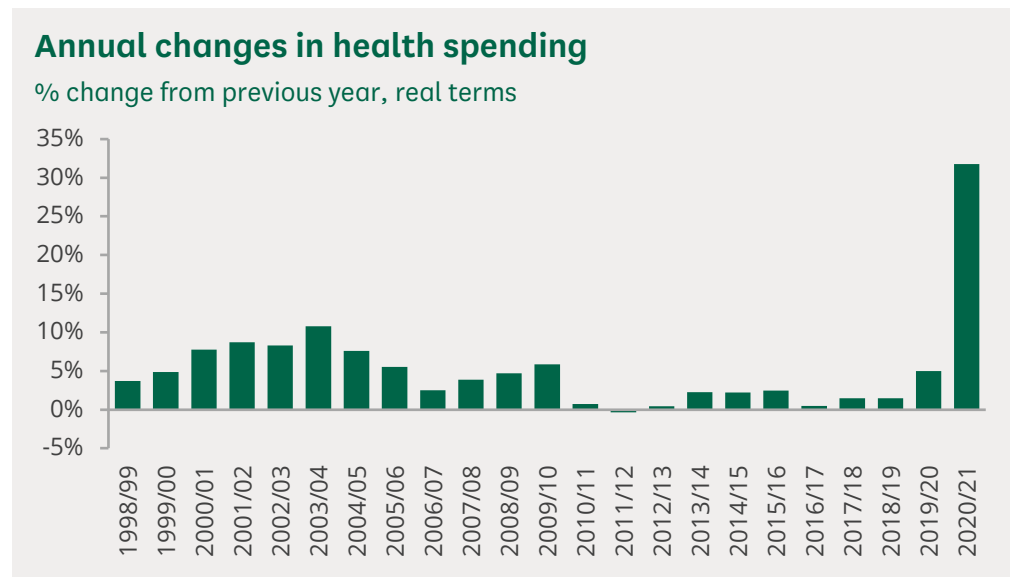
2.3

Health

83% of health spending in 2020/21 was carried out by the Department of Health and Social Care, mostly via NHS England, its executive non-departmental public body. The devolved administrations also spend on health – Scotland, Wales and Northern Ireland spent 8%, 4% and 3% respectively of all UK spending on health.⁹ Total UK-wide health spending saw a year-on-year increase in real terms every year from 1998/99 to 2020/21, with the

⁹ HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 5.1, 20 July 2021

exception of 2011/12 (when it fell by 0.3%);¹⁰ it was the only function to see rises like this, which reflects the protection that successive governments have afforded it. Health spending in 2020/21 rose particularly fast (by 31.8%) due to extra pandemic-related measures.



Note: Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors.

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 4.2, 20 July 2021

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.

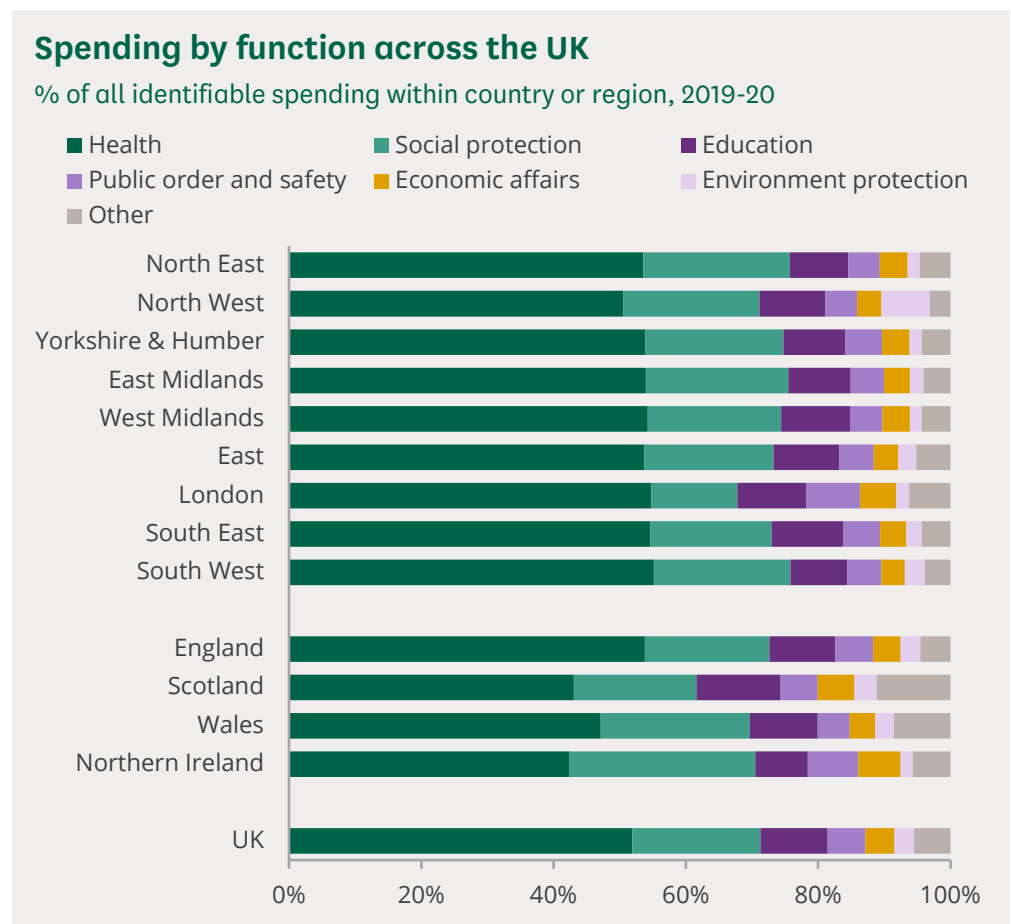
1. Under the terms of the [International Development \(Official Development Assistance Target\) Act 2015](#), the Government is legally required to spend 0.7% of the country's gross national income (GNI) on international aid (see section 4.4). From 2021 the Government [plans to spend 0.5% of GNI instead](#), but this still means that the amount spent will continue to increase as the economy grows.
2. The UK currently meets the NATO target of spending at least 2% of GDP on defence. This is not a legal requirement, but the Government has pledged to continue to meet it, and the [2019 Conservative manifesto](#) included a pledge to increase defence spending by at least 0.5% above inflation in every year of the new Parliament.

¹⁰ Library calculation, based on HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 4.2, 20 July 2021.

3. The 2019 Conservative manifesto also promised to increase funding for the NHS by 29% between 2018 and 2023. This commitment was later put into law as the [NHS Funding Act 2020](#), which places a duty on the Secretary of State to request certain levels of funding each year (and places a duty on the Treasury to provide this funding).
4. Other long-term commitments in the manifesto included:
 - a. An increase in spending on domestic public R&D, aiming for a target of 2.4% of GDP across the economy;
 - b. Spending an extra £14 billion over three years on schools;
 - c. Maintaining funding for fisheries across the UK over the life of the Parliament;
 - d. Recruiting an extra 20,000 police officers by 2023.

2.4

Geographical variations



Source: HM Treasury, [Country and regional analysis: 2020](#), 18 November 2020

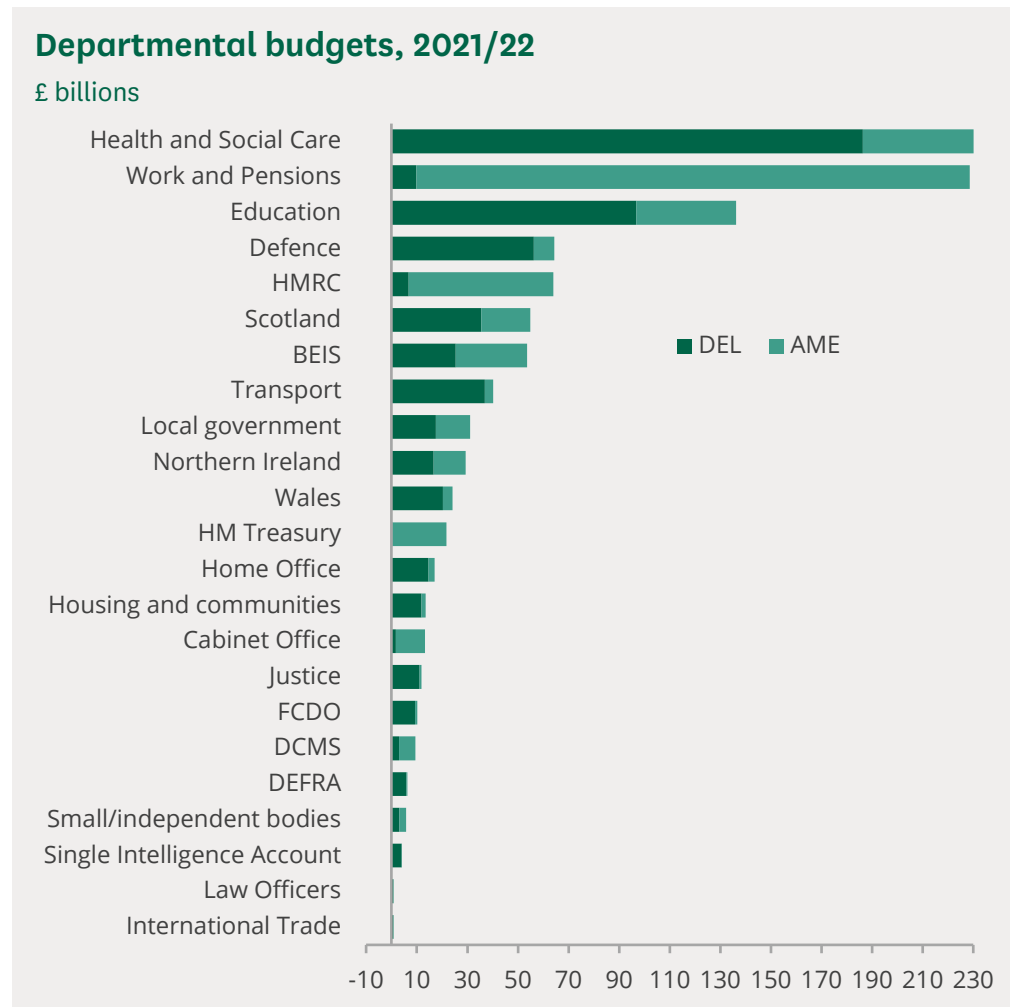
Spending varies across the countries and regions of the UK for two main reasons: first, the different needs of the areas in question mean that different types of spending are required (for example, the security situation in Northern Ireland has resulted in a higher proportion of spending on public order 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 scope of the public sector also varies between these administrations; for example, the water industry is in the private sector in England and Wales, but in the public sector in Scotland and Northern Ireland.

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 and community amenities than the UK generally, but less on health. The Library's briefing paper [Public spending by country and region](#) examines this in more detail.

3

Who spends the money?

The budgets for 2021/22 across departments break down as follows.



Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Tables 1.3 and 1.8, 20 July 2021

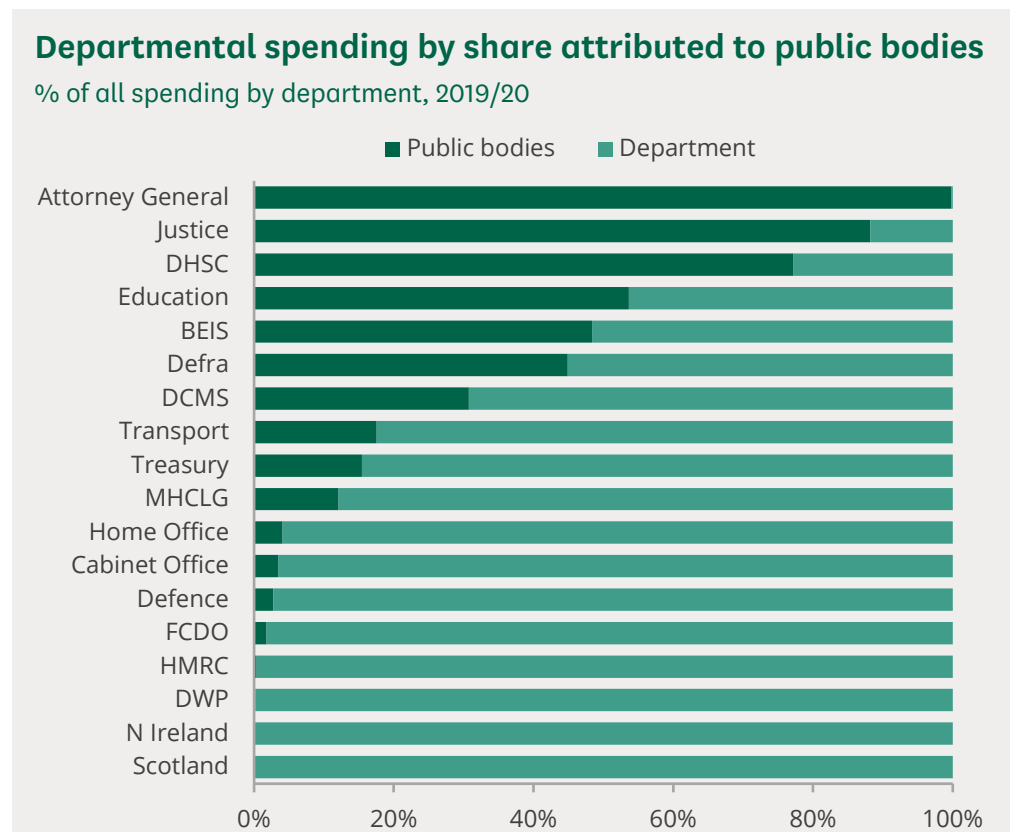
Departments' budgets typically reflect the Government's major spending priorities as seen in chapter 2 – social protection (largely in the form of in-work benefits and pensions) is handled by the Department for Work and Pensions, and spending on health and on education is handled by their respective departments. This chart 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 in most departments (in HMRC's case, much of the spending has generally been on tax credits and child benefit, and more recently on the furlough scheme) 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).¹¹ 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.¹²

Different departments make widely varying use of public bodies, and in 2019/20 the amounts of their budgets they spent via these bodies ranged from less than 1% to 100%.



Source: Library calculations, based on HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 1.12, 20 July 2021, and Cabinet Office, [Public Bodies 2020](#), 15 July 2021

The two largest public bodies in terms of funding are NHS England (£123 billion in 2019/20) and the Education and Skills Funding Agency (£59 billion). These two between them account for over half of all spending on public bodies.

¹¹ These bodies are also referred to, usually in a derogatory way, as “quangos”.

¹² Constitution Committee, *The accountability of civil servants*, 20 November 2012, HL 61 2012-13, [chapter 5](#)

Government departments are instructed¹³ to only set up new public bodies when there is a “clear and pressing requirement”¹⁴ 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 and in the Library’s briefing on [Public Bodies](#).

¹³ Under guidance from (for example) HM Treasury, [Managing public money](#), July 2013

¹⁴ Cabinet Office, [Public bodies handbook](#), April 2016

3.2

Departmental spending trends

Changes in DEL are planned at Spending Reviews, meaning that the budgets are set 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 table below, we can indeed see that (for example) health spending was at a low but steady rate of increase every year up to 2019/20, while the Local Government budget decreased in line with the Government's policy of replacing Revenue Support Grant with locally-raised business rates.

Changes in total DEL, by department

% change from previous year, real terms

	Outturn				Plans
	2017/18	2018/19	2019/20	2020/21	2021/22
Health and Social Care	+2%	+2%	+5%	+35%	-5%
Education	-1%	-0%	+0%	+5%	+4%
Home Office	-2%	+1%	+3%	+23%	-9%
Justice	+1%	+3%	+3%	+15%	+6%
Law Officers' Departments	+4%	-3%	+7%	-1%	+17%
Defence	+2%	+2%	+2%	+5%	+7%
Single Intelligence Account	+1%	+3%	+6%	-6%	+23%
Foreign, Commonwealth and Development Office	-1%	+3%	-3%	-1%	-28%
MHCLG - Housing and Communities	+17%	+6%	+8%	+9%	-2%
MHCLG - Local Government	-20%	-30%	+73%	+145%	-19%
Transport	+16%	+27%	+67%	+80%	-15%
Business, Energy and Industrial Strategy	-5%	-2%	+13%	+232%	-47%
Digital, Culture, Media and Sport	+4%	+3%	+11%	+78%	-28%
Environment, Food and Rural Affairs	+2%	+6%	+9%	+91%	+5%
International Trade	+11%	+5%	+13%	+7%	+24%
Work and Pensions	-1%	-7%	-7%	+18%	+37%
HM Revenue and Customs	-1%	-0%	+5%	+16%	+24%
HM Treasury	-11%	+143%	+39%	-35%	-14%
Cabinet Office	+50%	-23%	+47%	+59%	-7%
Scotland	+2%	+0%	+3%	+32%	-6%
Wales	+2%	-1%	-9%	+45%	-11%
Northern Ireland	+1%	+3%	+6%	+29%	-7%
Small and Independent Bodies	+18%	-11%	+14%	+25%	+17%

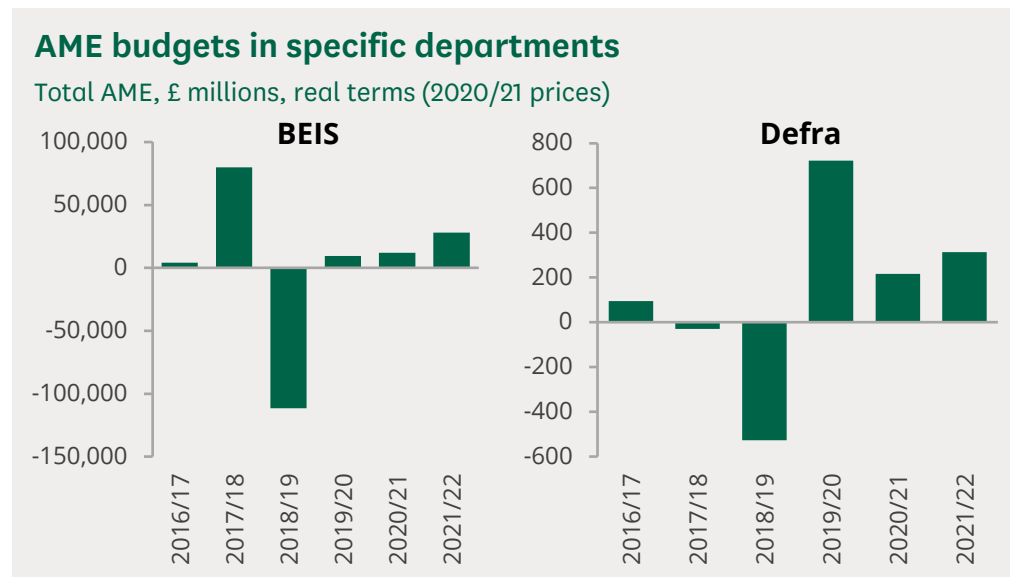
Notes: Colour highlighting is scaled from < -30% (bright red) to > +30% (bright blue).

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table 1.10, 20 July 2021. Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors.

It is also very clear just how much the pandemic affected spending across Government, with many departments seeing very large spending increases in 2020/21, and many of those increases being partly reversed in 2021/22.

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. For example, the large increase in DEL for the Department for Transport in 2019/20 is because the spending of Network Rail was reclassified from AME to DEL in that year.

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 for Business, Energy and Industrial Strategy (BEIS).



Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Tables 1.3 and 1.8, 20 July 2021. Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21, 2021/22 and 2022/23 has been averaged across the three years to smooth the distortions caused by pandemic-related factors.

In both of these charts, changes in AME are often both large and volatile, with no sign of a clear trend. They also bear little relation to the changes in DEL seen in the table above.

In this case, the very large decrease in spending for both departments in 2018/19 – so large that AME spending is actually negative – is mostly due to an accounting change. The Nuclear Decommissioning Authority, which draws its budget from BEIS, keeps track of the total cost of cleaning up the UK's nuclear sites.¹⁵ In March 2018, the Treasury changed the rate at which costs in the future such as this are calculated,¹⁶ resulting in a one-off decrease in resource AME for a number of departments.

¹⁵ Nuclear Decommissioning Authority, [Nuclear Provision: the cost of cleaning up Britain's historic nuclear sites](#), 1 September 2016

¹⁶ HM Treasury, [The Green Book: appraisal and evaluation in central government](#), 6 March 2018

4 Where is the money spent?

4.1 Geographical breakdown

68% of public spending is spent in England, with the remainder going to Scotland (8%), Wales (4%) and Northern Ireland (3%).

Around 13% of public spending cannot be identified with any particular region, the classic examples being spending on defence and interest on government debt. A further 4% is spent outside the UK.

The remaining 83% can be identified as benefiting specific countries and regions of the UK, with 68% of the total going to England. Although the total amounts spent have increased, the proportions benefiting each country and region have varied very little over the past few years.¹⁷

Total public spending, by country and region of the UK £ billions, adjusted for inflation (2019/20 prices)

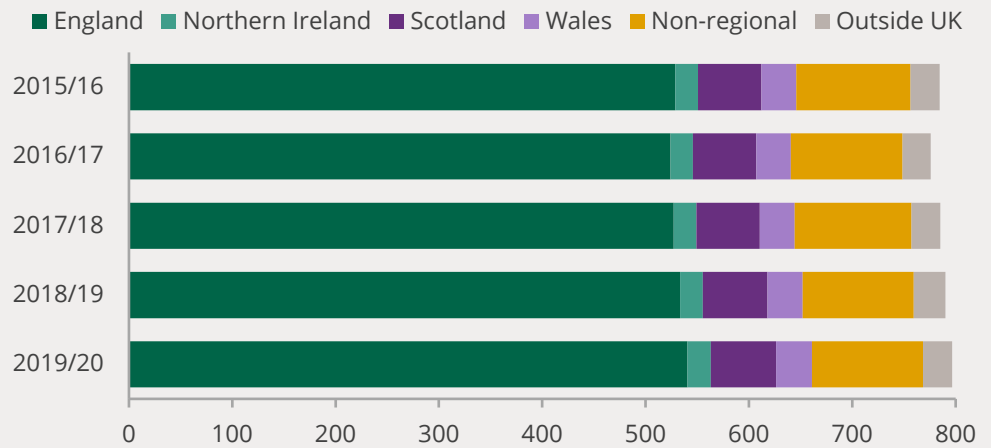
	2015/16	2016/17	2017/18	2018/19	2019/20
England	529	524	527	533	541
<i>East</i>	54	53	54	55	56
<i>East Midlands</i>	42	42	42	42	43
<i>London</i>	96	94	95	95	97
<i>North East</i>	28	27	27	28	27
<i>North West</i>	74	73	74	74	75
<i>South East</i>	78	78	79	81	82
<i>South West</i>	50	50	50	51	52
<i>West Midlands</i>	55	55	55	56	57
<i>Yorkshire and the Humber</i>	52	51	51	51	52
Northern Ireland	22	22	22	22	23
Scotland	61	61	61	62	63
Wales	34	33	34	34	34
Non-regional	111	108	113	108	107
Outside UK	28	27	28	31	28

Source: HM Treasury, [Country and regional analysis: 2020](#), 18 November 2020, table A.2a

¹⁷ The allocation by country and region is not strictly based on where the spending takes place, but rather on whether it can be identified as benefiting a particular area. For example, some spending on the HS2 railway line is allocated under this system to Scotland and Wales, despite the railway not being built in either country – see the database in HM Treasury’s [Country and regional analysis: 2020](#) publication.

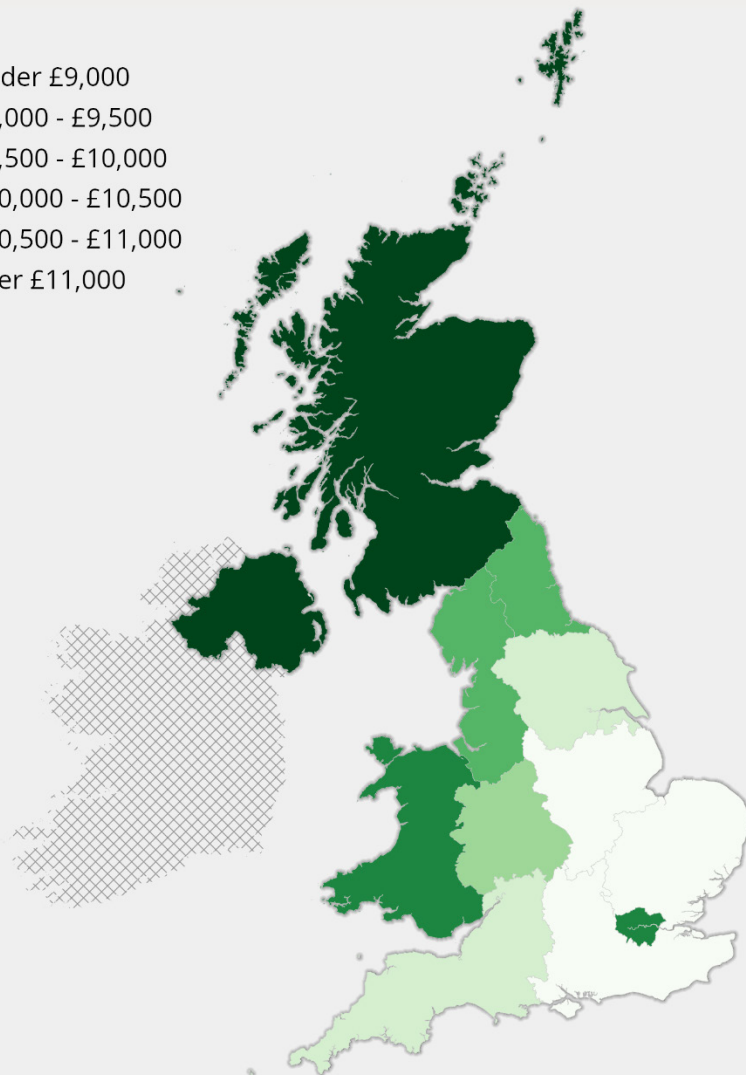
Total public spending, by country of the UK

£ billions, adjusted for inflation (2019/20 prices)



Spending per person, by country and region, 2019/20

£ per person



Source: HM Treasury, [Country and regional analysis: 2020](#), 18 November 2020, tables A.1b and A.2a

4.2

The Barnett formula

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

The devolved administrations – Scotland, Wales and Northern Ireland – raise varying proportions of their own revenue with Scotland raising the greatest proportion of its 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 spending areas, and the relative sizes of the populations in the countries 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 largely 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 on its possible future.

4.3

The EU

The UK contributes to the EU budget based on its income from several sources, and made a net contribution of £9.5 billion in 2019-20.

When it was a member of the European Union, the UK made contributions to the EU budget (and continued to do so until the end of the transition period on 31 December 2020). The size of these contributions was assessed on three factors:

- 80% of customs tariffs and levies collected – the remaining 20% was 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 could be further adjustments);
- A percentage of GNI – the exact percentage was set in order to make total revenues and spending balance across the whole EU, and in 2015 was 0.66%.

A rebate was 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 was deducted from the UK's contribution before it made payments. Many of the EU's programmes

and projects then also resulted in funding returning to the UK, primarily in agriculture.¹⁸

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

UK transactions with the EU						
£ millions, not adjusted for inflation						
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
<i>UK contributions to the EU</i>						
Customs duties and levies	3,009	2,715	2,640	2,657	1,928	13
VAT contributions	2,477	2,974	3,138	2,696	2,246	-
GNI contribution	11,440	11,761	14,599	13,003	10,892	-
Total contributions	16,926	17,450	20,377	18,356	15,066	13
<i>UK rebate</i>						
Financial settlement	-4,757	-4,547	-4,846	-4,149	-3,429	-
	-	-	-	-	-	7,707
Gross contributions	12,169	12,903	15,531	14,206	11,636	7,720
Total public sector receipts	-4,081	-4,130	-4,375	-5,059	-3,419	-2,289
Net contribution	8,088	8,773	11,156	9,147	8,218	5,431

Note: Figures for 2021/22 are plans, all others are outturn.

Source: HM Treasury, [Public Expenditure Statistical Analyses 2021](#), Table C.1, 20 July 2021

Now that the UK has left the EU, most of these transactions ceased at the end of the transition period. However, the Withdrawal Agreement provides for a financial settlement, under which there will still be some financial flows between the UK and the EU for a number of years. More details on this can be found in the Library briefing [Brexit: the financial settlement – a summary](#).

4.4

Overseas aid

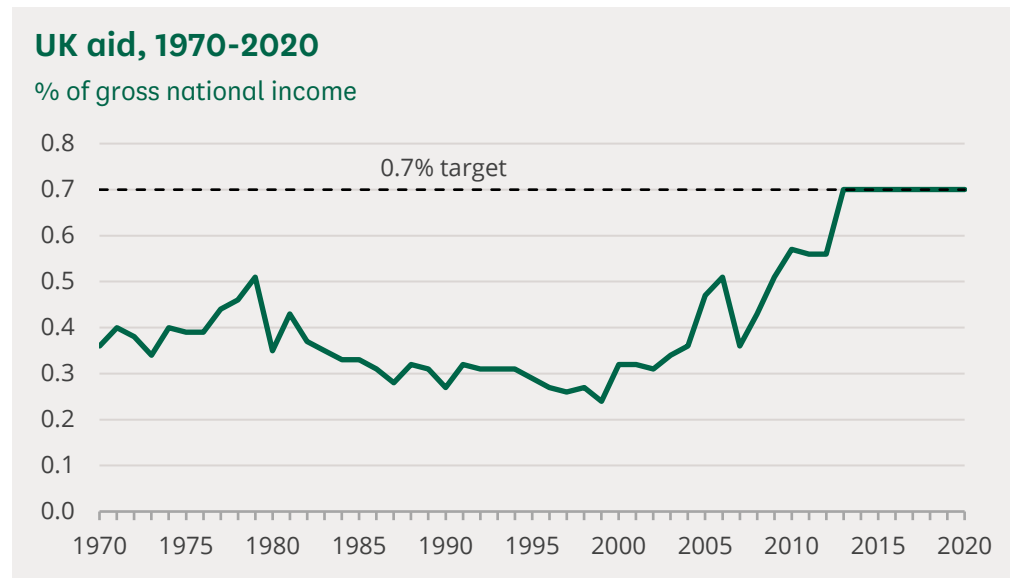
Since the passage of the [International Development \(Official Development Assistance Target\) Act](#) in 2015, the Government has been under a legal obligation to spend 0.7% of GNI on Official Development Assistance (ODA), the standard international definition of overseas aid.¹⁹

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 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

¹⁸ Under the Withdrawal Agreement, this arrangement continued until the end of 2020, and funding from some programmes will continue until 2023. For more on this, see the Library's briefing paper [EU funding in the UK](#).

¹⁹ For more detail about what counts as ODA, see the OECD's publication [What is ODA?](#)

for low-income countries to develop properly.²⁰ The UK first reached the target in 2013, and continued to meet it in every year until 2020.



Source: FCDO, [Statistics on International Development: Provisional UK Aid Spend 2020](#), table C1, 8 April 2021

In cash terms, the UK gave £14.5 billion in aid in 2020. In the 2020 Spending Review, the Chancellor announced that the level of aid spending would be reduced to 0.5% of GNI in 2021 because of the spending pressures caused by the Covid-19 pandemic. This represents a cut of over £4 billion, based on current GNI forecasts for 2021.

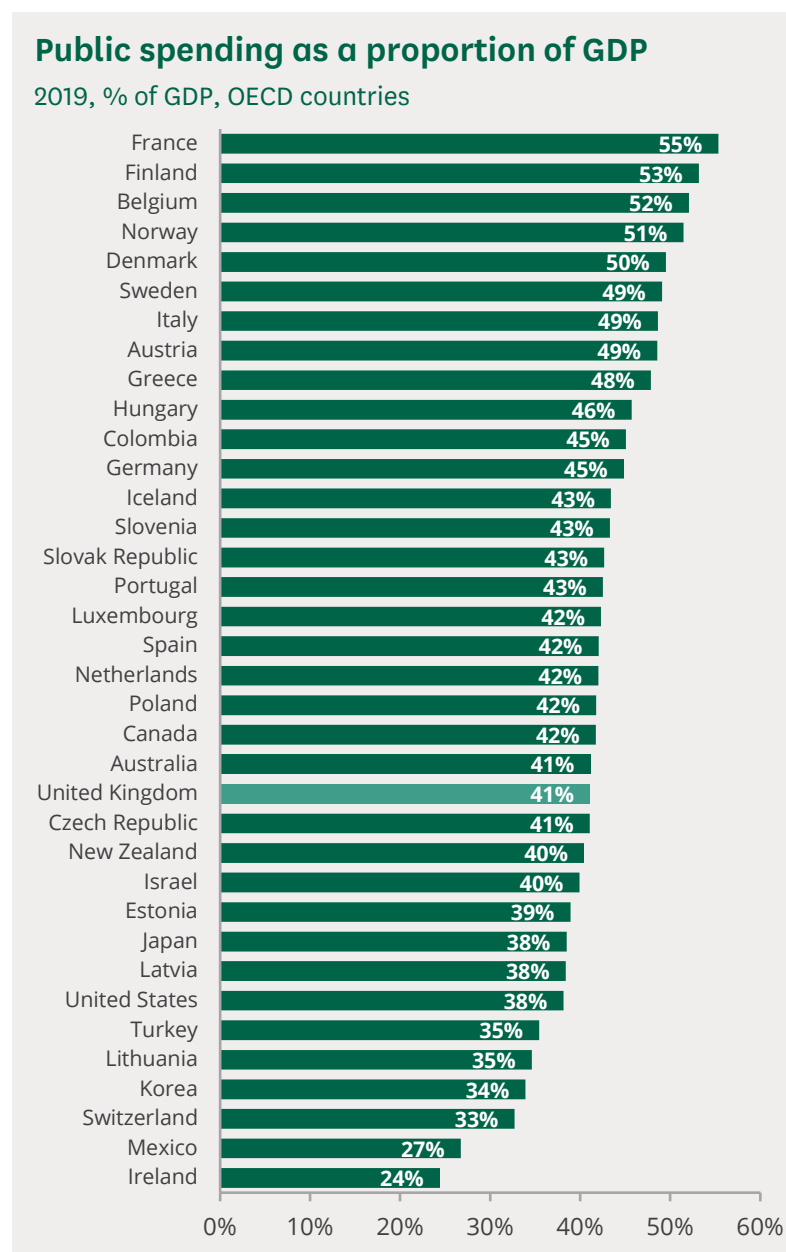
More information is available in the Library's briefings [Reducing the UK's aid spending in 2021](#) and [The 0.7 percent aid target](#).

²⁰ Center for Global Development, [Ghost of 0.7%: origins and relevance of the international aid target](#), September 2005

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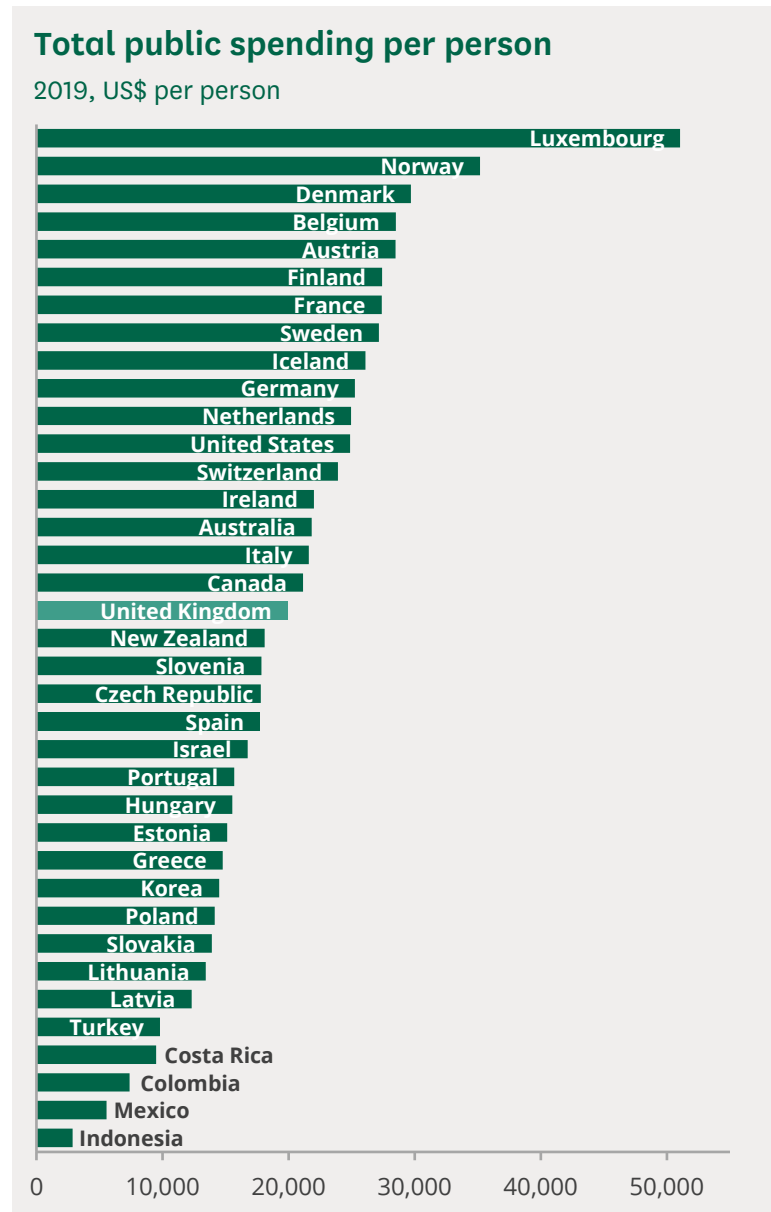
How does the UK's spending compare with other countries?

Different countries will, of course, have varying incomes and spending priorities. However, there is surprisingly little variation among many economically developed countries in the proportion of their GDP which goes out as spending – in 20 of the 36 OECD countries for which we have data, spending in 2019 was between 35% and 45% of GDP.



Source: [OECD.Stat](#), National Accounts databases 1 and 12, retrieved 31 August 2021

This chart shows 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 spending per person:



Source: OECD (2020), [General government spending \(indicator\)](https://doi.org/10.1787/a31cbf4d-en). doi: 10.1787/a31cbf4d-en (Accessed on 31 August 2020)

This shows that in per-person terms, UK public spending in 2019 was similar to that of Canada and New Zealand. Luxembourg spends far more per person than any other country, probably because (due to cross-border workers) its workforce is much larger than its resident population.

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 Institute for Government produces the [Whitehall Monitor](#), which is an analysis of Government across several themes. These include [Government finances](#) and [Managing public spending](#), both of which go into great detail and have some interesting analysis.

The Commons Library, in partnership with the [Scrutiny Unit](#), 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. This document provides 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 Treasury also produces a publication called the [Whole of Government Accounts](#), which summarises the entire public sector's income and spending. This gives a good overview of the Government's spending and financial position.

The Cabinet Office produces a report called [Public bodies](#) each year, detailing all the spending by departments' arm's length bodies, 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's website posted [an Insight about Government debt in the context of the coronavirus pandemic](#) in April 2020. 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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