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Public spending: a brief introduction



Summary

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- 2 What does the Government spend its money on?
- 3 Who spends the money?
- 4 Where is the money spent?
- 5 How does the UK's spending compare with other countries?
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Summary

The UK's public sector is set to spend £1,189 billion in 2023/24, the most it has ever spent in cash 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 and health are the areas receiving the largest amounts (economic affairs and general public services have begun to replace education as the third-largest area of spending since the Covid-19 pandemic). In 2022/23, social protection accounted for £327 billion of total spending, health £217 billion, general public services £168 billion, economic affairs £128 billion, and education £108 billion. Spending related to old age is expected to make up an increasingly large proportion of overall spending as the UK's population gets older.

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 2023/24's 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.

Current plans include two separate funding pots – for the UK Shared Prosperity Fund, and for measures announced at the Autumn Statement 2022 and Spring Budget 2023 – which have not yet been allocated to departments.

Where is the money spent?

68% of all public spending in 2021/22 was in England, with Scotland, Wales and Northern Ireland receiving 8%, 4% and 3% respectively. 14% could not be identified with any particular region, and 2% was spent outside the UK.

Some money has typically gone to the EU – the UK's net contribution in 2022/23 was £6.7 billion, and the total is set to decrease over the next few years 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 Australia. 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

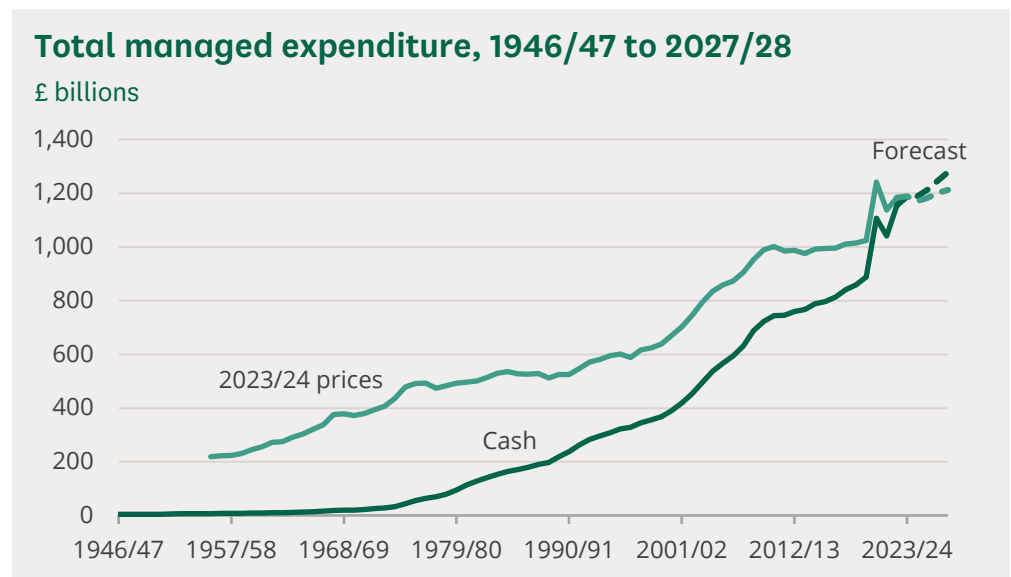
1.1 Total spending

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

Total spending increased in cash terms in every year between 1948/49 and 2020/21. The government spent large amounts of money to help to deal with the effects of the Covid-19 pandemic in 2020/21, so the total increased by more than usual in that year.² The total then fell back in 2021/22 for the first time in over 70 years, but began to increase again immediately afterwards; in cash terms, total spending in 2022/23 was higher than it had been during the pandemic.

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 and 2021/22 has been averaged across these years to smooth the distortions caused by pandemic-related factors. OBR forecasts are used for 2023/24 onwards.

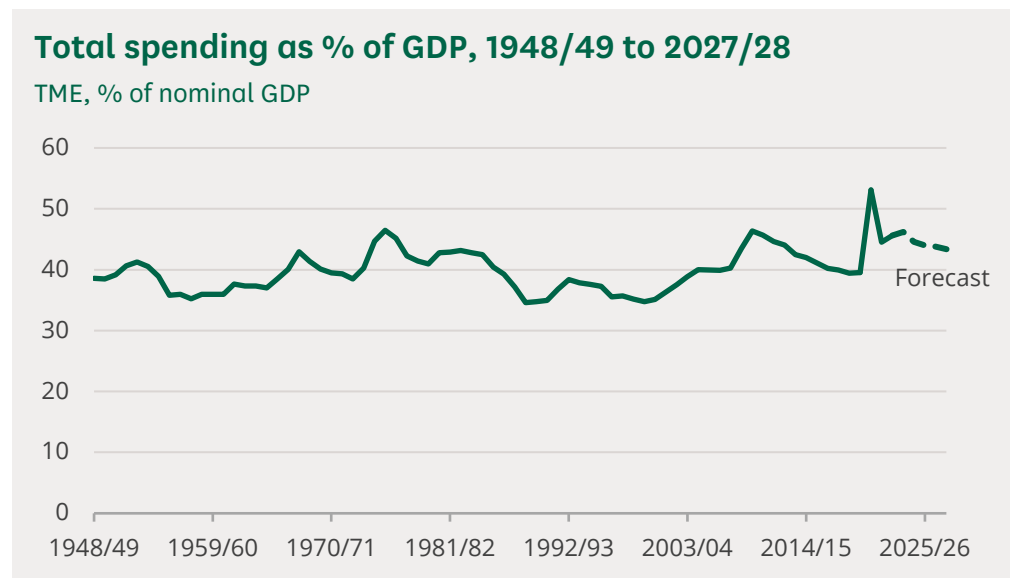
Source: OBR, [Public finances databank](#), July 2023

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

² More details can be found in the Library's briefing [Public spending during the Covid-19 pandemic](#).

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 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 53% of GDP, higher than at any point since the Second World War; however, forecasts now suggest that spending will return to below 45% of GDP by 2024/25.



Source: OBR, [Public finances databank](#), July 2023

Box 1: 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 2022 GNI was £2.51 trillion and GDP was £2.49 trillion.³

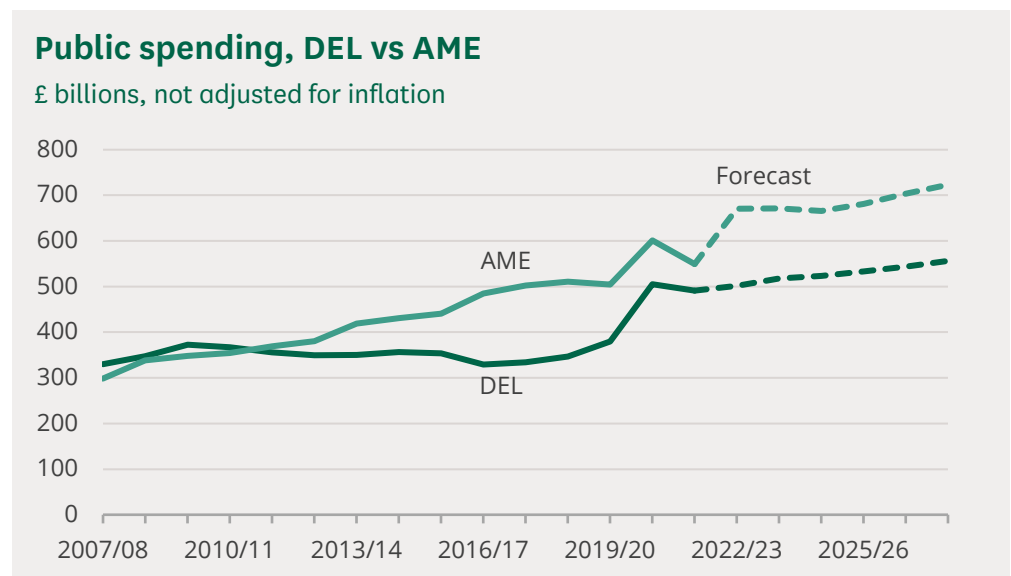
1.2

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.⁴

DEL budgets are set in advance at Spending Reviews, which generally come about every two to three years; the most recent Review was in 2021.⁵ 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.

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 2023](#), Fiscal supplementary tables: expenditure, table 3.3, 15 March 2023

³ ONS, [UK Economic Accounts: main aggregates](#)

⁴ HM Treasury, [Main Supply Estimates 2022 to 2023](#), HC396

⁵ See the Library's briefing [Autumn Budget and Spending Review 2021: A summary](#), particularly section 2, for information on the contents of the most recent Spending Review.

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.⁶

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.

Capital budgets are lower than resource budgets for most departments (in the 2023/24 spending plans, resource spending makes up 81% of the DEL total), but there are some exceptions: the only departments where capital DEL exceeds resource DEL in the 2023/24 plans are the Department for Transport, the Department for Science, Innovation and Technology, the Department for Energy Security and Net Zero, and the Housing and Communities budget of the Department for Levelling Up, Housing and Communities.⁷

⁶ Capital spending also includes spending on improvement of existing assets, grants to other bodies to be spent on assets, and issuing loans.

⁷ HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Tables 1.3 and 1.8, 19 July 2023

Resource and capital DEL by department, 2023/24		
£ billions		
	Resource DEL	Capital DEL
Health and Social Care	178.6	12.1
Education	87.9	7.0
Defence	41.0	18.3
Transport	17.0	20.7
Scotland	28.4	6.0
Wales	17.8	3.1
Northern Ireland	14.9	2.1
Home Office	15.2	1.0
DLUHC - Local Government	14.6	-
Science, Innovation and Technology	0.6	13.1
Justice	10.9	2.3
Foreign, Commonwealth and Development Office	8.2	3.6
DLUHC - Housing and Communities	3.0	7.2
Work and Pensions	9.0	0.8
Energy Security and Net Zero	2.1	5.9
Environment, Food and Rural Affairs	4.8	2.8
HM Revenue and Customs	6.4	0.6
Single Intelligence Account	3.5	1.3
Small and Independent Bodies	2.7	0.4
Business and Trade	1.6	1.1
Culture, Media and Sport	1.7	0.7
Cabinet Office	1.0	0.4
Law Officers' Departments	0.8	0.0
HM Treasury	0.4	0.0

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Tables 1.3 and 1.8, 19 July 2023

Box 2: 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

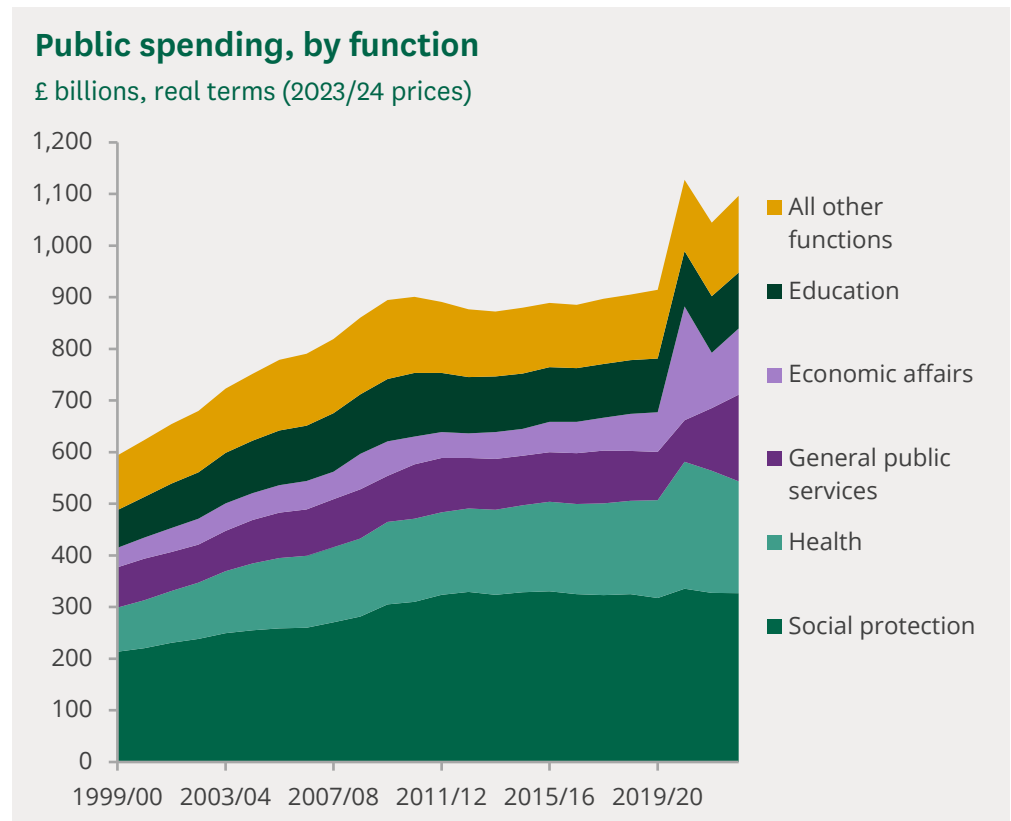
Administration and programme spending

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.

2

What does the Government spend its money on?

Public spending is typically dominated by social protection, education and health, although this has changed in recent years because of the Covid-19 pandemic.



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

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 4.2, 19 July 2023

Although there are always variations in the priorities that the 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.

Most of the extra Covid-19 spending did not continue into 2021/22, so economic affairs fell back to being the fifth largest area of spending in that year. However, a large increase in spending on general public services –

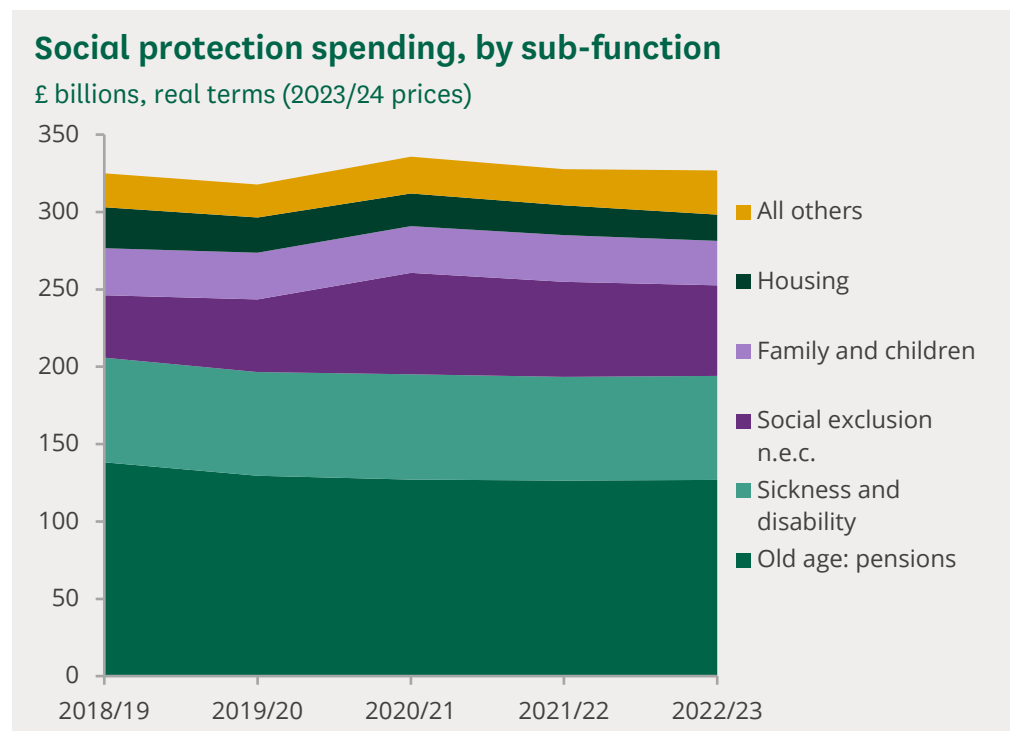
mostly because of a large increase in debt interest payments – resulted in that area becoming the third largest, again overtaking education. In 2022/23, the continuing increase in debt interest meant that general public services remained the third largest area of spending, and spending on subsidising fuel and energy costs kept economic affairs as the fourth largest. This left education as the fifth largest area of spending for the first time since at least 1999/2000.

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 (see section 2.5, below). Social protection spending in general decreased slightly in the years before the Covid-19 pandemic, particularly spending on unemployment, which fell as the unemployment rate decreased. In 2020/21, spending on “social exclusion, not elsewhere classified” drove an overall increase in social protection spending – possibly because of higher spending on homeless people during the pandemic – which was then partly reversed over the following two years.



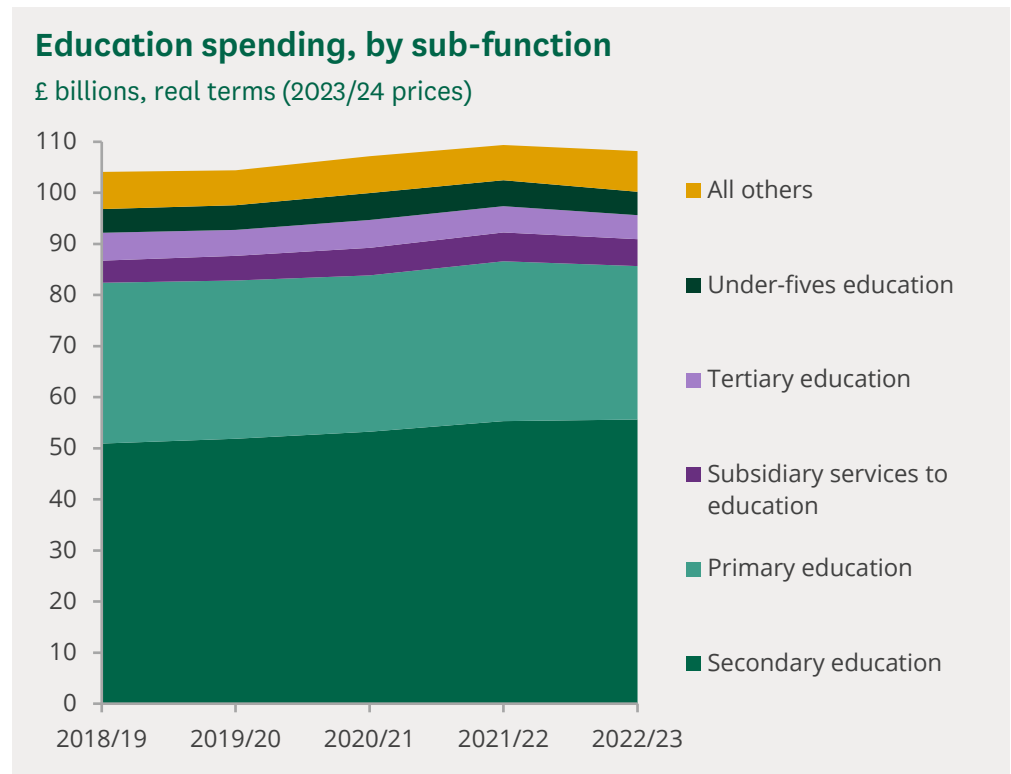
Notes: “n.e.c.” = “not elsewhere classified”. Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21 and 2021/22 has been averaged across these years to smooth the distortions caused by pandemic-related factors.

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 5.2, 19 July 2023

2.2

Education

The largest area of education spending by far is on schools, with secondary education taking a larger share than primary. Total spending on education increased in every year between 2018/19 and 2021/22, with the vast majority of this growth coming from secondary education; spending then fell slightly in 2022/23. Spending on primary education decreased in real terms in every year of this period except 2021/22.



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

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 5.2, 19 July 2023

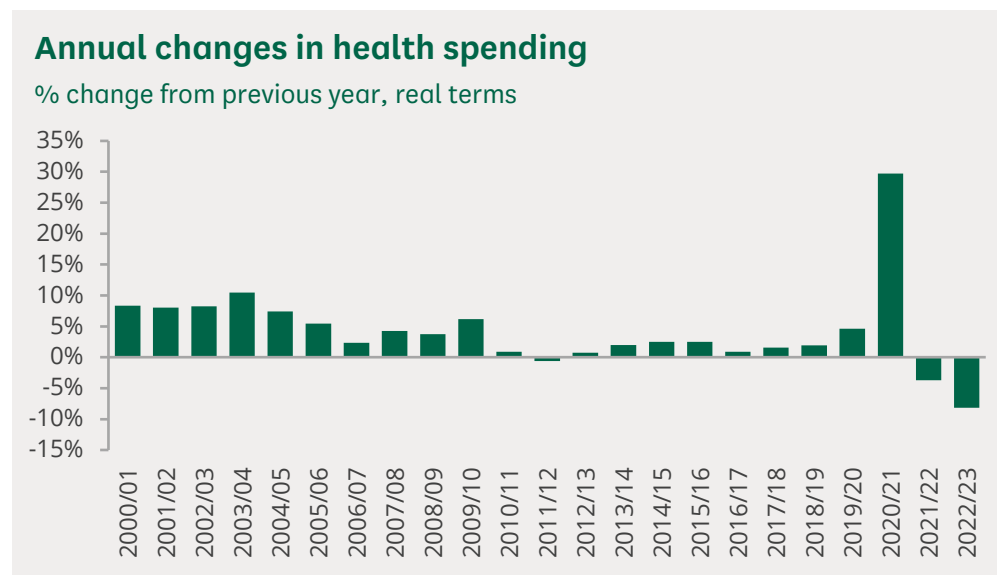
2.3

Health

83% of health spending in 2022/23 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%, 5% and 3% respectively of all UK spending on health.⁸ Total UK-wide health spending saw a year-on-year increase in real terms every year from 1998/99 to 2020/21, with the

⁸ HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 5.1, 19 July 2023

exception of 2011/12 (when it fell by 0.6%);⁹ it was the only function to see rises like this, which reflects the protection that successive governments have afforded it. Health spending rose particularly fast in 2020/21 (by 31.8%) due to extra pandemic-related measures, and then fell back in the following two years as many of these measures were no longer needed.



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

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 4.2, 19 July 2023

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.

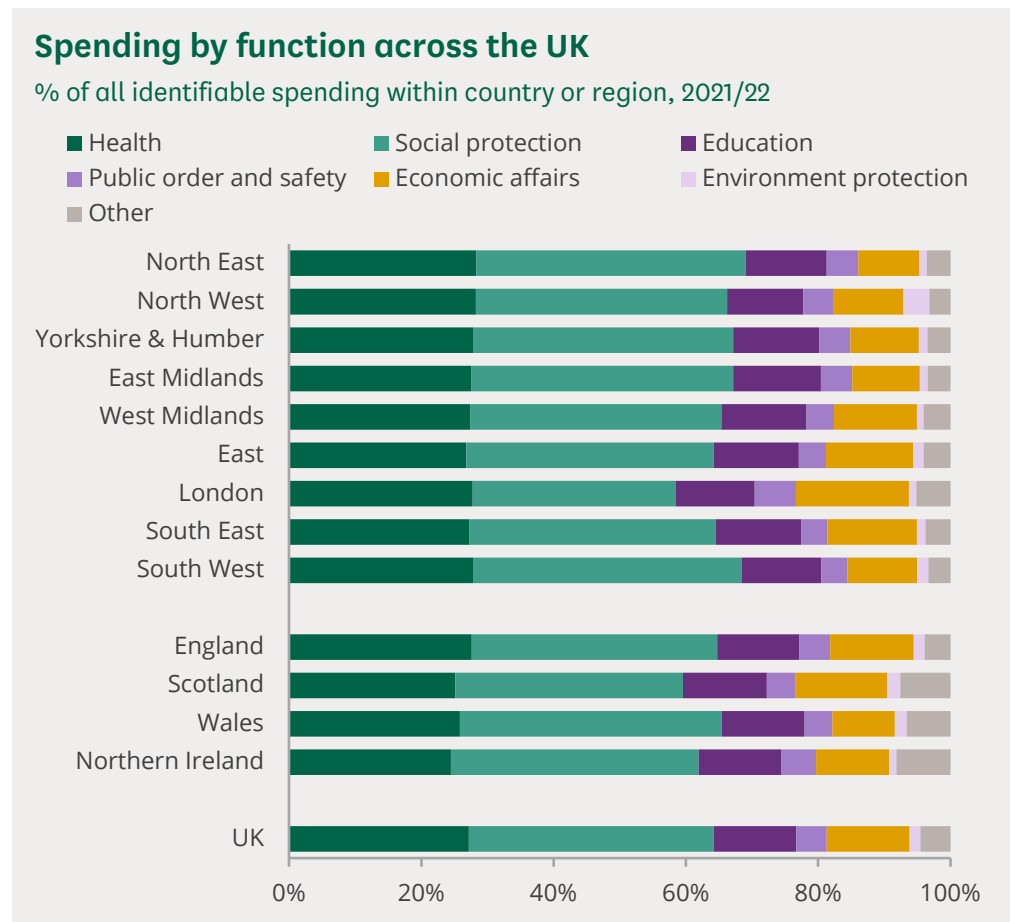
1. Under the terms of the [International Development \(Official Development Assistance Target\) Act 2015](#), the government is legally required to spend 0.7% of the country's gross national income (GNI) on international aid (see section 4.4). Since 2021 it has been government policy to [spend 0.5% of GNI instead](#), but this still means that the amount spent will continue to increase as the economy grows. Current policies also expect a return to 0.7% when certain fiscal targets are met.
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.

⁹ Library calculation, based on HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 4.2, 19 July 2023.

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 up until 2023/24 (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: 2022](#), 16 November 2022, database

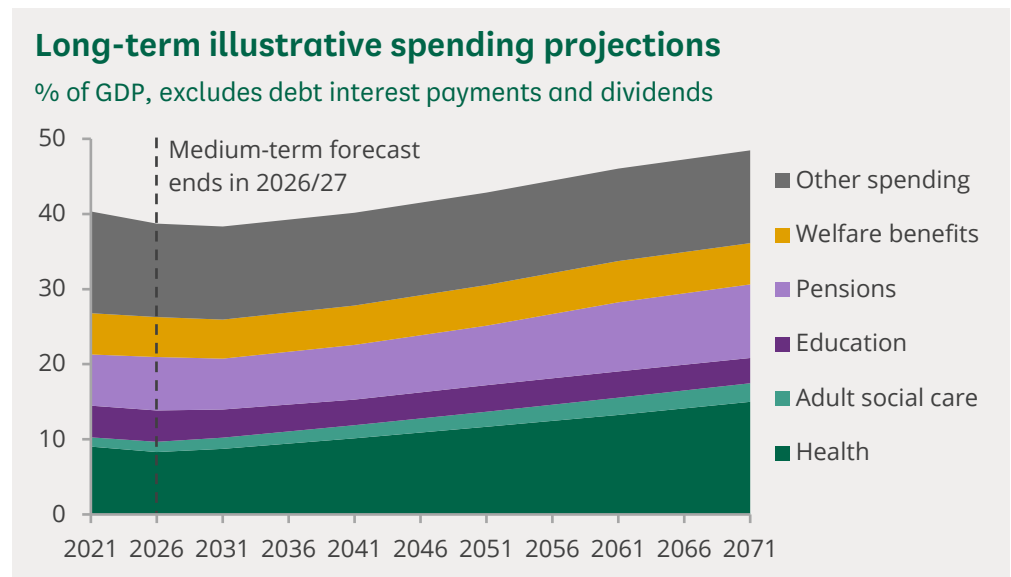
Spending varies across the countries and regions of the UK for two main reasons: first, the different needs of the areas in question mean that different types of spending are required (for example, the security situation in Northern Ireland has resulted in a higher proportion of spending on public order 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.

2.5 Future spending projections

In July 2022, the Office for Budget Responsibility (OBR) published its first [Fiscal risks and sustainability](#) report. This combined its earlier reports on the long-term sustainability of the public finances and on the fiscal risks facing the UK.

As part of its analysis, the OBR produced illustrative long-term projections of UK public spending. These show how spending would be affected by long-term changes, such as the UK's ageing population and a declining birth rate, if current spending policies were left in place. (Of course, it is unlikely that policies would be left untouched if this would have unwanted effects on the public finances; these projections should therefore be treated as illustrative examples rather than forecasts of what will actually happen.)



Source: OBR, [Fiscal risks and sustainability – July 2022](#), Table 4.9, 7 July 2022

This shows that total spending as a proportion of GDP is currently set to decrease over the medium term (in line with the forecasts in the OBR’s Economic and fiscal outlook from March 2022). However, over the next 50 years, total spending under current policies is projected to rise, reaching around 48% of GDP by 2071/72.

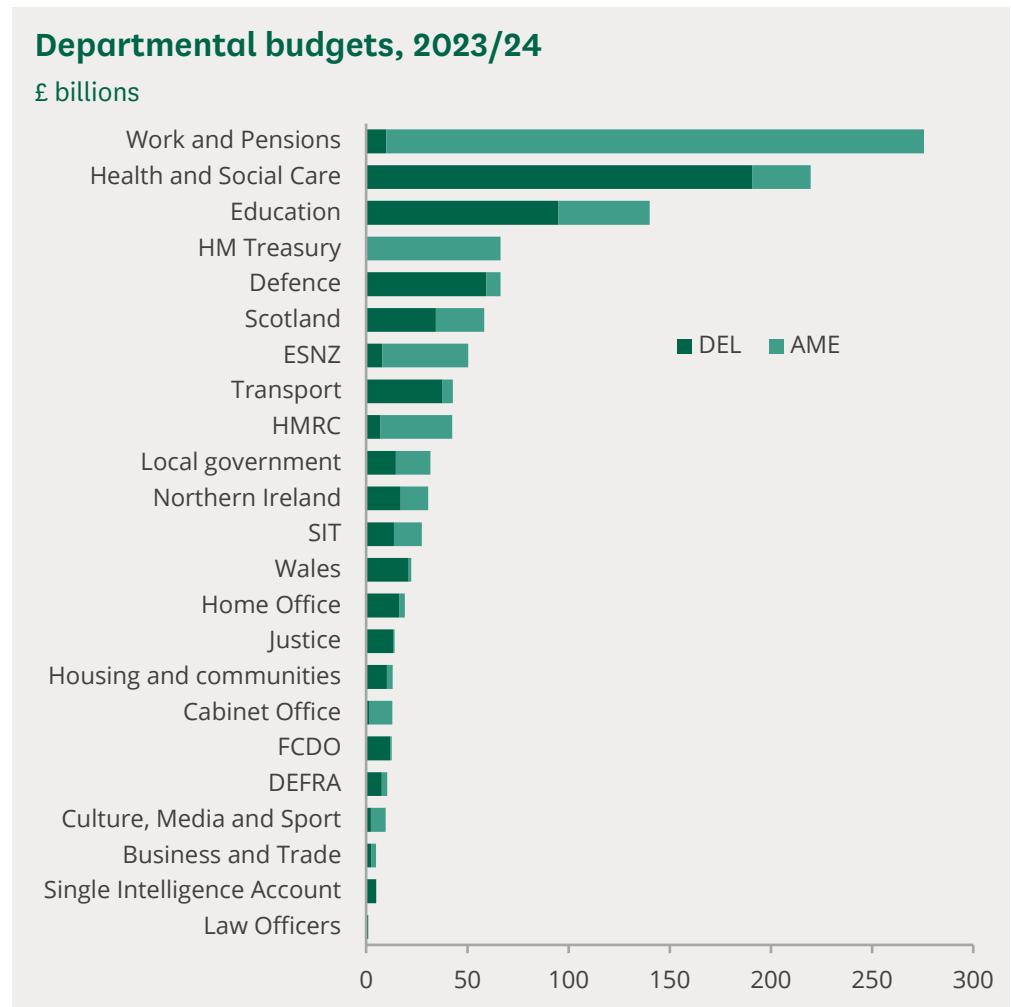
Health spending would be the largest contributor to this increase. This is partly because an older population is more likely to need health services, partly because such services are likely to become more expensive in the future as new health technologies are invented, and partly because the prevalence of chronic conditions such as diabetes and obesity has been increasing in recent years.

Pensions would be the second largest contributor, again because of the changing age profile of the population. However, the ageing population would not only result in spending increases; spending on education would actually go down as a proportion of GDP, because declining birth rates would result in fewer children and consequently lower spending on schools.

3

Who spends the money?

The budgets for 2023/24 break down across departments as follows.



Note: ESNZ = Energy Security and Net Zero; SIT = Science, Information and Technology

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Tables 1.3 and 1.8, 19 July 2023

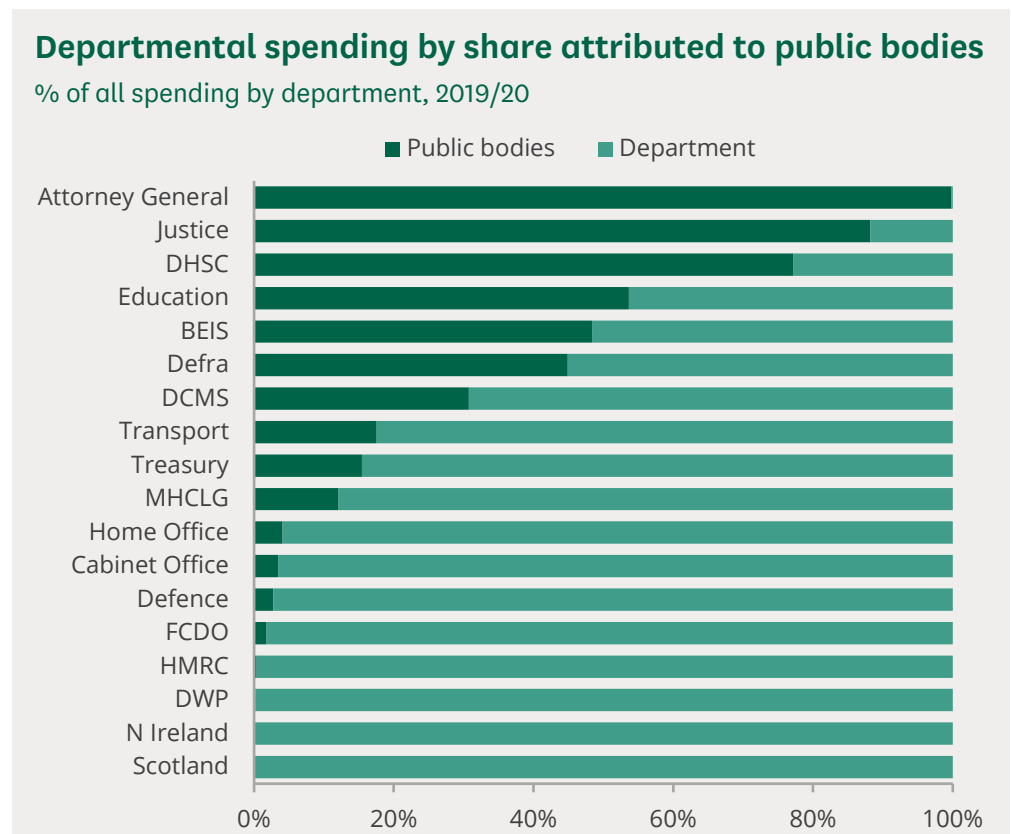
Departments' budgets typically reflect the government's major spending priorities as seen in chapter 2 – social protection (largely in the form of in-work benefits and pensions) is handled by the Department for Work and Pensions, and spending on health and on education is handled by their respective 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 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).¹⁰ 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.¹¹

Different departments make widely varying use of public bodies, and in 2019/20 (the most recent data we have available) 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.

The Cabinet Office’s guidance to departments is that new public bodies should only be set up when there is a “clear and pressing requirement” to do

¹⁰ These bodies are also referred to, usually in a derogatory way, as “quangos”.

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

so.¹² 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](#).

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.

As the table below shows, spending increased across almost all departments in 2020/21 to help to deal with the Covid-19 pandemic, with a corresponding decrease for most of them in the following two years. Some policy decisions are visible within this – for example, spending on the Foreign, Commonwealth and Development Office (FCDO) decreased particularly sharply in 2021/22 when overseas aid was cut to 0.5% of gross national income (see section 4.4).

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.

¹² Cabinet Office, [Public bodies handbook](#), April 2016

Changes in total DEL, by department

% change from previous year, real terms

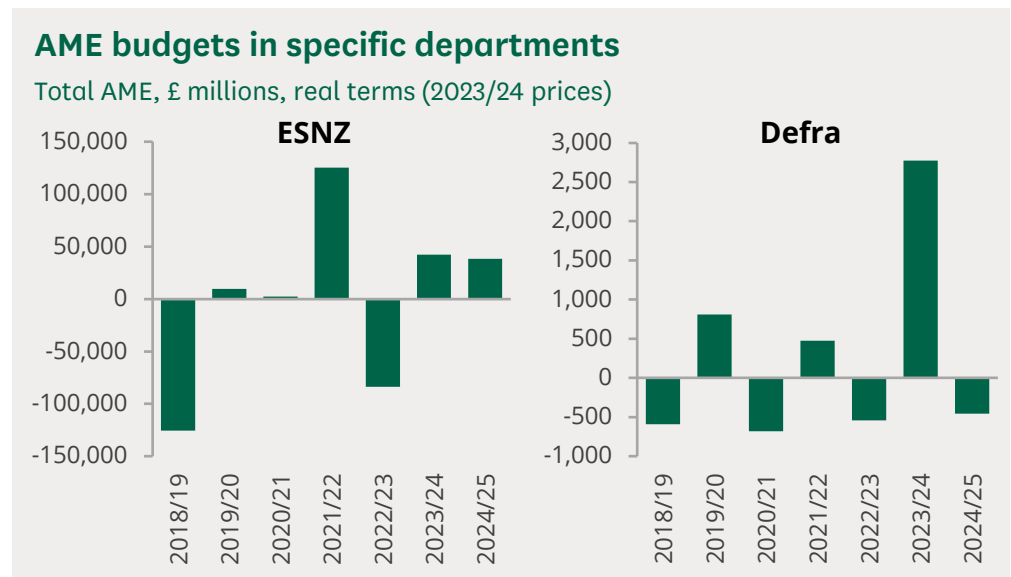
	Outturn				Plans	
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Health and Social Care	+5%	+34%	-4%	-9%	-0%	+1%
Education	-0%	+4%	+1%	+1%	+6%	-1%
Home Office	+3%	+22%	-3%	+10%	-15%	+5%
Justice	+2%	+13%	+2%	-1%	+12%	-5%
Law Officers' Departments	+7%	-2%	+7%	+6%	+6%	-3%
Defence	+2%	+4%	+6%	+8%	-7%	+1%
Single Intelligence Account	+6%	-7%	+15%	+6%	+6%	-13%
Foreign, Commonwealth and Development Office	-3%	-3%	-29%	-4%	+20%	+3%
DLUHC - Local Government	+73%	+137%	-1%	-48%	+21%	-6%
DLUHC - Housing and Communities	+10%	+4%	-27%	+14%	-8%	-12%
Culture, Media and Sport	+11%	+76%	-45%	-3%	-6%	-5%
Science, Innovation and Technology	+2%	+14%	-6%	+0%	+22%	+4%
Transport	+66%	+77%	-14%	-8%	-7%	-7%
Energy Security and Net Zero	+26%	+182%	+24%	+45%	-62%	+22%
Environment, Food and Rural Affairs	+8%	+87%	-1%	+4%	+19%	-4%
Business and Trade	+53%	+1,034%	-70%	-81%	+72%	-3%
Work and Pensions	-8%	+17%	+31%	-14%	+5%	-12%
HM Revenue and Customs	+5%	+14%	+19%	-3%	-4%	-19%
HM Treasury	+38%	-36%	+24%	-30%	+11%	-26%
Cabinet Office	+6%	+128%	-20%	-19%	-2%	+141%
Scotland	+3%	+31%	-7%	-6%	-1%	-4%
Wales	-10%	+43%	-10%	-12%	+3%	-5%
Northern Ireland	+5%	+27%	-7%	-8%	-1%	-6%
Small and Independent Bodies	+14%	+24%	+5%	-8%	+7%	+5%

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

Note: Real-terms figures calculated using GDP deflators. Growth in this deflator for 2020/21 and 2021/22 has been averaged across these years to smooth the distortions caused by pandemic-related factors. Colour highlighting is scaled from < -30% (bright red) to > +30% (bright blue).

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table 1.10, 19 July 2023

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 Energy Security and Net Zero (ESNZ).



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

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Tables 1.3 and 1.8, 19 July 2023

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 ESNZ, keeps track of the total cost of cleaning up the UK’s nuclear sites.¹³ In March 2018, the Treasury changed the rate at which costs in the future such as this are calculated, resulting in a one-off decrease in resource AME for a number of departments.¹⁴

3.3 Separate funding pots

The government’s current spending plans include two pots of planned spending that are not yet associated with any particular department, although they do count towards the overall spending total. These are:

- The [UK Shared Prosperity Fund](#), which replaces two of the structural funds that the EU provided while the UK was still an EU member state (for more, see [the Library’s briefing on the Fund](#)). The Fund’s [published budget](#) includes £0.4 billion in 2022/23, £0.7 billion in 2023/24, and £1.5 billion in 2024/25. Treasury spending plans currently keep the final year

¹³ Nuclear Decommissioning Authority, [Nuclear Provision: the cost of cleaning up Britain’s historic nuclear sites](#), 1 September 2016

¹⁴ HM Treasury, [The Green Book: appraisal and evaluation in central government](#), 6 March 2018

separate from any department, but funding for the first two years has now been allocated to the departments delivering the Fund.

- A pot worth £4.2 billion in 2024/25, labelled as “Budget measures not yet allocated to departments”. This consists of various measures introduced at the Autumn Statement 2022 and Spring Budget 2023 which have not yet been allocated to any particular department’s budget.

The government has set two tests for returning to spending 0.7% of gross national income on overseas aid (see the Library’s research briefing [UK aid: Spending reductions since 2020 and outlook from 2023](#) for more details). Although the government previously expected to meet these tests in 2024/25, this is no longer the case. The unallocated pot for returning to 0.7% that appeared in earlier spending plans therefore does not appear in the most recent plans.

4

Where is the money spent?

4.1

Geographical breakdown

68% of public spending in 2021/22 was spent in England, with the remainder going to Scotland (8%), Wales (4%) and Northern Ireland (3%).

Around 14% of public spending in 2021/22 cannot be identified with any particular region, the classic examples being spending on defence and interest on government debt. A further 2% was 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.¹⁵

Total public spending, by country and region of the UK

£ billions, adjusted for inflation (2023/24 prices)

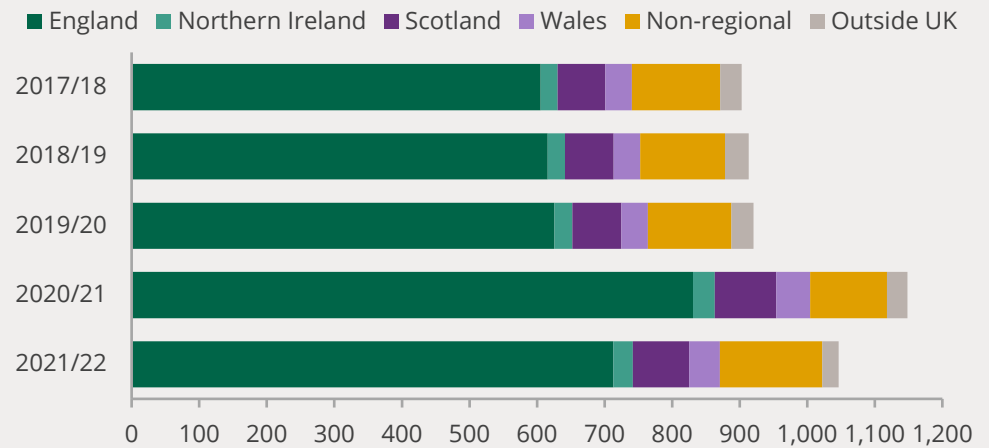
	2017/18	2018/19	2019/20	2020/21	2021/22
England	606	616	626	831	713
<i>East</i>	62	64	65	88	75
<i>East Midlands</i>	48	49	50	66	56
<i>London</i>	109	110	113	156	132
<i>North East</i>	31	31	32	40	35
<i>North West</i>	85	85	86	111	98
<i>South East</i>	91	94	95	127	108
<i>South West</i>	58	59	60	79	67
<i>West Midlands</i>	63	65	66	86	75
<i>Yorkshire and the Humber</i>	58	59	59	78	67
Northern Ireland	25	26	26	33	29
Scotland	71	72	73	91	83
Wales	39	39	40	50	45
Non-regional	131	125	124	114	151
Outside UK	32	35	33	31	24

Source: HM Treasury, [Country and regional analysis: 2022](#), 16 November 2022

¹⁵ 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: 2022](#) publication.

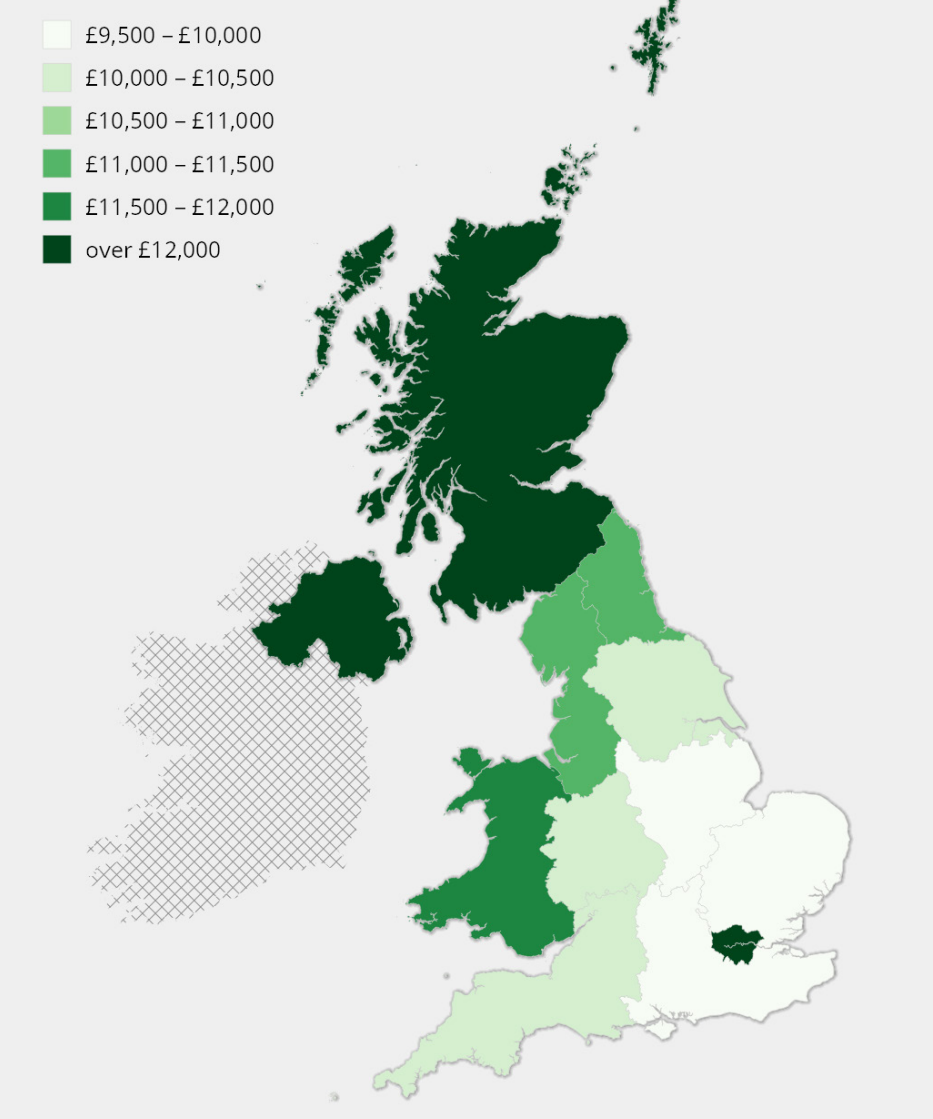
Total public spending, by country of the UK

£ billions, adjusted for inflation (2023/24 prices)



Spending per person, by country and region

£ per person, 2017/18 to 2021/22 average



Source: HM Treasury, [Country and regional analysis: 2022](#), Table A.1a and Annex, 16 November 2022

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 has contributed to the EU budget based on its income from several sources, and made a net contribution of £6.7 billion in 2022/23.

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.¹⁶

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

UK payments to and from the EU							
£ millions, not adjusted for inflation; payments from EU to UK shown as negative							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
UK payments to the EU							
Customs duties and levies	2,640	2,657	2,159	37	38	7	-
VAT contributions	3,138	2,696	1,954	-4	0	-	-
GNI-based contribution	14,599	13,003	12,762	139	46	983	-1,193
minus the UK's rebate	-4,846	-4,149	-3,785	181	-428	32	-
Brexit financial settlement	-	-	-249	7,758	8,939	5,217	1,960
Total (gross contribution)	15,531	14,206	12,840	8,110	8,594	6,239	767
EU payments to the UK							
Public sector receipts	-4,378	-5,059	-3,406	-2,308	-1,879	-1,086	-329
UK net total payment	11,154	9,147	9,434	5,802	6,715	5,153	437

Note: Figures for 2023/24 onwards are plans, all others are outturn. Planned totals are consistent with March 2023 economic forecasts.

Source: HM Treasury, [Public Expenditure Statistical Analyses 2023](#), Table C.1, 19 July 2023

Many transactions with the EU 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

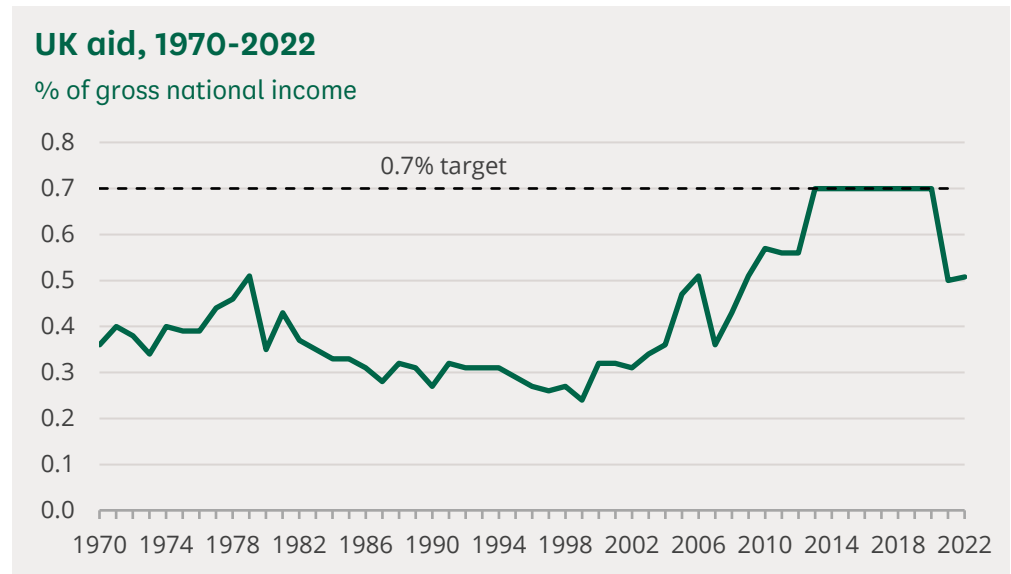
Since the passage of the [International Development \(Official Development Assistance Target\) Act](#) in 2015, the government has been under a legal obligation to spend 0.7% of GNI on Official Development Assistance (ODA), the standard international definition of overseas aid.¹⁷

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

¹⁶ 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](#).

¹⁷ For more detail about what counts as ODA, see further information [on the OECD website](#).

government and private citizens together, this would provide sufficient capital for low-income countries to develop properly.¹⁸ 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 2022](#), table C1, 5 April 2023

In cash terms, the UK gave £12.8 billion in aid in 2022. In the 2020 Spending Review, the Chancellor announced that the level of aid spending would be reduced to 0.5% of GNI from 2021 onwards because of the spending pressures caused by the Covid-19 pandemic. The level of aid fell in 2021 by £3.0 billion compared to 2020. Although the government has said that it intends to return to spending 0.7% of GNI on aid when certain economic tests are met, this is not expected to happen until at least 2027/28.

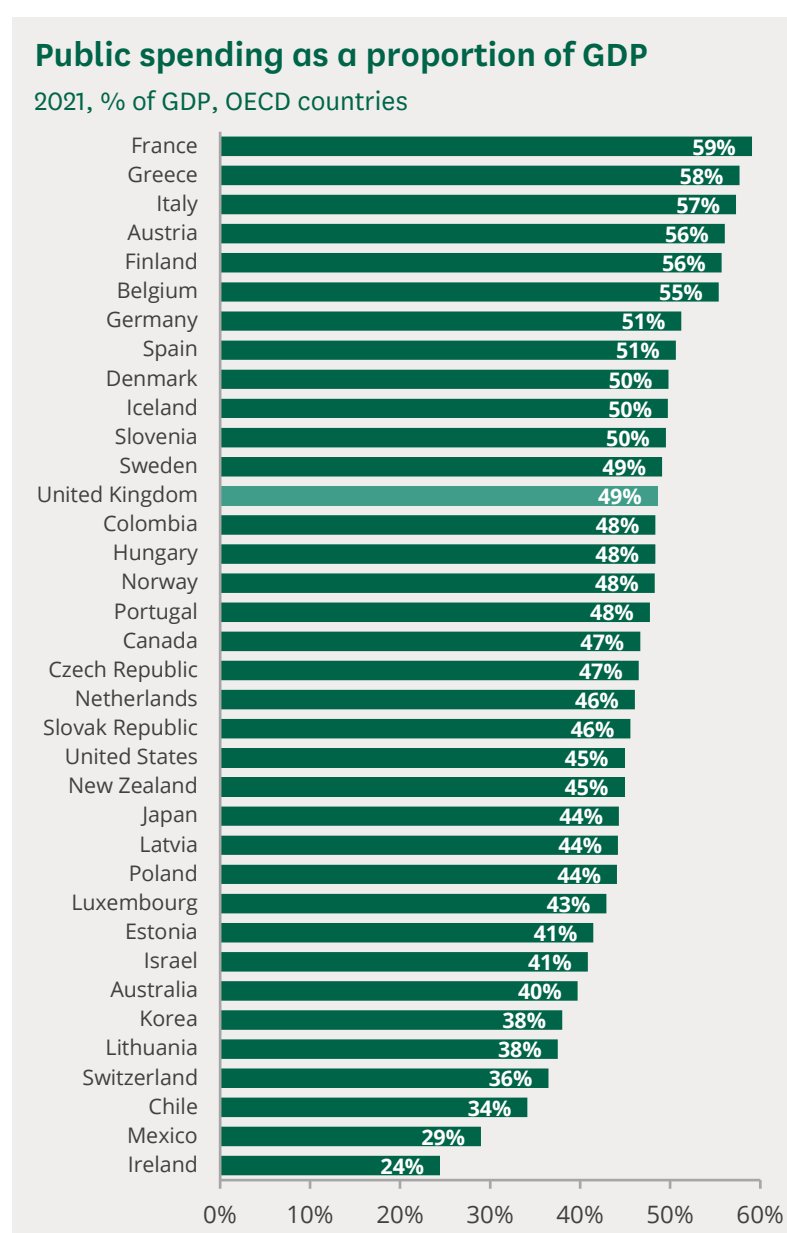
More information is available in the Library's briefings [UK aid: Spending reductions since 2020 and outlook from 2023](#) and [The 0.7 percent aid target](#).

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

5

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

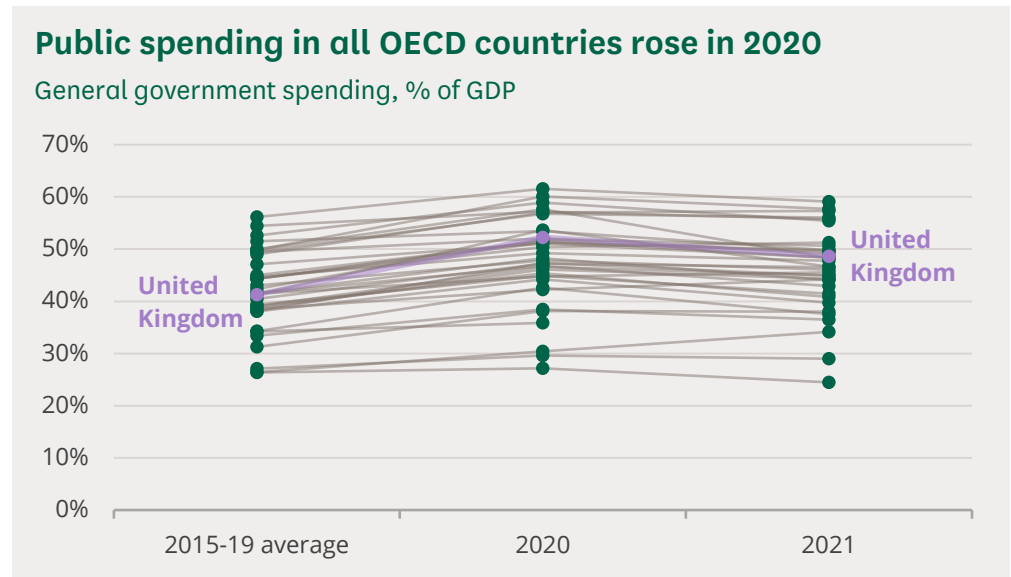
Different countries will, of course, have varying incomes and spending priorities. However, there is surprisingly little variation among many economically developed countries in the proportion of their GDP which goes out as spending – almost all OECD countries' spending in 2021 represents 40–60% of GDP.



Note: 2021 spending figures are not available for Turkey.

Source: [OECD.Stat](#), National Accounts databases 1 and 12, retrieved 11 August 2023

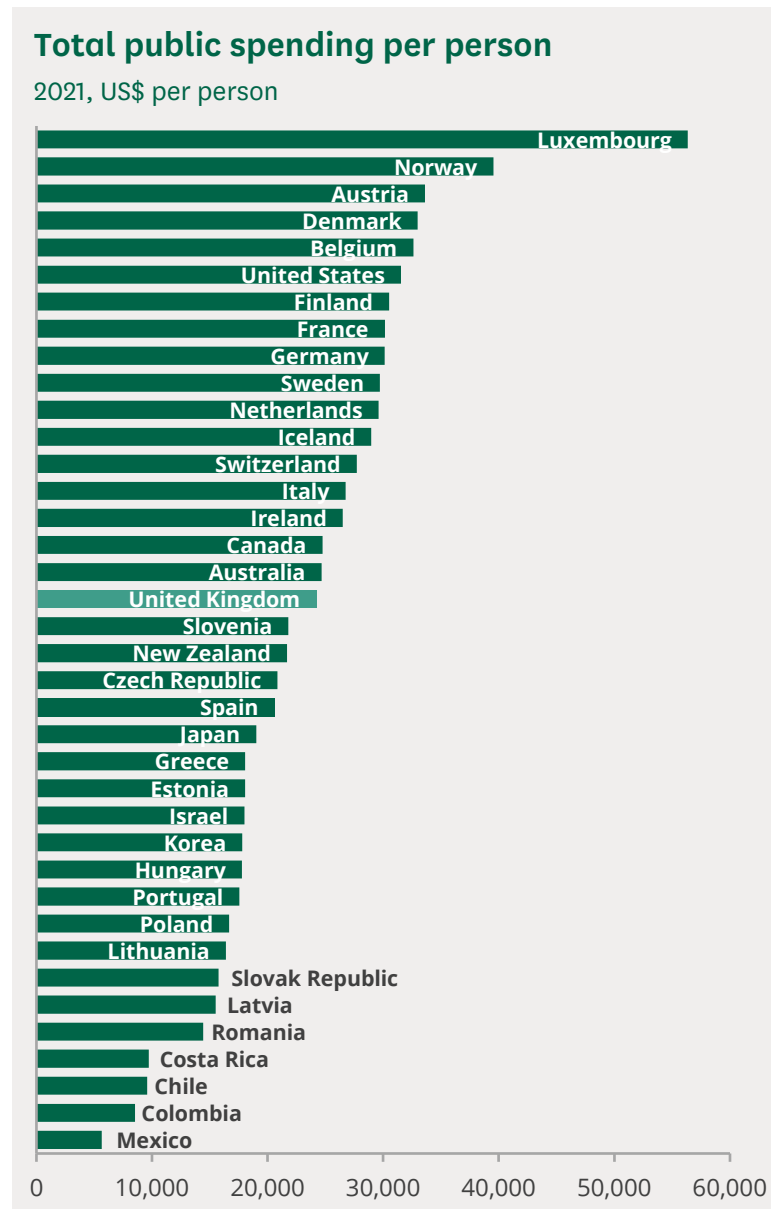
The increases in public spending in response to the Covid-19 pandemic were also fairly similar across economically developed countries. As the chart below shows, all OECD countries increased their spending compared to their average between 2015 and 2019; the median increase was 6.3 percentage points of GDP. The UK was roughly in the middle of the pack in both 2015–19 and in 2020, although its increase was particularly large, at 11.0 percentage points; only Canada had a larger increase, at 12.3 percentage points. Spending in most countries fell back slightly in 2021, with the UK’s decrease of 3.6 percentage points of GDP being somewhat larger than the median (2.2 percentage points).



Note: 2021 spending figures are not available for Turkey.

Source: [OECD.Stat](#), National Accounts databases 1 and 12, retrieved 11 August 2023

The UK is also reasonably typical among developed economies when it comes to spending per person. The chart below shows that in 2021, the UK’s spending per person was very similar to that of Australia. Norway, Austria, Denmark and Belgium all had relatively high spending per person, but none comes close to Luxembourg, which spends far more per person than any other country. This is probably because (due to cross-border workers) its workforce is much larger than its resident population.



Source: OECD (2022), [General government spending \(indicator\). doi:10.1787/a31cbf4d-en](https://doi.org/10.1787/a31cbf4d-en) (Accessed on 11 August 2023)

6

Further reading and resources

General briefings

The Office for Budget Responsibility has a [brief introduction to the public finances](#) on its 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 has several articles covering public finances. In particular, it maintains several “explainer” articles, including on [Departmental budgets](#).

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](#), detailing all the spending by departments’ arm’s length bodies, along with details on their governance, supervision and funding. The most recent covers 2020; no reports have been published since July 2021.

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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