

Response to the Consultation on Country and Regional Public Sector Finances

16 May 2016

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Background

Statistics on public finances, such as public sector revenue, expenditure and debt are used by the government, media and wider user community to monitor progress against fiscal policy targets. As a result of increasing devolution, demand for these statistics at the sub-UK level has increased. A number of publications provide users with public finance data at a country and regional (sub-UK) level, these include:

- Country and Regional Analysis (CRA), HM Treasury (HMT): an annual publication on public sector expenditure with a NUTS1¹ breakdown
- Disaggregation of Tax Receipts, HM Revenue & Customs (HMRC): an annual publication on HMRC tax receipts with a country level breakdown
- Government Expenditure and Revenue Scotland (GERS), Scottish Government (SG): an annual publication for government expenditure and revenue in Scotland
- Northern Ireland Net Fiscal Balance Report (NINFBR), Department of Finance Northern Ireland (DoFNI): an annual publication for government expenditure and revenue in Northern Ireland

Each of these publications has different uses and so there are some differences in data sources, methodology and concepts, although where possible, producers of these statistics have worked together to align their methodologies.

We ran a [consultation](#), from 16 February 2016 to 11 April 2016, on user interest in Country and Regional (Sub-UK) Public Sector Finance statistics. The purpose of this consultation was to gather and assess the user demands for an annual publication on country and regional public sector finance statistics, on similar methodological bases to those used in the above publications. The aim of these statistics would be to provide a single overview of the public sector finances for UK countries and regions. This would allow users to see what expenditure has occurred for the benefit of residents or enterprises in a particular country or region and what revenues have been raised in a particular country or region. The consultation asked respondents a number of questions around: the benefits and uses of a Country and Regional Public Sector Finances publication; timeliness and frequency; data sources and methodology; and presentation of data. Specifically, the questions asked were:

Question 1a: Would it be useful to have a country and regional publication that presents public sector finances, on a comparable basis, at the NUTS1 level? What benefits would you find in such a publication? Please be as specific as possible.

Question 1b: If you have answered yes to Question 1a, how would you use this data?

Question 2: If published, the intention is to produce an annual Country and Regional Public Sector Finances publication on a financial year basis. Would this be sufficient to meet the needs you highlighted in questions 1a and 1b?

¹ Where NUTS1 Nomenclature of Territorial Units for Statistics level 1 – in the UK this comprises Northern Ireland, Scotland, Wales and the nine English regions of England.

Question 3a: Should the ‘who pays’ and ‘who benefits’ principles, described above, be used for estimating revenue and expenditure? Are you aware of other methods or principles that would be better to use?

Question 3b: If you agree that the ‘who benefits’ principle should be used for expenditure, should the ‘in’ or ‘for’ approach be used?

Question 3c: Information on the apportionment methods used by the CRA, GERS, NINFBR and Disaggregation of Tax Receipts publications is available in the scoping study. In your view, are there any significant limitations or issues with any of these apportionment methods?

Question 4a: Table 2 lists a number of specific presentations of data that we would like further input on. For each breakdown listed, please state your preferences as to whether the breakdown should be included within a Country and Regional Public Sector Finances publication.

Question 4b: Are there any presentations of data you would like to see that are not listed above? Please provide details below.

Question 4c: We are also considering the inclusion of an additional table within the monthly UK Public Sector Finances bulletin that would show each devolved administration’s current and capital expenditure for year-to-date and previous financial years. This table would use public sector finances data reported by devolved administrations and would not be based on the ‘who benefits’ concept. Would this additional presentation be beneficial to you? If so, how would you use it?

Question 5: If you have any other comments or suggestions to make, please note them here.

The outcome of the consultation allows us to make an informed decision about whether to proceed with the proposal to produce an annual publication on country and regional public sector finances data; and if so, the concepts and methods to be used.

Summary of responses

A total of sixteen responses were received; twelve respondents completed the consultation document in full, while others responded with letters or general comments in an email. This section summarises the responses received for each question and provides a summary of other responses received. Key findings from the consultation were:

- wide support for us to produce country and regional public sector finance statistics
- users wanted these statistics to aid the devolution debate and to provide additional data for local policy analysis
- most users thought the ‘who pays’ and ‘who benefits’ approaches for apportioning revenue and expenditure, to each country and region, were the most appropriate methods
- a number of respondents would benefit from having data at geographies smaller than NUTS1
- we should be clear on what can and cannot be done with such data as well as providing transparency on the data sources and methods used, to allow users to make informed judgments on how they use these data.

The following table shows a breakdown of the number of respondents by type and by country, with the respondents being assigned to country based on the focus/remit of the organisation providing the response.

Type of Respondent	Responses received
Government department	1
Devolved administration body	5
Local authority	3
Research institute	1
Charity	1
University	2
Individual	1
Other	2
Country of Respondent	
UK as a whole	4
England	3
Northern Ireland	4
Scotland	2
Wales	3
Total	16

Detailed Feedback

This section provides a summary of the responses provided to each question asked in the consultation. As twelve respondents provided responses to all questions, these are discussed first and then a summary of the additional four responses follows.

Question 1a: Would it be useful to have a country and regional publication that presents public sector finances, on a comparable basis, at the NUTS1 level? What benefits would you find in such a publication?

Question 1b: If you have answered yes to question 1a, how would you use this data?

All twelve responses supported the idea of us introducing a Country and Regional Public Sector Finances publication at the NUTS1 level. The most commonly viewed benefit of having such statistics was that of comparability and consistency between estimates produced for each country and region. Many respondents commented on how these data would help inform debates around devolution and aid policy analysis at the country and regional level. One particular respondent stated that such data “*would improve the economic literacy of local policy officials and wider stakeholders. The availability of this data will encourage stakeholders to consider the tax and revenue implications of local policy decisions*”. This respondent and some others stated that data below the NUTS1 level would be useful, however acknowledged that there were difficulties around producing such estimates.

In terms of how a country and regional public sector finances publication would be used, respondents provided the following examples:

- measuring inter-regional financial balances (to enable better consideration of policy and better modelling)
- to measure tax revenues on a regional basis (hence helping to inform debates around tax devolution)
- increasing the evidence base to argue for / against policy changes in relation to local government (e.g. the potential for devolution of specific taxes to local authorities)
- using alongside other source of public finance statistics to brief Ministers, officials and responding to queries from MPs, AMs, MSPs and MLAs²
- informing research on the fiscal position of UK cities, develop policies that can support them to grow and boost the national economy
- developing more detailed pictures of London's finances that would inform more robust, evidence-based policy development
- descriptive analysis setting out historic evolution and looking into projections into the future, based on spending allocations, demographics etc.

Question 2: If published, the intention is to produce an annual Country and Regional Public Sector Finances publication on a financial year basis. Would this be sufficient to meet the needs you highlighted in questions 1a and 1b?

All respondents stated that data on a financial year basis would be sufficient to meet their needs. One respondent stated that data on a calendar would be preferable, but not vital. Two respondents stated that while an annual publication would be sufficient, a quarterly publication would provide additional value.

Question 3a: Should the 'who pays' and 'who benefits' principles, described above, be used for estimating revenue and expenditure? Are you aware of other methods or principles that would be better to use?

All respondents were satisfied with the use of 'who pays' and 'who benefits' approaches. Some respondents provided further suggestions for different methods that could be used for additional analysis. These included:

- allocating spending on administration, defence etc using the 'in' approach, where the respondent stated *"it is sometimes suggested that for spending on administration, defence, etc, one could allocate to where the spending occurs (rather than proportionally to population, say, as is done under the 'benefits' principle). Such analysis is useful as an extension to the main analysis – to get an idea of the 'demand' effects of government spending in a region – but should not replace it"*
- using workplace-based methodology (rather than solely residential), where the respondent stated that this was important particularly for London where a lot of tax revenue raised in a particular area (central London), is by a significant proportion of people who do not live in London
- another respondent suggested apportioning taxes based on where the tax generating activity took place – this is already often the case in the 'who pays' principle. However the

² Where MP is a Member of Parliament; AM is an Assembly Member; MSP is a Member of Scottish Parliament; and MLA is a Member of the NI Assembly.

respondent shared the methodology they used in their own analysis that apportions tax revenue, to local authority levels, using different methods and data sources than used in the existing sub-UK publications (for apportioning to the NUTS1 level).

Question 3b: If you agree that the ‘who benefits’ principle should be used for expenditure, should the ‘in’ or the ‘for’ approach be used?

Most respondents favoured using the ‘for’ approach although some also saw the benefit of using the ‘in’ approach. Some respondents stated that the use of the ‘for’ and ‘in’ approaches depended upon the category of expenditure. For example, debt repayments, defence and diplomatic services, which are provided ‘for’ the benefit of residents, however are not easily identified to a region and an ‘in’ approach could not be taken. In some cases it can also be difficult to apply the approaches consistently e.g. in the case of transport expenditure by local government, the ‘in’ approach could generally be assumed to be equivalent to the ‘for’ approach but this would be less reasonable for spending by Transport for London (which is a local government body), where the expenditure is clearly going to benefit a significant number of residents from outside of London.

One respondent also highlighted that statistics on a ‘for’ basis *“may be less relevant for policy use even though they are often more appropriate from an economic perspective”* due to local policy officials having greater interest in the activities occurring within a region. Some respondents also highlighted the importance of clearly stating which approach was used to allow users to interpret the statistics correctly.

Question 3c: Information on the apportionment methods used by the CRA, GERS, NINFBR and Disaggregation of Tax Receipts publication is available in the scoping study. In your view, are there any significant limitations or issues with any of these apportionment methods?

In general, no significant issues were highlighted by any of the respondents. One respondent commented that *“an ONS publication would provide an opportunity to assess the current methods for apportioning revenue and expenditure, where they differ, with an aim to harmonise methods in the longer term”*. Other users echoed this however highlighted that even with shared methods, conceptual issues, similar to the ‘in’ versus ‘for’ concepts relating to expenditure, existed among different revenue apportionment methods. Some specific issues included disclosure concerns for small taxes at the country and regional level or, sample sizes of the Living Costs and Food survey for regional apportionment purposes. Some respondents stated that it was important to provide transparency on the impacts of different apportionment methods. Finally, there were specific methodological suggestions made for the different Corporation Tax and Air Passenger Duty apportionment methods. One respondent also suggested using business survey data for apportioning. While another stated that there was a need to go beyond the Country and Regional Analysis (CRA) publication and allocate non-identifiable spending, but to include figures that show these elements separately.

Question 4a: Table 2 lists a number of specific presentations of data that we would like further input on. For each breakdown lists, please state your preferences as to whether the breakdown should be included within a Country and Regional Public Sector Finances publication.

All respondents stated their preferences for the data presentation suggested; four respondents stated that all presentations should be included while the remainder of respondents generally selected a combination of 'should include' and 'no preference'. The choice of 'no preference' was seen in particular for ESA breakdowns. Responses on presentations using Regional GDP and GVA were split, comments made included:

- *“use regional GDP as most comparable internationally”*
- *“the use of GDP should be avoided as the method of calculating regional GDP is questionable”*
- *“regional GDP should be used, but that which allows the fiscal balance to be comparable to headline UK fiscal balance. Having a separate UK figure for this publication would not seem sensible”.*

One respondent also suggested using the UK wide GDP deflator for data in real terms.

Question 4b: Are there any other presentations of data you would like to see that are not listed above? Please provide details below.

A number of suggestions were made for further presentations, these included:

- including data at smaller geographies than NUTS1. One user suggested that given the problems with estimating data at smaller geographies, the priority should be to improve how data is collected to be able to provide meaningful data. Another respondent suggest that data below NUTS1 level could be produced using the workplace-based methodology
- providing a split by identifiable and non-identifiable expenditure
- breaking down COFOG category expenditure into centrally administered and locally administered expenditure
- on revenue, splitting income tax in Scotland (and potentially Wales) into devolved and non-devolved proportions.

Finally, one respondent stated that the publication should explain the fiscal system of the UK and commentary should carefully explain what these statistics do and do not show. Also, terms such as 'borrowing' are likely to be misinterpreted and alternative terms should be considered.

Question 4c: We are also considering the inclusion of an additional table within the monthly UK Public Sector Finances bulletin that would show each devolved administration's current and capital expenditure for year-to-date and previous financial years. This table would use public sector finances data reported by devolved administrations and would not be based on the 'who benefits' concepts. Would this additional presentation be beneficial to you? If so, how would you use it?

Seven of the twelve respondents stated that they would find this additional data useful and four stated no preference. One respondent stated that *“it is often difficult to get hold of this data at the moment – the definitions used by devolved governments do not always seem to align well with definitions used in UK national accounts (e.g. on the current / capital split)”*. The remaining respondent stated it would be important to consider the differences between devolved

administrations' spending as reported in Treasury documents and as reported to their Parliament/Assembly.

Question 5: If you have any other comments or suggestions to make, please note them here.

Additional comments were generally to say these proposals were supported and welcomed; some respondents also showed interest in being involved in the work as it develops.

Other responses

Although most respondents supported the idea of us producing these statistics, some respondents felt differently and raised other issues that should be taken into consideration.

One respondent stated that although they recognized the importance of having such statistics, they saw the *“position of currently devolved countries as substantially different from the NUTS1 regions of England”*. They felt that statistics on a NUTS1 basis, although useful for comparative purposes, *“would not capture the geographical level to which any major fiscal powers are likely to be devolved in the future”*. As such, they believed that it should be responsibility of each devolved government to produce these statistics.

One user expressed dissatisfaction with the consultation, feeling that the consultation did not consider the actual data requirements of devolution. The respondent stated that the focus should have been on data, *“so that funding arrangements for the devolved administrations can be run effectively”*.

Outcome

The consultation provided valuable feedback regarding the proposals for us to produce a Country and Regional Public Sector Finances publication. Based on the responses provided, we will take forward plans to produce an annual Country and Regional Public Sector Finances publication, with the aim of publishing the first bulletin in 2017. Some of the specific actions we will take as a result of this consultation are detailed below.

The Country and Regional Public Sector Finances will be produced on an annual basis for financial year data only. Although one respondent stated that it would be useful to have calendar year data, it would be difficult to obtain all of the source data on a calendar year basis without making significant changes to data collection methods.

We will not be investigating the methods for producing quarterly data until after the first bulletin has been published. Producing data on a quarterly basis is likely to require different apportionment methods and/or data sources.

We will work with devolved administrations, key central government departments and users to agree the data sources and apportionment methodology that will be most appropriate to use. We expect to use the 'who benefits' and 'who pays' principles; the 'for' approach would generally be

used, however there may be instances where the ‘in’ approach may be applied. This work will involve building upon existing apportionment methods used in other publications and agreeing which method to use when methods differ amongst existing publications. As part of this, we will look to harmonise methods where possible.

As the responses highlighted the importance of being clear on the methods and data sources used, so that users can make informed decisions about how they use this data, we will work with users and other stakeholders to ensure we provide this clarity.

Where appropriate, we will investigate methods for producing public sector finances data below the NUTS1 level. As noted in the consultation, data estimated below the NUTS1 level may not be meaningful. However, we will investigate which expenditure and revenue items can be produced to support the needs for data below the NUTS1 level. As with other apportionment methods, this is an area we would look to work with colleagues in other departments, devolved administrations and users to agree.

We will investigate further the use of regional GDP and regional GVA as well as the production of an ESA breakdown of data.

We will work to implement an additional table into the monthly Public Sector Finances bulletin showing current and capital expenditure, using an ESA breakdown, for each devolved administration.

Finally, in six months’ time we will update users again on how this work is progressing. However we will still look to obtain additional user feedback on an ongoing basis.

We would like to thank respondents for their time and effort in responding to the consultation and providing helpful and constructive feedback.

Getting in Touch

If you have any queries or comments about the survey process, please email Simeon Bowen at ons.communications@ons.gsi.gov.uk or call 0845 601 3034.

You can also write to us at the following address:

Consultation Coordinator,
Room 1.101
Office for National Statistics,
Government Buildings,
Cardiff Road,
Newport,
South Wales,
NP10 8XG.

For further information on ONS surveys, please visit <http://www.ons.gov.uk/ons/about-ons/get-involved/consultations/index.html>

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Accessibility

All material relating to this consultation can be provided in braille, large print or audio formats on request. British Sign Language interpreters can also be requested for any supporting events.

Annex A: List of Respondents

Organisation	Name	On behalf of
Association of Accounting Technicians		Organisation
Centre for Cities	Louis McGough	Organisation
Department of Finance Northern Ireland		Organisation
Greater London Authority	Emma Christie	Organisation
Gwynedd Council		Organisation
House of Commons Library		Organisation
Institute for Fiscal Studies	David Phillips	Organisation
Northern Ireland Statistics Advisory Committee		Organisation
Northern Ireland Statistics and Research Agency		Organisation
PricewaterhouseCoopers		Organisation
Scottish Government		Organisation
Wales Governance Centre		Organisation
Welsh Government		Organisation
Ulster University Economic Policy Centre		Organisation
	Jim Cuthbert	Individual
		Other

Note: Responses have been published with names and personal contact information removed where no consent was given.