Chapter 1  Aims and objectives of this research

1.1  This research was commissioned in April 2002 by the then Department of Transport, Local Government, and the Regions (now Office of the Deputy Prime Minister – ODPM) with support from HM Treasury’s Evidence-Based Policy Fund and from the Department for Environment, Food and Rural Affairs (DEFRA). For brevity we describe them as the sponsors in this chapter. The sponsors’ invitation to tender explained their aims and objectives as follows.

The Local and Regional Government Research Unit (LRGRU) within the Department for Transport, Local Government and the Regions (DTLR), in conjunction with HM Treasury’s Evidence Based Policy Fund, the Department for Environment, Food & Rural Affairs (DEFRA), and the Urban Policy Unit within DTLR, wish to commission research to identify the flow of expenditure, domestic and European, into the English regions, and the allocative mechanisms that underpin those flows.

Comparable and consistent knowledge about the level of public resources being committed to individual regions and the basis for those allocations, is a key requirement of policy makers across government, at national, regional and sub-regional level. It is fundamental to any assessment of the (collective) impact of expenditure at the regional level, and also serves as the context to more localised analyses of expenditure flows into sub-regional and local areas. Measuring the flow of expenditure is a requirement for attempts to identify the relationship between inputs, outputs and outcomes at the regional level, and the degree to which expenditure is correlated with need. Further, within a devolutionary context, there is an emerging bottom-up focus, by Regional Chambers and others, upon notions of regional ‘share’.

However, there is very little detailed knowledge about the total level of public resources flowing into each region and, in the absence of reliable data, it is impossible to separate conjecture from evidence. Currently, the only source of information on regional expenditure is the annual Public Expenditure Statistical Analyses (PESA) published by Treasury (which include some regional disaggregations)…. [T]he research is intended in large part to serve as a feasibility exercise to provide advice about what is practical. The research is intended to establish what public expenditure is flowing into individual regions and on what basis it is allocated. The study will seek, in the first instance, to identify expenditure flows and their source and develop methodological techniques for disaggregating expenditure data down from the national level or aggregating up from the sub-regional level. The study will be innovative, in that it will develop new methodologies for dis/aggregating expenditure data to the regional level and collate, for the first time, robust data on expenditure flows into the regions across the range of public sector activity….

In summary, the importance of the proposed research rests on three key issues:

- that the Government needs to develop its capacity to analyse the regional impact of a vast range of policies, which requires more rigorous expenditure data to facilitate any exploration of regional outputs and outcomes;
- that an integrated cross-departmental approach to addressing inter- and intra-regional inequalities is a possibility, but needs an evidence base;
that development of targeted policy initiatives (including those concerning urban areas such as cities and town centres identified in the U[rban] W[hite] P[aper] and those specifically targeted at rural areas) requires improved evidence about expenditure flows.

Additionally, better data on the flow of expenditure into regions would:

• enable the Government to have a clearer view of the collective commitment of resources into individual regions;
• offer scope for identifying the extent to which patterns of expenditure into regions are ‘joined-up’ to exploit synergies between funding streams;
• provide a baseline of ‘inputs’ against which to evaluate the relationship with outputs or outcomes of expenditure or policy activity;
• supplement regional intelligence gathering, by RDAs, observatories, Chambers and others, and assist in the preparation of their strategies;
• provide a context to, and basis for, sub-regional analyses of expenditure flows.

1.2 Accordingly, the Sponsors stated the aims and objectives of the research to be as follows.

AIMS
There are two broad aims of the study:

• To identify the form and level of public expenditure (domestic and European) flowing into individual English regions;
• To identify – for each expenditure flow – what determines the level of that expenditure.

OBJECTIVES
The research is intended, in large part, to be a feasibility study: to identify what expenditure data exist and what methodological techniques might be applied to enable regional estimates to be produced. In order to address the key aims, the research has three objectives:

• To define the nature and range of public expenditure flows into regions, and review the current availability of regional expenditure data;
• To develop, and apply, a methodology for estimating the flow of public expenditure into the English regions [and provide guidance on the extent to which such a methodology might provide robust sub-regional estimates – and at what level];
• To identify, in broad terms, the determinants of the level of expenditure.

Tenderers were invited to endorse these aims and objectives. We did so and have attempted to satisfy them.

1.3 The research proceeded by the stages envisaged by the Sponsors. In Stage 1, completed in July 2002, we:

• reviewed existing published and unpublished literature and data (some supplied by the sponsoring Departments, some from other Departments, and some from our own records) concerning the level of public expenditure flowing into the English regions;

• identified the nature of individual expenditure streams, and the form in which data were held on them by individual Departments or Agencies (and the degree to which the data were accessible);

• determined what level of disaggregation of individual expenditure flows would be possible within the remit of the research, in order to address its aims and objectives.

• considered the extent to which expenditure can be regionally (dis)aggregated according to both the ‘for regions’ method and the ‘in regions’ method of expenditure apportionment. We explain these concepts in paragraphs 1.10 to 1.17.

1.4 During this stage, we took three fundamental decisions which we reported to the sponsors and to our Advisory Board at the end of the stage. The three decisions, which are interlinked, were:

• to use the data underpinning the Public Expenditure Statistical Analysis (PESA) tables published by HM Treasury as our fundamental data source for all expenditure flows except Defence;
• to use the ‘for regions’ concept of apportioning expenditure for all flows except Defence, to which it is inapplicable; but to ask all of our field researchers to ascertain how different the data would look if it were compiled on an ‘in regions’ basis instead;
• to use a ‘top down’ approach to all expenditure flows; but for those functions where money flows to identifiable individuals or economic agents, to investigate whether, or how far, the data can be aggregated upwards from the bottom and reported for areas smaller than the nine standard Government Office Regions of England.

1.5 In the tender documents, the sponsors invited us to ‘make use of direct data, administrative and other, (such as details of claimants or recipients) held by national, regional and local government departments and agencies’. We quickly determined that at whole-of-government level, only two sources of direct data were known to exist: the regional and local statistics published by the Office for National Statistics (ONS), and the aforementioned PESA tables published by HM Treasury. We held scoping discussions with both Departments.

1.6 When this research was commissioned, the Regional and Local Statistics division of ONS was part way through a pilot project, funded by the European Union, to produce regional breakdowns of the General Government Accounts published within the annual United Kingdom National Accounts ‘the Blue Book’, for a sample calendar year. To have based this research on the ONS data would have led to pointless duplication. In any case, ONS confirmed that the source for the expenditure side of their own National Accounts database was the Treasury. This mandated that our fundamental data source must be the PESA database, and that we would use the ONS data for reliability and validity testing of our findings.

1.7 A further reason for using the PESA database is that, whereas the National Accounts ‘Blue Book’ reports by the calendar year, PESA reports outturns by the financial year. Budgets are planned by the financial year, not the calendar year. Users of expenditure data, both in and outside government, need to know both on what principles intended programme expenditure is split among the nine standard regions of England, and to what extent the outturns match Departments’ plans. For both purposes they need high quality data for the financial year. The PESA database is explained further in Chapter 3.

1.8 The PESA database is collected from the top down, with the exceptions noted in Chapter 3. The basic mechanism is that Departments report to HM Treasury the regional breakdown of outturn expenditure for as many of their sub-programmes (SPROGS), and those of the agencies for which they are responsible, as they can. The sponsors invited us to examine the most recent research into bottom-up data collection, from Professor Glen Bramley of Heriot-Watt University. We noted that the Bramley team, in what they described as a ‘major research project’ with active assistance from Government departments and their target local authorities, had collected bottom-up data for three out of the 150-odd principal local authority areas of England. To replicate the Bramley methodology for the whole of England would therefore require a research project of the order of 50 times larger than his, which would not have been feasible within either the timescale or the budget of this project.

1.9 However, some expenditure flows are susceptible to a bottom-up treatment. These fall into two main groups:
• As noted above, expenditure that flows to named individuals at known addresses and postcodes. The largest such flow is the benefit expenditure of the Department of Work and Pensions (DWP) within England. Within our team, Michael Noble, who had worked with the Bramley team, undertook to compare the ‘top-down’ and ‘bottom-up’ methods for assigning DWP expenditure to the GO regions, using the Bramley methodology for the latter. We report his findings in Chapter 4.
• Expenditure which flows through local authorities, whatever its ultimate source, is reported at the level of the local authority. In principle it can therefore be aggregated up through the intermediate levels NUTS3 and NUTS 2 to the GO Region (NUTS1) level.
We started to lay plans to collect and aggregate ‘bottom-up’ data where feasible.

1.10 The ‘for’ versus ‘in’ distinction is fundamental. It was developed in the pioneer studies of the 1970s, reviewed in Chapter 2 below. The sponsors set out the issue clearly in the tender documents:

It is possible to classify regional public expenditure in two distinct ways: expenditures made directly in a region (irrespective of where the benefits which accrue from the expenditure occurs), and expenditure for a region (or ‘regionally relevant’ expenditure) in which the benefits are calculated irrespective of where the inputs/expenditure are made. The difference between these two notions of regional expenditure is the classification systems used for analysing public expenditure: ‘for’ expenditures centre around the beneficial concept and ‘in’ expenditures relate to the economic categories to which public expenditure are classified. These two different approaches to classifying regional expenditure, reflect the different approaches adopted within central government. Treasury, with responsibility for the production of data within PESA, allocate expenditure within ‘functional’ categories which relate to the ‘for’ issue of beneficiaries of expenditure. By turns, General Government Accounts (for which ONS is currently under contract to produce regionalised data …) is largely produced according to the ‘in’ method of identifying where expenditure is made.

1.11 Our decision to gather data via the PESA process therefore locked us into tracking expenditure within functional categories which relate to the ‘for’ issue of beneficiaries of expenditure. However, we decided to instruct our field researchers to ask both their Department(s) and the data they examined how the data would differ if reported on the ‘in’ basis relating to the economic categories to which public expenditure are classified.

1.12 Table 1.1 may help to make the issue more concrete. Expenditure may be ‘in’ an English region, ‘for’ an English region, or both, or neither.

Table 1.1 ‘For’ and ‘in’: a 2 x 2 classification

<table>
<thead>
<tr>
<th>‘For’</th>
<th>Not ‘for’</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘In’</td>
<td>Older Persons’ Grant</td>
</tr>
<tr>
<td></td>
<td>Housing Corporation</td>
</tr>
<tr>
<td></td>
<td>Expenditure by MoD on procurement with firms in England</td>
</tr>
<tr>
<td></td>
<td>Expenditure on military bases in England</td>
</tr>
<tr>
<td>Not ‘in’</td>
<td>Expenditure by English RDAs overseas on trade promotion</td>
</tr>
<tr>
<td></td>
<td>All expenditure by any of the 3 UK devolved administrations</td>
</tr>
<tr>
<td></td>
<td>Expenditure overseas by DfID and FCO</td>
</tr>
</tbody>
</table>

The bulk of public expenditure flowing into an English region is both ‘for’ and ‘in’ it. Two SPROGs out of thousands that we could have selected illustrate this in the top left box of Table 1.1. For many SPROGs there are cross-border issues, where the beneficiary of expenditure in one region may live in another. These are dealt with as appropriate in Chapter 4 below. But with thousands of SPROGs such as these two, cross-border issues are minimal and we have ignored them.

1.13 The top right box of Table 1.1 gives examples of programmes that are ‘in’ but not ‘for’ the English regions. All Defence expenditure is deemed to be for the public good of the defence of the UK, and therefore indivisible. However, it is obvious that much Defence expenditure takes place in the English regions. In Stage 1 of the research, we established that the Defence Analytical Services Agency (DASA) records the region ‘in’ which expenditure takes place. Officials in MoD stressed that the data is needed, among reasons, because they face frequent PQs and similar requests for information about the regional incidence of expenditure on a proposed procurement contract (or loss of contract). Our methodology for collecting ‘in’ data for Defence is discussed in Chapter 4 below.
1.14 The bottom left box of Table 1.1 gives examples of programmes that are ‘for’ but not ‘in’ the English regions. As envisaged in our tender, we visited one GO (GO for the West Midlands) and one RDA (the London Development Agency) during the research. From these visits we established that although GOs and (particularly) RDAs spend outside of their regions, the amounts involved are small in relation to their budgets and infinitesimal in relation to the flow of public expenditure into the English regions. In the rest of this report, we therefore ignore any programmes ‘for’ but not ‘in’ the English regions.

1.15 Drawing lines around the set of programmes in the bottom right box of Table 1.1 – ‘neither in nor for’ – is not as straightforward. Expenditure which is neither in nor for the regions of England means expenditure that is (a) incurred in the rest of the world (ROW), and (b) not for the benefit of an English region. But the rest of the world comprises: (i) Scotland, Wales, and Northern Ireland; (ii) the rest of the rest of the world. The treatment of the two parts of ROW in our data sources is different.

1.16 For Scotland, Wales, and Northern Ireland, our starting point was HM Treasury’s ‘Schedule of Comparable Sub-Programmes’, which comprises Annex C of their document Funding the Scottish Parliament, National Assembly for Wales, and Northern Ireland Assembly, (HMT 2002), available on the Web at http://www.hm-treasury.gov.uk/funding guidance. This Annex lists each SPROG that is deemed to be ‘for’ any part of the UK. For each SPROG, its ‘comparability percentage for 2002 Spending Review’ for each of Scotland, Wales, and Northern Ireland is shown. All cell entries are either 100% or 0%. An entry of 100% means that the SPROG does not cover expenditure in that devolved territory; therefore the territory attracts a ‘Barnett consequential’ of 100% of the English spending on that SPROG per head of population to devolved territory in question. One of 0% usually (but not always) means that the SPROG does cover the devolved territory, therefore spending on it attracts a 0% Barnett consequential. For example, the SPROG “Ordnance Survey” in the ODPM block, is coded as 0% in Scotland, 0% in Wales, and 100% in Northern Ireland. This means that the Ordnance Survey operates (as well as in England) in Scotland and in Wales, but not in Northern Ireland. A diagonally opposite example is the SPROG for “Coalfields Regeneration Trust”, which is coded as 100% in Scotland, 100% in Wales, and 0% in Northern Ireland. Coalfield regeneration is a devolved function, therefore the ODPM SPROG attracts a Barnett consequential in Scotland and Wales. But there are no coalfields in Northern Ireland, so there is no Barnett consequential to NI in respect of this ODPM SPROG. For departments as a whole, the comparability percentage is typically neither 0% nor 100%. For example, for ODPM it is 99.6% for Scotland, 98.4% for Wales, and 99.5% for Northern Ireland. An interpretation of this is that very few of ODPM’s SPROGs, by value, operate in any of the three devolved territories, but a small number, different for each territory, do.

1.17 Expenditure in London on the Northern Ireland Office, Wales Office, and Scotland Office is ‘in but not for’ a region of England. In the case of the departments that operate in the rest of the ROW outside the UK (primarily FCO and DfID), the main bulk of their expenditure is clearly ‘neither in nor for’. However, their ‘in but not for’ HQ expenditure, unlike the HQ expenditure of the three UK departments that deal with the Devolved Authorities, is not identifiable as distinct lines in our sources (because these departments do not have to submit returns for the PESA regional analysis). We signalled this as a possible data problem.

1.18 While awaiting the sponsors’ approval of our workplan (which was given in July 2002), we proceeded to Stage 2 and Output 2 of the research.

1.19 The work in this phase involved:
- completing our literature review of past efforts to examine the flow of expenditures into the English regions. An update of this review now appears as Chapter 2 below;
- getting to know our data sources, which are described in Chapter 3 below;
- liaison with HM Treasury and departments. In July 2002 HM Treasury sent a letter to all departments that take part in their Regional Analysis (RA) exercise. This letter is reproduced as Appendix A to this report;
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- scoping visits to HM Treasury, ONS, GO West Midlands, and the London Development Agency;
- refining and confirming the methodology to be used in Stage 3, the field research phase, of the project.

1.20 We submitted our methodology report to the sponsors in August 2002 and it was approved, with modifications, in November. Meanwhile, we commissioned the field research stage of the project. We assigned either one or two field researchers to each of the main functions of government listed in the PESA RA tables, plus a team for Defence. Although Defence expenditure is not ‘for’ the English regions and accordingly the MoD does not take part in the PESA RA exercise, the sponsors made it clear in its tender documents that it wished Defence to be covered. We tried to rise to the challenge. We take this opportunity to thank our field researchers, whose work we believe was uniformly excellent.

1.21 We prepared a manual for the field research teams. To save space, it is not reproduced with this report, but it is available on request from the principal investigator. Briefly, the field researchers were asked to visit their departments twice, with the assistance of the contact nominated by each department to the ODPM. The first visit, in late summer 2002, was to establish how the department responded to the Treasury’s annual request to complete the RA spreadsheet, and to discover what issues of data quality, internal communications, and methodology the department believed might exist. On this visit all the field researchers were briefed to ask their Department(s) for permission to observe the Department fill in the RA return issued in November 2002 for return in January 2003. All Departments and agencies approached either agreed to let our researchers observe this process in real time or agreed with the researcher that the process was too low-level and mechanical to warrant observing in real time. Once again, we thank Departments for their tolerance and generous access to the team.

1.22 The field researchers reported to us in February 2003. We collated and edited their reports and sent them to the sponsors in March 2003. As further edited, they now comprise Chapter 4 below. We then commissioned a separate study of European Union expenditure, which appears in Chapter 5 below; and prepared our tables, commentary, and recommendations for further work by Departments and/or future research (Chapters 6 and 7 below).