

## PUBLIC EXPENDITURE IN SCOTLAND

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The structure of public expenditure has become one of the chief recent preoccupations of both policy makers and academic commentators. For many years, public expenditure management was conducted very largely in terms of functional programmes across the United Kingdom rather than of the territorial distribution between England, Scotland, Wales and Northern Ireland. This pattern was reflected in the lack of comprehensive data about public expenditure in the four nations. But in the late 1970s, under the influence of the devolution debate, a trend emerged towards a somewhat more territorial focus. With increasing public interest in the territorial attribution of public expenditure, better quality data have become available, showing how the existence of data is an important element in the framing of public issues. At the same time, the mechanism for expenditure allocation has taken on a more territorial focus. The purpose of this article is to gather together the available data about aggregate public expenditure in Scotland and to relate it to the recent developments in the political control and evaluation of the patterns that it reveals.

### I The Evidence

Comprehensive analysis of identifiable public expenditure in Scotland, Wales and Northern Ireland is possible only since around 1960, when the new Public Expenditure Survey system started to provide accurate financial year details about the programmes of the United Kingdom and Northern Ireland governments; it was not until 1963/64, and the establishment of the Welsh Office, that Welsh expenditure was properly separated from English. Before that, interest in the fiscal implications of 'Home Rule all round' had led to the

production of returns of expenditure in Scotland and Ireland 1891 to 1922, and in Scotland between 1932 and 1935. A similar calculation was produced for 1952-53 in response to a recommendation of the Catto Committee on Scottish Financial and Trade Statistics. These data are incomplete as they cover central government services (less than three-quarters of total public expenditure in 1952-53) and do not apportion 'general services' like defence between nations, although these were a dominant part of the British total at that time (51 per cent in 1935 and 61 per cent in 1953). They do show, however, that identifiable public expenditure per head in Scotland was 107 per cent of that in England in 1934-5, and 114 per cent in 1952-53. The phenomenon of higher Scottish expenditure seems to be a long-standing and perhaps intensifying one. It is also important to note that in the 1960s such expenditure data were conceived as the debit side of the notional Scottish budget, to be compared with revenue raised in Scotland; this tradition was continued in the Scottish Budget Statement produced by the Treasury, but now seems to have been abandoned because of inadequacies of data and the delicate status of oil revenues. Rather, the debate has shifted to the question of entitlement to public services and of the tackling of 'needs' on a United Kingdom basis, irrespective of the revenue yield from each area. For the present, data covering all public expenditure - central and local government and public corporations - becomes available.

In research for the Kilbrandon Commission on the Constitution in the late 1960s, David King attempted to provide a consistent series for the years 1960-61 to 1969-70. These are reproduced in table 1, using the now-usual indicator of public expenditure per head as an index number, with the United Kingdom as 100. As the official Treasury calculations are for 1972-73, there is a gap of two years in the series, which has been filled by calculation from published sources for the four nations using King's method.

King faced a number of problems in his calculations, but the pattern he revealed is clear. The Treasury continued to decide to attribute some major areas of public expenditure - defence, interest and overseas representation - within the United Kingdom. King and King had also to exclude some other categories - agricultural support, nationalised industries' capital expenditure, some

TABLE 1 IDENTIFIABLE PUBLIC EXPENDITURE IN SCOTLAND,  
ENGLAND, WALES AND NORTHERN IRELAND 1960-1980

Per head: United Kingdom = 100	Scotland	England	Wales	N. Ireland
1960-61	112		99	99
1961-62	114		98	99
1962-63	114		98	103
1963-64	115	98	113	101
1964-65	113	98	114	100
1965-66	111	98	112	105
1966-67	112	98	113	105
1967-68	118	97	110	106
1968-69	124	96	113	119
1969-70	126	96	111	113
1970-71	117	97	104	118
1971-72	119	97	108	122
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1972-73	127	95	110	127
1973-74	118	97	104	124
1974-75	117	97	104	134
1975-76	119	96	110	136
1976-77	120	96	112	144
1977-78	120	95	115	147
1978-79	119	95	112	150
1979-80	121	96	111	142
1980-81	121	95	125	138

Sources: 1960-70: David N. King, Financial and Economic Aspects of Regionalism and Separatism (Commission on the Constitution Research Paper 10 London: HMSO 1973), Table 22

1970-72: calculated from Scottish Abstract of Statistics (1976) Tables 178 and 181, Digest of Welsh Statistics 22 (1976) Table 7.03, National Income and Expenditure 1964-74 p.130-34 using King's method; expenditure on agricultural support, research councils and nationalised industries (except energy) excluded.

1972-74: House of Commons Hansard 24 November 1977 Vol 939 col 851 written answer

1974-75: House of Commons Hansard 26 November 1976 Vol 974 col 510 written answer

1975-76: House of Commons Hansard 26 March 1981 Vol 1 cols 417-424 written answer

1976-81: House of Commons Hansard 8 December 1981 Vol 14 cols 385-396 written answer (total expenditure on programmes)

port subsidies and research councils - through lack of comparable data<sup>(2)</sup>. This tends in particular to depress the figures for Northern Ireland, where agricultural support - the only major identifiable expenditure incurred there by the United Kingdom rather than the Northern Ireland government - is high. With these provisos, it is evident from table 1 that in the early 1960s Scotland's public expenditure per head was 10 to 15 per cent above the United Kingdom average, accelerating to over 20 per cent by the end of the decade. Wales had an initial lead comparable to Scotland's but failed to share in the late 1960s acceleration. Northern Ireland, near the average at first, rose sharply to Scotland's level from 1967 onwards. England, as the major component of the total, was necessarily near the average but drifted down relative to the other nations.

Supporting evidence for this process comes from the Treasury Needs Assessment Study report, published in 1979, which examined the six main programmes intended for devolution. This picks out Scotland's late 1960s spurt (from 111 per cent of the English level in 1965-66 to 134 per cent in 1968-69) and Northern Ireland's increase from a low base (88 per cent in 1959-60 to 111 per cent in 1972-73)<sup>(3)</sup>. These trends can now be identified, but they were not necessarily planned at the time. As the study noted, 'these variations have occurred not only in the total allocations...but also in those in a number of the main individual services. No systematic record exists of the reasons for these relationships...'<sup>(4)</sup>.

Particularly interesting is Scotland's peak of expenditure in the late 1960s, from which it subsequently retreated: index numbers of 112 in 1966-67, 118 in 1967-68, 126 in 1969-70 but 117 in 1970-71. The Treasury Study, covering a narrower range mainly of social services shows that this appears to reflect a disproportionate benefit to Scotland from the industrial development and housing policies of the 1964-70 Labour Government. Between 1966-67 and 1968-69, Scotland's industrial expenditure (principally regional development grants) increased by 323 per cent against the United Kingdom total of 222 per cent, its housing expenditure by 45 per cent against 8 per cent<sup>(5)</sup>. These expenditures then fell back under the 1970 Conservative Government, although part of Scotland's lead was retained. Two themes stand revealed: Scotland's ability to gain from the changing mix of British

public policies, and the underlying upward trend in Scotland's relative expenditure level.

From 1972-73 the methodology for attributing public expenditure is on surer ground, with the first comprehensive Treasury calculations, which cover difficult areas like government lending to nationalised industries and expenditure by United Kingdom departments in Northern Ireland. The 1972-73 data validate the pattern in the King series of Northern Ireland first, Scotland second, Wales third and England fourth (table 1). The first two years of Treasury figures are less good than later ones (principally because they exclude finance for the British Steel Corporation) and are not broken down by function: but from 1974-75 such a breakdown is available, with a comparable series now published covering 1976-77 to 1980-81, although the extent to which expenditure can be identified is warned to be variable from year to year and between countries. These data still lack a regular publication outlet and are made public through ad hoc parliamentary written answers that may escape public attention. The detailed attributions by nation also suffer from considerable retrospective amendment, and the per capita data should not be regarded as precisely accurate.

The table 1 figures reveal the stability of Scotland's public expenditure per head during the 1970s - between 1970-71 and 1980-81, it stood at between 117 and 121 per cent of the United Kingdom average, except for the 127 per cent in 1972-73, which was an untypical fluctuation. This contrasts with the greater variability of Wales, which is about 10 per cent above the average in most years, and the growth in Northern Ireland's level since Westminster became pre-occupied with the province in 1968, a continuous growth checked only in 1979-80. Remarkably, since 1977-78, identifiable public expenditure per head in Northern Ireland has been half as much again as in England. In a startling development in 1980-81, Welsh per capita expenditure increased from 111 per cent to 125 per cent of the United Kingdom level, overtaking Scotland. This is almost wholly accounted for by the increase in government lending to nationalised industries (especially British Steel): if this is excluded, the figures are 119 per cent (Scotland) and 108 per cent (Wales), against 121 and 106 in 1979-80. It is likely, though, that the shift in favour of Wales may

TABLE 2 THE TERRITORIAL PATTERN OF PUBLIC EXPENDITURE 1980-81

Index of public expenditure per head (UK = 100) and percentage of identifiable total in each nation	SCOTLAND		ENGLAND		WALES		N. IRELAND		UK		Total UK fbn
	1.	2.	1.	2.	1.	2.	1.	2.	% of total identified by nation		
1. Defence	-	-	-	-	-	-	-	-	-	100	11.336
2. Overseas Services	-	-	-	-	-	-	-	-	-	100	1.715
3. Agriculture	211	2.2	72	1.0	156	1.6	417	3.9	1.3	38.7	1.650
4. Industry & Employment	155	6.0	80	3.2	195	7.4	365	12.2	4.7	20.6	4.602
5. Lending to natl.industries <sup>a</sup>	150	5.4	72	3.3	510	17.7	0	0	4.3	-33.8	2.170
6. Transport	142	5.2	90	4.2	156	5.6	172	4.1	4.4	16.2	4.124
7. Housing	140	9.2	96	8.0	73	4.7	142	8.2	7.9	0	6.222
8. Other Environmental Servs.	139	6.2	95	5.3	120	5.2	105	4.1	5.3	1.1	4.240
9. Law & Order	100	4.0	94	4.7	78	3.0	304	10.5	4.8	2.3	3.831
10. Education	122	17.4	97	17.5	102	14.3	123	15.3	17.2	0.9	13.620
11. Health & Pers.Social Servs.	119	17.9	97	18.4	100	14.5	124	16.1	18.1	0	14.159
12. Social Security	96	24.0	100	31.8	103	25.2	109	23.8	30.2	0.5	23.812
13. Other Public Services	183	2.5	87	15.3	135	1.8	100	1.2	1.6	5.9	1.364
14. Common Services	100	0.7	100	0.8	82	0.5	164	0.9	0.8	50.8	1.265
Debt interest	-	-	-	-	-	-	-	-	-	-	4.634
Special items <sup>b</sup>	150	-0.7	88	-0.5	350	-1.6	38	-0.2	-0.6	100	-0.747
TOTAL PUBLIC EXPENDITURE fbn	8.679		61.935		4.805		3.006			19.872	98.297
% controlled by Sec.of State	61.0		44.2		96.5						

Notes: <sup>a</sup> covers only net government lending and so does not reflect the weight of nationalised industries' capital investment; subject to considerable annual fluctuations because of the incidence of major capital projects.

<sup>b</sup> nationalised industries' net market and overseas borrowing and special sales of assets.

Source: adapted from House of Commons Hansard 8 December 1981 Vol 14 cols 394-396 written answer (Table 2) and The Government's Expenditure Plans 1982-83 to 1984-85 (Cmd 8494-I, 1982) tables 1.1 and 1.11. For comparability the UK total has not been adjusted for the later information in the latter source.

TABLE 3 THE LEVEL OF PROGRAMME EXPENDITURE IN SCOTLAND 1975-81

Expenditure per head: United Kingdom = 100	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Agriculture	127	200	200	167	194	211
Industry & Employment	207	216	197	174	163	155
Lending to natl.industries <sup>a</sup>	89	-	267	60	150	150
Transport	119	110	132	140	138	142
Housing	129	123	131	136	138	140
Other Environmental Servs.	132	130	125	131	140	139
Law & Order	95	97	95	95	100	100
Education	117	117	117	119	117	122
Health & Social Work	117	117	117	120	121	119
Social Security	99	102	103	101	103	96
Other Public Services	154	186	180	187	179	183
Common Services	86	75	87	78	80	100
TOTAL - index	119	120	120	119	121	121

Pro-

grammes - fbn outturn prices<sup>b</sup> 4.445 4.832 5.220 5.871 7.179 8.739  
 - fbn constant prices<sup>b</sup> 7.283 7.046 6.844 6.966 7.170 7.222

Notes: <sup>a</sup> see note a Table 2; index numbers have less validity because of small sums involved.

<sup>b</sup> 1980 survey (autumn 1979) prices. 1975-80 as calculated by Cuthbert. 1980-81 derived more crudely from average price revaluation as given in HC 316/1981-82 p.38.

Sources: as Table 1; Margaret Cuthbert (ed.), Government Spending in Scotland (Edinburgh: Paul Harris, 1982) p.15.

become more apparent in 1981-82: Treasury Select Committee estimates show that the Welsh Office public expenditure programme increased by 2.9 per cent in real terms in 1981-82 whereas Scottish Office's declined by 2.6 per cent<sup>(6)</sup>.

Data such as these are among the most enticing 'league tables' in current political debate, especially during the devolution issue, when the construction of defensible mechanisms for territorial expenditure allocation became a pressing matter. The basic thrust of the data cannot be denied, but further analysis requires more careful attention to the way that the figures are built up and the limitations of their compilation.

Table 2 explores the disaggregation of United Kingdom public expenditure for 1980-81, the latest available year. It shows that, of total expenditure of over £98 billion, 15 per cent, or £15 billion, is not attributed by nation; this is principally the defence budget. Of the rest, £62 billion is spent in England, £8½ billion in Scotland, £5 billion in Wales and £3 billion in Northern Ireland. Territorially relevant public expenditure in Scotland, Wales and Northern Ireland is therefore only 17 per cent of the United Kingdom total; many changes of substantial importance to the three nations are consequently of little impact on the total.

Additionally, within the Scottish total, only 61 per cent is controlled by the Secretary of State for Scotland (the principal exclusions being social security and some industrial expenditure, which are administered by Great Britain departments). Over half of the Secretary of State's programme is incurred by local authorities, and much of the rest by other public agencies like Health Boards. Public expenditure in Scotland is not a monolithic block, and its construction and control are complex processes.

Within each nation, the largest programmes are not necessarily the greatest sources of variation. The largest of the 14 functional public expenditure programmes is social security - 24 per cent of the total in Scotland (table 2). But, with uniformity of organisation and entitlement, per capita provision relative to the United Kingdom average ranges only from 4 per cent below (Scotland) to 9 per cent above (Northern Ireland); the rankings reflect age and workforce structure as well as the impact of recession. The biggest

national leads are in the smaller programmes, and particularly striking in Northern Ireland's lead in industry (3½ times the average), agriculture (4 times) and law and order (3 times), and Wales' in industry (nearly twice). England's levels are stabilised by its dominance of the total, but noteworthy is its low agriculture expenditure (a reflection of a small farming sector) and, most significantly, low industrial expenditure, consistently 20 per cent below the United Kingdom and little more than half of Scotland's.

For Scotland, the most impressive characteristic is the consistent expenditure advantage in three of the major social programmes - health, education and housing, which in 1980-81 were respectively 19 per cent, 22 per cent and 40 per cent above the United Kingdom per capita average (table 2, column 3). This characteristic is shared with Northern Ireland but not with Wales. Other programme advantages are even more marked, but perhaps less significant in policy terms. 'Other environmental services' expenditure (39 per cent above) is influenced by the inclusion of water services in rate fund expenditure in Scotland but not elsewhere; agriculture (48 per cent above) and transport (42 per cent above) reflect the geography and economic structure; and industry (55 per cent above) is well below the level of Northern Ireland and Wales despite Scotland's concentration of declining industry. But, although the explanations may differ, Scotland records expenditure advantages on all the main programme areas except law and order.

The danger in these calculations that misleading results may arise in any one year makes evidence over time particularly valuable. Table 3 gives Scottish expenditure levels by programme for the six years 1975-81. This shows that, while the total has remained stable, some of the components have not. The most variant elements are industry and agriculture (increasing in the mid 1970s and consistently high) and housing and transport (increasing towards the end of the decade), along with the three residual and fluctuating programmes of nationalised industry lending, other public services and common services. The result has been a general overall stability latterly buoyed up by housing and transport.

The use of index numbers tends to conceal the fact that increases in relative territorial shares imply nothing about absolute levels

TABLE 4 THE SHIFT FROM LOCAL TO CENTRAL GOVERNMENT EXPENDITURE IN SCOTLAND 1975-1981

£m at constant 1980 survey prices	SCOTTISH OFFICE			SCOTTISH LOCAL AUTHORITIES		
	1975-76	1980-81	% change	1975-76	1980-81	% change
Agriculture	114	142	+24.6	2	2	-
Industry & Employment	42	129	+207.1	0	4	-
Transport	98	84	-14.3	286	271	-5.2
Housing	261	337	+29.1	458	269	-41.3
Other Environmental Servs	7	14	+100	516	402	-22.1
Law & Order	45	57	+26.7	214	212	-1.0
Education	130	152	+16.9	988	870	-11.9
Health & Social Work	1,018	1,078	+5.7	153	192	+25.4
Other public services	59	55	-6.8	27	30	+11.1
TOTAL	1,774	2,048	+15.4	2,644	2,254	-14.3

Source: adapted from House of Commons Hansard 13 April 1981, Vol 3, cols 31-32 written answer.

of expenditure. In the 1960s, total public expenditure was rising, very markedly in some social programmes, and the debate was about the allocation of the increment. In the 1970's climate of stable or declining aggregate totals, territorial trends basically reflect relative success in protecting national programmes against cuts. In fact, between 1975-76 and 1979-1980, Scottish Office's other environmental services programme fell in real terms by 11.1 per cent, housing by 11.1 per cent, education by 5.2 per cent and transport by 2.6 per cent - but in all these programmes Scotland's relative position improved over the period<sup>(7)</sup>. Cuts elsewhere were more severe, and Scotland's position was more than adequately protected. Total public expenditure in Scotland declined in real terms from 1976 to 1979, and rose by only about 6 per cent between 1974 and 1980 despite more than doubling in current pounds terms (table 3). More recent analysis on this basis is inhibited by the move to cash planning of public expenditure.

Moreover, this stability of real expenditure conceals shifts in expenditure by spending authority. Table 4 shows that expenditure within the Secretary of State's responsibility declined by 4.1 per cent in constant price terms between 1975-6 and 1980-1, but that the local authority element fell by 14.3 per cent while central government's increased by 15.4 per cent. In 1975-6 the Scottish Office programme was 38.7 per cent central government, 57.6 per cent local government and 3.7 per cent public corporations (the Scottish-based corporations like the South of Scotland Electricity Board and the Scottish Transport Group); in 1980-81 the split was 46.6-51.2-2.2. Central government is increasing its share for two reasons: the fastest-expanding areas like industry and agriculture are central responsibilities and, within contracting sectors like housing and education, it is central government expenditure like housing subsidies and further education that is most protected. This trend scarcely amounts to an attack on local expenditure, as COSLA and others have suggested, because of the primacy of functional considerations which make local authority education, housing and environmental services almost inevitable instruments for delivering cuts. But it does reveal the changing salience of the various types of expenditure that go to make up the aggregate total.

## II The Meaning of 'Excess' Expenditure

The evaluation of the 'headline' figure of identifiable public expenditure per head is less simple than it first appears. But, even after allowance is made for the limitations of the indicator as a key to the analysis of public expenditure, a more fundamental critique of it remains. Part of this critique is technical. Firstly, problems surround the 20 per cent of expenditure (defence, overseas representation and debt interest) that has never been attributed by nation on the basis that it is 'incurred on behalf of the United Kingdom as a whole'. This neglects the fact that, although as public goods their value is collective, much of these expenditures are disbursed in particular locations - armed forces' pay, defence equipment purchases, debt interest on particular projects. Although the Catto Committee argued that 'an analysis of defence expenditure which would debit to Scotland the cost of maintaining the naval base at Scapa Flow... would in our view be meaningless', the question is far from clear, particularly whether 'debit' or 'credit' is the appropriate concept<sup>(8)</sup>. Short's estimates on regional defence expenditure (on a per capita index, averaging the years 1974/75-1977/78) show a regional range from 50 (Yorkshire) to 205 (South West). Scotland, with below average defence employment, stands at 80, and Northern Ireland at 101, but Wales, lacking both personnel and contracts, is only 51<sup>(9)</sup>. The premise of the Treasury calculations is that gain from an expenditure is to be identified with its location; this may be questionable, but it is illogical to deny it in some programmes but not others, when attribution is equally possible.

Secondly, the use of per capita figures as a benchmark, while it is a simple way to standardise for the varying population sizes of the four nations, is an inadequate measure of the effect of population characteristics on public expenditure. A concentration of young, old or economically inactive people will make a heavy demand on public services, and some form of weighted population indicator as employed by the Needs Assessment Study is necessary to make realistic comparisons.

A third problem is that the figures for Northern Ireland, which have attracted so much interest, are suspect because of the uneven attributability of expenditure. Northern Ireland has a demarcated

system in which virtually all identifiable expenditure is controlled by its Secretary of State; the separation is less clear-cut for Scotland and Wales. The result is that much of the minority of non-identifiable expenditure in programmes like industry and transport is likely to fall within Great Britain rather than Northern Ireland; the present method of calculation exaggerates Northern Ireland's lead. It has been calculated that the true lead over Great Britain programmes is 30 per cent rather than 50 per cent, against which Scotland's 20 per cent looks relatively more favourable<sup>(10)</sup>.

A final technical reservation is the way that the four nations of the United Kingdom are treated as equivalent despite their enormous disparity in size. This makes sense in terms of the public expenditure decision-making process, but it ignores the considerable variations that must exist between the English regions. Analysis of public employment - where data is more readily disaggregable - reveals wider variations among the English regions that the four nations, with only the Northern Region outranking Scotland for public sector jobs<sup>(11)</sup>.

John Short has attempted to overcome these limitations of official data by making an ambitious analysis of public expenditure in the three nations and the eight standard English regions between 1969 and 1977. As well as disaggregating the English total, Short goes beyond the official data by attributing the location of the production of all inputs to public sector services even if these are for collective national benefit: this is made possible by using Ministry of Defence data on the location of defence establishments and a variety of proxy measures of consumption patterns to allocate subsidies. The result is an estimate of total expenditure 'in' each region covering over 98 per cent of United Kingdom total expenditure on programmes as well as one of 'regionally relevant' or 'for' expenditure covering 80 per cent of the total and comparable to the official series. In addition, Short has produced estimates of the total revenue raised in each region.

The data for Short's latest year, 1977-78, are summarised in table 5. They show that for regionally relevant expenditure the Northern region is the only part of England clearly above the United Kingdom average, on a par with Wales but below Scotland and Northern Ireland. The South East and North West lie around the average, but the other English regions are well below it, four of them - the South

West, East Anglia, and the East and West Midlands - clustered at about 15 per cent below. This pattern is stable over the two previous years. The effect of measuring total expenditure, the principal additional component of which is defence expenditure, is to improve the position of the South West considerably, to above the average, and moderate the advantage of Scotland, Wales and Northern Ireland. Wales falls to the average, and Northern Ireland's lead is cut to 30 per cent. Within England, the South East and East Anglia improve their resource gain on this wider measure, but Yorkshire and the West Midlands lose. Short's data on the revenue raised in each area show that the North and the South West are the only English regions with a net inflow of funds, and that spending in Northern Ireland is over half as much again as the tax yield. This mutually reinforcing evidence shows how much variation is subsumed in 'England' but also confirms that the North is the only English region to match the level of public resource input found in Scotland, Wales and Northern Ireland.

TABLE 5 PUBLIC EXPENDITURE IN THE STANDARD REGIONS

1977-78 Index per capita: United Kingdom = 100	1. Total expenditure (in region)	2. Regionally relevant expenditure (in and for region)	3. Revenue collected by central and local government	4. Net inflow (difference between 1. and 3.)
1. Northern Ireland	130.6	141.6	75.8	+54.8
2. Scotland	114.8	122.2	95.0	+19.8
3. South East	106.3	100.8	116.1	-9.8
4. North	105.4	109.7	92.4	+13.0
5. South West	103.4	85.1	92.4	+9.0
6. Wales	99.2	108.5	89.5	+8.7
7. North West	93.7	99.8	94.3	-0.6
8. East Anglia	90.2	84.4	93.6	-3.2
9. Yorkshire and Humberside	87.4	93.3	94.0	-6.6
10. East Midlands	82.2	87.4	96.4	-14.2
TOTAL sum UK £bn	56.17	46.14	49.03	

Source: John Short, Public Expenditure and Taxation in the UK Regions (Farnborough: Gower, 1981) Tables 4.12, 5.12, 6.12, 8.1

Beyond this series of problems, the notion of 'excess' expenditure in some parts of the United Kingdom is, more fundamentally, an unsound one which confuses at least four concepts:

- i) variations in public sector structure caused by socio-economic characteristics (industrial and demographic) and the public infrastructure (nationalised industries, transport links, public housing stock);
- ii) cyclical variations: fluctuation in economic activity, and its effect on public industrial and employment policy, has an uneven territorial impact;
- iii) varying territorial salience of United Kingdom policies: although the criteria for programmes like regional industrial aid, new towns and urban regeneration may claim to be objective and not territorially biased, they are open to bargaining and tend to benefit some areas more than others;
- iv) differential standards of provision conceded in some parts of the United Kingdom but not in others is harder to identify; examples in Scotland are four-year undergraduate courses, denominational education, a high level of medical training places, special aid to crofters, and the Scottish Development Agency. Bilingual provision in Wales is another example.

The first three categories of variation reflect the fact that the presence and character of public policies varies from place to place; consequently, the territorial pattern of public expenditure will be dispersed around the United Kingdom norm. There is scope for bargaining and pork-barrel, especially in the definition of new policies, but the bias is not a structural one. It is only in the fourth category that policy inputs vary by territory, but the differential provision involved is typically trivial in relation to total public expenditure.

Implicit in the way that the expenditure indices are usually deployed is the suggestion that they reveal the compromise of the unitariness of the United Kingdom and might provoke a backlash from 'underprivileged' England. But it is much more plausible to regard them as the expression of a basically consistent and need-based approach to public services. The structure of public expenditure control in the

United Kingdom - operated by officials and resting more on managerial monitoring than on political pleading - makes it difficult for egregious sectional advantage to be sustained. The interesting questions are not so much the aggregate totals as the ways that the special channels of advocacy open to Scotland, Wales and Northern Ireland are used to promote particular policies and defend the disparities that have emerged.

Central to the issue is the definition of 'need'. This is the legitimate justification for variations in expenditure, but it is not well operationalised as a concept and tends to be an amalgam of political and socio-economic argument. One result of the devolution debate was to force the Treasury to open the Pandora's box of the justification for spending differentials, in order that the block grant to the devolved administrations could be seen to be based on defensible principles. The Report of the interdepartmental Needs Assessment Study in 1979 demonstrated that much of the disparity could be disposed of through simple need indicators like number of school pupils, number of public sector houses and road mileage, but that in the end an increment remained for Scotland and Northern Ireland - in Scotland's case, a 22 per cent expenditure advantage over England in the six main devolved programmes in 1976-77, but only a 16 per cent assessed greater need<sup>(13)</sup>.

From Scotland's point of view, the relative public ignorance of the report was merciful, not so much because of the headline figure, which is liable to qualifications, but because of a pattern that emerged in some major social services of somewhat greater need but markedly greater provision - in health and social work a 7 per cent greater need but 16 per cent greater expenditure. In housing, the 29 per cent greater expenditure was at least justified (on a methodology and weighting somewhat unfavourable to Scotland); but this contrasts with Wales' historically low housing expenditure despite above average need, the main reason why Wales emerged as 'underprivileged' from the study. In the report, some disagreements between departments are recorded: for instance, a minority view on the weighting of morbidity would have increased the Scottish relativity on health and personal social services (with England at 100) from the 107.1 adopted by the majority of the group to 118.0<sup>(14)</sup>. Treatment of variables speci-



fic to not all of the nations, like bilingualism, denominational schooling and historically low levels of public sector housing rents, also presented difficulties. The study provided evidence of how well the Scottish Office had argued the case over the years for special provision for Scottish needs and circumstances. The methodology of the study must have put Scottish Office on the defensive; but in practice the study could not provide a basis for future expenditure planning, as it sought to put on objective ground matters which are the subject of political debate and interpretation.

### III The Process of Expenditure Planning

The debate about public expenditure levels is often a historical and retrospective one, but the planning process within government is a permanent one in which past patterns interact with government objectives for the future. Once territorial differentials are revealed, they are a challenge to action - or at least to defensible inaction. Unfortunately, public expenditure planning in Scotland is particularly impenetrable, because on top of the Whitehall PESC system are bilateral interactions between the Treasury and Scottish Office Finance Division, which since 1971 has managed the financial business of all the Scottish departments. The Division has the delicate task of maximising Scotland's share of public expenditure and deflecting unwelcome attention from Whitehall departments about Scotland's 'more than fair share' position.

In 1978 an important change occurred in the character of the bargaining process between the Scottish Office and the Treasury. In place of the previous argument of the Scottish case programme by programme, with only limited scope for the Secretary of State to manipulate the total expenditure under his control, a mechanical formula was devised for determining total Scottish Office (and Welsh Office) expenditure. The switch to a formula system is likely to have been influenced by the plans for devolution under the Scotland Act, which would have involved a block grant to the devolved administration without the detailed referral to the Treasury on programme detail found in the past. The idea of the formula is to apportion changes in equivalent blocks of expenditure between England, Scotland and Wales on the basis of a fixed ratio (which is close to the relative population shares of the three nations) rather than by separate argument on each programme.

It was agreed to use an 85-10-5 per cent formula for allocating marginal changes between England, Scotland and Wales. Scotland's 10 per cent contrasts with the 12.1 per cent under the Goschen formula (11/80ths of England and Wales, based on 1913-14 population); used to allocate Scottish education expenditure between 1918 and 1959, this also had considerable normative effect.

It may be surmised that Scottish Office ministers and officials saw advantage in a formula system at a time of a general downwards trend in public expenditure and in the light of the findings emerging from the Needs Assessment Study. As Peter Rendle, the Principal Finance Officer, told the Select Committee on Scottish Affairs in 1980:

'I think it was calculated that the arrangement was advantageous because public expenditure control was getting tighter and more complex and that the days of table-thumping were ceasing to have their effect. This was the consideration that was borne in mind in accepting this arrangement'<sup>(15)</sup>.

The 'days of table-thumping' were probably brought to an end by the weakened political position of the Scottish Office following the devolution referendum of March 1979, which brought an end to the pre-occupation with devolution that had so heavily involved Whitehall in Scottish matters in the mid-1970s, and the election of a Conservative government in May 1979 not dependent upon Scottish MPs for its majority. But the publication of the Needs Assessment Study in late 1979 seemed to have little public impact, and the protection that the formula gave to Scottish expenditure was enhanced once it was put on the public record in 1980 and discussed at the 1980 select committee meeting. Subsequently the committee has taken a close interest in the formula at its annual sessions on Scottish aspects of the public expenditure white paper, where the Secretary of State presents it as a useful tool for the pursuit of Scottish priorities and the maintenance of his own authority in Whitehall.

The effect of the new system is twofold. The fact that the 10 per cent formula figure is rather less than Scotland's actual present share (estimated at nearly 11 per cent) moderates the impact on Scotland of changes in public expenditure - both increases and decreases are smaller than in England<sup>(16)</sup>. Secondly, it ties the trajectory of Scottish public expenditure to developments in England in services comparable to those administered by the Secretary of State for Scot-

land (such as education, health and housing). Within the formula total, the Secretary of State gains freedom to switch funds between 'traditionally Scottish' programmes, though at the insistence of the Industry and Agriculture departments in Whitehall, concerned to enforce common United Kingdom policies, these services are excluded from the switching 'block'. The Secretary of State gives up his right to make substantive functional arguments about his programmes, but is shielded from the full brunt of cuts and may protect some expenditure heads at the expense of others. A formula conceived by the Treasury to equalise territorial shares by differential growth has the opposite effect when aggregate public expenditure in the equivalent programmes is falling, as it has since 1979-80. Scotland would get less than its fair share of growth, but is presently getting less than its fair share of cuts. This makes the formula advantageous for Scotland at present, and no doubt somewhat unwelcome to the Treasury.

In place of the traditional special pleading for Scotland, the new system rests on constant monitoring of discussion about English expenditure. The government's annual public expenditure white paper in March is the culmination of a year of planning in the Scottish Office, uniting general guidance from Finance Division with discussion within the functional departments. Consideration of each programme involves the appropriate finance Assistant Secretary, head of department, and junior minister, followed by corporate reconciliation by ministers and senior officials and final decision by the Secretary of State. The whole process seems to be characterised by amity and give-and-take, and the combination of separate appraisal of each programme and authoritative choice by the Secretary of State gives strength to the system.

By autumn, debate reaches Cabinet level, co-ordinated by the Chief Secretary to the Treasury. At this stage, dispute between the Treasury and the spending departments around the Cabinet table may become fierce, but the Scottish and Welsh secretaries must have a rather more detached relationship to it now that the formula system is in operation. During this process, Scottish Office is in a difficult position - considering switches within a block whose size fluctuates according to the relative success of English ministers in preserving their programmes; good intelligence is essential to ensure that the formula is applied accurately. In major spending fields like housing and education, a

weak English minister or one committed to cuts may have a seriously adverse impact on the Scottish programme; in the present government, Michael Heseltine and Sir Keith Joseph must have caused some fears. The result is that the expenditure parameters for Scotland - so important for particular public services, and the general relationship between central and local government - are determined by a procedure which is detached from the political debate about Scottish policies.

The real effect of the switching power is difficult to evaluate because of the way that public expenditure data is published. In evidence to the Select Committee on Scottish Affairs in June 1982, George Younger said that in the 1981 PESC round he had allocated rather less to transport and housing and rather more to education and law and order than his English colleagues had done<sup>(17)</sup>. Given the immobility of much of public expenditure, and the constraints of United Kingdom policy uniformity, it would be unrealistic to expect more than marginal shifts between programmes. Adjustments in priorities also seem to fluctuate from year to year. But the formula is more than a cosmetic change in procedure. The block arrangement gives real new discretion to the Secretary of State, and if this is not exercised to the full it is because his judgement on expenditure priorities is unlikely to be much different from that of his English colleagues.

The new system was completed by the separation of Scottish and Welsh expenditure into territorial programmes in the 1981 public expenditure white paper (Northern Ireland always having had one). Scottish Office was keen to achieve this so that it could consolidate its vote estimates (which follow the PESC programme structure) and so gain more flexibility in the operation of cash limits, which cover half of the programme. The new programmes do not cover all public expenditure in the two nations, but only the two-thirds (Scotland) and half (Wales) controlled by the Secretaries of State; they exclude the main programmes planned to expand, social security and defence. The effect of the formula may be seen by comparing the components of these programmes with their English equivalents. Table 6 shows the latest plans in the current price terms used in the 1982 public expenditure white paper, and should be read in the light of the fact that on the government's assumptions on price movements an average cash increase of 56 per cent between 1979-80 and 1984-85 would be needed to maintain

expenditure in real terms<sup>(18)</sup>. It is clear that cuts planned for Scotland and Wales over the life of the Conservative government are less severe than in England, with Northern Ireland doing even better. Overall, the Scottish cut is marginally more severe than the Welsh, a contrast to the plans in the 1981 white paper, which shows that the pattern of decisions on English programmes during 1981 has had a more severe impact on the mix of expenditure found in the Scottish programme than on the Welsh. Within the programmes, the effect of the switching power is becoming apparent, with Wales protecting transport and other environmental services and Scotland housing. In every functional programme apart from other environmental services Scotland is planned to gain expenditure relative to England. There is every chance that Scotland's 20 per cent lead in public expenditure will be maintained under a formula that effectively - and ironically - protects it.

TABLE 6 PLANNED CHANGES IN PUBLIC EXPENDITURE  
1979-80 to 1984-85

% change, cash	Scotland	England	Wales	N. Ireland
Agriculture	+46.3	+15.8	+66.7	+1.4
Industry & Employment	+65.2	+15.9	+49.3	+42.9
Transport	+50.5	+49.3	+61.6	+6.2
Housing	-12.0	-39.1	-38.7	+62.8
Other Environmental Servs.	+32.5	+40.3	+42.2	+63.5
Law & Order	+89.3	+81.5		+62.1
Education	+49.7	+39.6	+50.5	+49.1
Health & Pers.Soc.Servs.	+75.2	+71.4	+75.0	+70.2
Total (including other programmes)	+46.7	+39.9 <sup>a</sup>	+49.8 <sup>a</sup>	+52.4 <sup>b</sup>

**Notes:** <sup>a</sup>law and order (England and Wales programme) apportioned according to 1979-80 actual expenditure

<sup>b</sup>excluding social security, for comparability

**Sources:** The Government's Expenditure Plans 1982-83 to 1984-85 (London: HMSO, Cmnd 8494 March 1982) Table 2.15 (Scotland) 2.16 (Wales), 2.17 (Northern Ireland); English expenditure from equivalent components of functional programmes - Table 2.3 (MAFF), 2.4 (4.1), 2.6 (6.1 and 6.2), 2.7 (total programme), 2.8 (total programme), 2.9(HO and LCD) 2.10 (10.1), 2.11 (total programme). These are broadly but not precisely equivalent.

#### IV Conclusion

Data on aggregate public expenditure in Scotland is far from perfect, and the concepts of need and entitlement that underlie its analysis also lack clear definition. But there is evidence of persist-

ing advantage that seems to involve a measure of real excess not attributable to structural explanation. Essentially, this reflects the failure in the 1960s and 1970s to develop mechanisms for the equitable allocation of public expenditure within the United Kingdom. The problem is to graft a limited amount of territorial determination on to a basically functional system. The way the system operates causes concern to the Treasury, for it tends to be territorially biased against England. Their strategic response has been to demarcate Scottish, Welsh and Northern Ireland expenditure, set parameters on its overall size, and then contract out detailed management to the departments in the three nations. The new formula - designed with devolution in mind - embodies this approach. But the system is neither comprehensive nor self-regulating: it does not cover all expenditure in the nations, and it has to live with an institutional imbalance whereby Scotland, Wales and Northern Ireland have their advocates in Whitehall who can affect the design of United Kingdom policies as well as make special pleas.

Scotland is continuing to benefit from this system, but the political justification for its expenditure level is somewhat precarious. The excess, apparently representing an over-fulfilment of response to need, is a tribute to the success of Scottish Office ministers and officials in building on Scotland's special circumstances to enshrine a higher standard of public sector provision. This involves particularly the protection of a distinctive institutional tradition in health and education, and the vigorous pursuit of housing and industrial development policies. The traditional Scottish Office strategy might be described as the protection of the historical base of expenditure coupled with the retention of the freedom and the means to argue for incremental policies. Now, as the Secretary of State agreed at the 1980 select committee meeting, the principle is 'what we have we hold', using the formula to head off the full impact of cuts at the price of falling behind English growth rates should public expenditure increase<sup>(19)</sup>.

The argument is reactive and defensive, concerned to protect a relative position and retain the national as well as partisan credibility of ministers. The Scottish approach works on exceptionalism: its spirit is captured by the remark of a Northern Ireland cabinet minister about Scottish devolution that 'we do not want any more provincial calves pulling at the one cow'<sup>(20)</sup>. Scotland has achieved that pull, and its position will not readily be yielded.

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