

SCOTLAND'S PUBLIC EXPENDITURE 'NEEDS'

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1. Introduction

The territorial allocation of public expenditure in the United Kingdom has traditionally been a submerged process, undertaken deep inside the governmental machine. The extensive transfers of resources from the prosperous to the poorer regions have been implicit rather than explicit. Geographical redistribution takes place because some areas have lower than average taxable resources and some (sometimes the same ones) have higher needs than average. Heald has examined in detail the spatial dimension of United Kingdom public finance.⁽¹⁾ Minimal attention has been paid to the emerging pattern of redistributive transfers. The central government departments have thought in functional rather than in territorial terms. Only the peripheral countries of the United Kingdom (i.e. Scotland, Wales and Northern Ireland) have possessed departments capable of developing a territorial vision of the impact of and needs for public expenditure. There is evidence that the Scottish Office in particular became aware of this advantage and exploited it within the internal governmental bargaining over resources.⁽²⁾

There has been a consistently low profile on expenditure comparisons. Not only were the government's accounting systems not geared to the production of such data but Ministers (both in the peripheral countries and in central departments) clearly preferred to have their disagreements in private. One of the lasting consequences of the 1974-79 debate on devolution has been to raise the issue of explicit comparisons of expenditure and of need. Jackson captures well the surprise in England about existing differentials:

'.... during discussion of the Scotland Bill in the

House [there] was an apparently sudden realisation by many MPs, who had English constituencies, that there was such a large difference between English and Scottish public expenditures and between tax revenues and tax contributions.⁽³⁾

Devolution may have left the political agenda but it has been let out of the box. How large are the differences between the four countries? How did they arise? Can they be reduced? What is their future?

II. The Evidence

The Kilbrandon Commission noted the inadequacy of the territorial analyses of both public expenditure and tax. The limited material in King had to form the basis for the available data is much better for countries than for regions in them. The heterogeneity within the four countries makes it difficult for comparisons. For example, it could be difficult to do land/North East of England comparisons would be more meaningful than Scotland/England ones.

There are two main sets of public expenditure data. The first is the annual series of identifiable public expenditure. The second is the tabulation in the 1979 Public Expenditure White Paper of Scottish devolved expenditure and its English equivalent. The fate of the Scotland Act 1978, this would have been a regular series. Great care is necessary in interpreting the data. First, identifiable public expenditure covers a much wider range of activities than devolved expenditure. Second, the different traditions of expressing them as indices of public expenditure, the base of 100 represents its value in the United Kingdom as a whole. For devolved expenditure, the index represents English equivalent expenditure, that is English

Identifiable Public Expenditure

The identifiable public expenditure figures are presented as an answer to a written parliamentary question. The Chief Secretary to the Treasury, explained the limitations as follows:

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as having been incurred in a particular country. In the case of Scotland and Wales it has a wider coverage than expenditure within the responsibility of the Secretaries of State and in the case of Northern Ireland it has a slightly wider coverage than the Northern Ireland programme in the public expenditure survey. It excludes debt interest and expenditure on defence, overseas aid and other overseas services which is incurred on behalf of the United Kingdom as a whole. Total identifiable public expenditure represents about 75 per cent of total public expenditure. The extent to which expenditure can be identified may vary from year to year and between countries, particularly for services administered on an England and Wales basis. The figures in the tables also reflect other differences in administrative arrangements: for example, current expenditure on sewerage by regional water authorities is treated as a trading expense in England and Wales and excluded from public expenditure; but in Scotland it is local authority rate fund expenditure and so is included in other environmental services as public expenditure. Total government net lending to nationalised industries is allocated to countries, industry by industry, pro rata to the industries' identifiable capital investment, and the amounts attributed to each country fluctuate from year to year because of the variability both of the aggregate lending figures and of the incidence of expenditure on large capital projects in particular countries.†(7)

Table 1 gives Scottish identifiable public expenditure, analysed by programmes, as a percentage of United Kingdom identifiable public expenditure for each of five financial years. It shows that the overall index for Scotland is reasonably steady around 120. There is less stability in the differentials at programme level. Nevertheless, the pattern of differentials is clear. Most programmes have an index value well above that for the United Kingdom. When interpreting Table 1, it must be remembered that relative programme sizes differ markedly and hence they have different effects on the overall index.

Table 2 shows the 1978-79 figures in greater detail and introduces comparisons with England, Northern Ireland and Wales. There are four parts to Table 2:

- (i) the top left hand side gives identifiable public expenditure in £ million;
- (ii) the top right hand side gives identifiable public expenditure as a percentage of that for the United Kingdom;
- (iii) the bottom left hand side gives per capita figures;

	SCOTTISH IDENTIFIABLE PUBLIC EXPENDITURE ¹				
	Scottish per capita as percentage of United Kingdom per capita.				
	1974-75	1975-76	1976-77	1977-78	1978-79
Agriculture, fisheries, food and forestry	154	141	188	188	201
Trade, industry, energy and employment	187	209	205	189	172
Government lending to nationalised industries ²	124	89	*	*	*
Roads and transport	123	125	132	146	145
Housing	112	126	117	126	128
Other environmental services	125	134	135	126	127
Law, order and protective services	94	97	96	94	94
Education and libraries, science and arts	120	117	117	118	118
Health and personal social services	116	118	116	118	119
Social security	101	100	103	103	102
Other public services	103	95	95	107	111
Common services	75	78	77	79	87
Total	117	119	120	120	118

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1 Mr. John Biffen, MP, noted about the relationship of these to other published figures: "The estimates below were compiled during the late summer of 1979. They use the terms and classifications of the public expenditure White Paper. The Government's Expenditure Plans: 1979-80 to 1982-83. Cmnd 7439, published in January 1979 and, for earlier years, may therefore differ slightly from those given in answers previously. The public expenditure totals on which the estimates are based correspond broadly to those of the Treasury analysis of public expenditure, published as a supplementary table in the September issue of "Financial Statistics", and they do not take account of a small amount of later information on expenditure, particularly for 1978-79, included in the White Paper "The Government's Expenditure Plans, 1980-81" (Cmnd 7746)."

2 Prior to 1976-77, the definition of public expenditure included the capital expenditure of nationalised industries. It was much more meaningful to provide an index for each country for this definition than for the new definition (net lending). From 1976-77, the published figures have not expressed this programme on a country by country index. (See also Table 2).

TABLE 2
IDENTIFIABLE PUBLIC EXPENDITURE IN 1978-79 IN THE FOUR COUNTRIES OF THE UNITED KINGDOM
(Provisional outturn at current prices)

	£ million				As a percentage of United Kingdom identifiable expenditure			
	England	Scotland	Wales	Northern Ireland	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry ...	319	166	60	146	58	19	7	16
Trade, industry, energy and employment ...	1,548	387	251	246	64	16	10	10
Government lending to nationalised industries	68	11	93	35	33	5	45	17
Roads and transport ...	1,902	337	161	104	76	13	6	4
Housing ...	4,215	618	200	189	81	12	4	4
Other environmental services ...	2,689	394	153	97	81	12	4	4
Law, order and protective services ...	1,842	205	89	207	79	9	4	9
Education and libraries, science and arts ...	7,770	1,061	488	344	80	11	5	4
Health and personal social services ...	7,483	1,028	468	316	81	11	5	3
Social security ...	13,330	934	934	521	82	9	6	3
Other public services ...	743	95	63	25	80	10	7	3
Common services ...	471	45	25	18	84	8	5	3
Total ...	42,579	5,892	2,986	2,247	79	11	6	4

	£ per head				As a percentage of United Kingdom identifiable expenditure per head			
	England	Scotland	Wales	Northern Ireland	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry ...	11	32	22	93	70	201	172	208
Trade, industry, energy and employment ...	33	71	34	23	77	172	208	246
Government lending to nationalised industries	1	2	4	4
Roads and transport ...	41	65	58	67	97	145	130	150
Housing ...	53	17	22	13	97	127	92	101
Other environmental services ...	28	40	32	135	97	127	92	101
Law, order and protective services ...	40	205	176	233	97	118	102	129
Education and libraries, science and arts ...	168	209	109	316	97	118	102	129
Health and personal social services ...	284	399	169	257	96	98	102	113
Social security ...	16	118	9	12	96	111	138	99
Other public services ...	10	9	9	10	100	87	92	116
Common services ...	919	1,138	1,079	1,460	96	118	112	152
Total ...	919	1,138	1,079	1,460	96	118	112	152

Notes: Figures are independently rounded and may not sum to totals. Government lending to nationalised industries is allocated to country, industry by industry, pro rata to the industries' identifiable capital investment. Since 1976-77 (when the public expenditure definition was narrowed), the published figures have ceased to express the individual country figures as a percentage of United Kingdom identifiable expenditure per head.

Source: Hansard, 26th November 1979, cols. 517-20.

(iv) the bottom right hand side gives each country's per capita figures as a percentage of United Kingdom identifiable public expenditure per capita (and hence is equivalent to Table 1).

Table 2 reveals a systematic pattern: Northern Ireland has the highest level, followed by Scotland, then Wales, with England having the lowest. Indeed, England is below the United Kingdom average on all programmes except the miscellaneous 'Common services' (and even here is just at 100). One of the major difficulties of such expenditure data is that they hide the undoubted diversity of expenditure levels in England. Short⁽⁸⁾ presented evidence on the within-England pattern of expenditure and the issue is discussed by Heald.⁽⁹⁾

Devolved Expenditure

The public expenditure White paper The Government's Expenditure Plans 1979-80 to 1982-3 (Cmd 7439) which came out in January 1979 published an analysis of Scottish devolved expenditure and the level of English equivalent expenditure. A considerable amount of work was undertaken within the Treasury to secure the highest possible level of comparability between Scottish devolved expenditure and its English equivalent. Given the repeal of the Scotland Act, the table was dropped from the 1980 Public Expenditure White Paper.⁽¹⁰⁾ Nevertheless the ratios of Scottish devolved : English equivalent expenditure remain of interest. Table 3 summarises the ratios calculated from the 1979 White Paper. Scotland's population is roughly 11.2% of England's population.

Secretary of State for Scotland's Programmes

Within the Public Expenditure Survey, the organising principle is functional. Amongst the 15 main programmes, the only exception is that Northern Ireland is treated as a programme. Expenditure in Scotland on education and health is included within, respectively, programme 10 (education and libraries, Science and arts) and programme 11 (health and personal social services). There is, however, a territorial analysis of the expenditure in Scotland within the Secretary of State's responsibility. This is reproduced as Table 4. This expenditure has been increasingly treated as a 'block' which the Secretary of State must negotiate with the Treasury. Once the overall totals have been agreed, the Secretary of State has enjoyed steadily growing discretion to allocate the increases/cuts according to his own

TABLE 3 SCOTTISH DEVOLVED EXPENDITURE AS % of ENGLISH EQUIVALENT

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Agriculture, fisheries, forestry	400.00	700.00	800.00	*	*	*	*	*	*	*
Trade, industry and employment	43.24	35.13	58.62	100.00	174.19	176.09	252.50	278.38	271.05	271.05
Roads and transport	12.79	12.80	13.38	13.41	16.08	16.12	16.07	15.99	15.91	15.92
Housing	19.62	13.48	14.32	14.50	15.44	14.94	15.13	15.19	15.51	15.92
Other environmental services	15.29	15.08	16.63	15.73	15.44	15.95	16.97	17.24	17.38	17.16
Law, order and protective services	10.42	9.65	9.84	9.93	10.11	9.83	10.06	10.35	10.28	10.24
Education, libraries, science, arts	13.18	13.31	13.76	13.47	12.86	13.18	12.96	12.91	12.91	12.89
Health and personal social services	13.59	13.46	13.64	13.50	13.60	13.75	13.67	13.72	13.73	13.74
Other public services	34.85	27.91	27.17	29.55	30.77	30.85	27.72	28.28	28.57	28.28
Common services	8.12	8.40	8.80	8.84	8.50	8.26	8.24	8.43	8.58	8.89
Total	14.56	13.49	14.08	13.97	14.29	14.49	14.63	14.68	14.74	14.69
Index (England = 100)	130	120	126	125	128	129	131	131	132	131

Notes: Refer to the original source for details of the problems of comparability which still remain. The figures in the table do not necessarily sum to the totals because of rounding. The index is calculated by dividing the total row by 11.2% (ratio of Scottish : English population). Note that England = 100 (not UK = 100). The odd figures in 'Agriculture, fisheries, forestry' are the result of very small totals: the asterisks indicate there is Scottish devolved expenditure but no English equivalent.

Source: Cmnd 7439, op.cit. 1979, Table 4.5.1 pp 210-211.

TABLE 4 EXPENDITURE IN SCOTLAND WITHIN THE SECRETARY OF STATE'S RESPONSIBILITY

	£ million at 1979 survey prices									
	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Agriculture, fisheries, food and forestry	181	119	137	109	95	132	110	110	110	100
Industry, energy, trade and employment	63	37	111	87	96	106	113	100	100	100
Roads and transport	304	320	299	307	325	313	303	300	280	280
Housing	752	742	710	671	652	702	603	520	470	410
Other environmental services	399	459	387	354	385	401	379	360	340	340
Law, order and protective services	198	212	210	199	203	217	221	220	230	230
Education and science, arts and libraries	933	979	964	936	941	945	900	880	870	860
Health and personal social services	946	975	990	1,000	1,046	1,041	1,067	1,080	1,110	1,120
Other public services	32	42	42	43	45	43	44	40	40	40
Common services	1	1	0	0	0	0	0			
Total	3,809	3,886	3,850	3,706	3,788	3,900	3,741	3,630	3,540	3,490

Notes: Figures in the table do not necessarily sum to the totals. VAT payable by local authorities is excluded. Forestry Commission expenditure is excluded from the 'Agriculture, fisheries, food and forestry' programme.

Source: Cmnd 7841, 1980, op.cit. pp 158-9

priorities (and hence independently of the original pattern implicit in the agreement with the Treasury).

It is difficult to ascertain the importance of formulae in the allocation of increases/cuts between the four countries. The Goschen formula of $\frac{11}{80}$ ths undoubtedly influenced such decisions long after its objective basis (1891 population) had crumbled. Because Scotland's population share had fallen, the formula became highly advantageous to Scotland.⁽¹¹⁾ Andren has explained how in the middle 1970s marginal increases in public expenditure in Great Britain came to be allocated on the basis of Scotland (10%), Wales (5%) and England (85%).⁽¹²⁾ This raises the question of whether some similar basis will be used by the Conservative Government to apportion expenditure cuts.

III. The Treasury's Expenditure Needs Assessment Study

Tables 1 to 4 were descriptive - simply detailing the actual pattern of expenditure. They provide cumulative evidence that there are substantial differentials between countries. This raises the fundamental question: what should these differentials be? With the prospect of Scottish and Welsh Assemblies financed entirely by block grants, this was a policy issue of major importance. The Treasury therefore mounted the interdepartmental 'Needs Assessment Study' which was intended to provide data and analysis for the block grant negotiations.⁽¹³⁾ The study was completed in early 1979 but then the referendums and General Election intervened. It was eventually published in December 1979, attracting minimal attention. Its publication was announced in a reply to a written parliamentary question.⁽¹⁴⁾ The introduction to the report notes: "Publication of this internal study reflects the Government's commitment to increasing the information available publicly on public expenditure matters."⁽¹⁵⁾ For reasons which will become clear, the Welsh Office pressed for and the Scottish Office resisted publication. But for the referendum results, its publication would have been viewed as a major political event.

Despite this lack of fanfare, it would be dangerous to presume that the study will not have lasting implications. The disagreements within government about whether it should be published (and in some sense endorsed) or quietly buried indicate that this was not the view

of the departments involved. As the study has now been placed on the public record, it can be seen to raise three sets of issues:

- (i) the relationship between actual expenditure in each of the four countries and their assessed expenditure need;
- (ii) the methodology used to generate the figures for assessed expenditure need;
- (iii) the prospects for Scotland's share of public expenditure in the light of the new evidence and of the exposure of expenditure differentials to the public gaze.

Assessed Expenditure Need

However carefully authors may qualify their results, there is a natural inclination to go straight to the 'bottom line' - i.e. the overall index (whether it is of actual expenditure or of assessed expenditure need). The short article in the Treasury Economic Progress Report on the publication of the study highlighted these (though it did emphasise the problems inherent in such data).⁽¹⁶⁾ Table 5 summarises the results using per capita expenditure in England as the base of 100. The overall need index for 1976-77 gives the following values: Scotland (116), Wales (109) and Northern Ireland (131). The corresponding actual expenditure figures for that year were Scotland (123), Wales (101) and Northern Ireland (136). Scotland and Northern Ireland therefore have higher values on the expenditure index than on the assessed need index. This implies that their present share of United Kingdom public expenditure is too high. The opposite result applies to Wales.

The study restricted itself to the main devolved expenditure programmes which are shown separately in Table 5. The report notes about actual expenditure:

'... whereas expenditure in relation to total population in Wales has kept closely in line with that in England, there have been marked variations in the allocations to Scotland and Northern Ireland...

It is also relevant to note that significant differences in expenditure per head have not been confined to one or two programmes...'⁽¹⁷⁾

and about its assessment of relative expenditure need:

'It is ... possible that the significance of the study will be misunderstood. At one extreme, the significance of the study may be exaggerated and the claim be made that its results should be reflected directly and without qualification in the actual expenditure allocations

TABLE 5 RELATIVE NEEDS - AS MEASURED BY OBJECTIVE FACTORS - FOR EACH EXPENDITURE BLOCK

(Presented as per capita ratios, England = 100)

	England	Scotland	Wales	Northern Ireland
HEALTH				
Hospitals and Community Health				
Current	100	108.6	105.3	108.4
Capital	100	103.7	108.1	87.2
Family Practitioner Services	100	108.8	111.0	113.9
Personal Social Services	100	100.8	102.7	103.1
Other Services	100	107.1	106.1	107.1
EDUCATION				
Schools				
Current	100	107.6	105.9	131.0
Capital	100	121.6	116.6	197.9
Further Education				
Current	100	97.6	92.3	107.8
Capital	100	94.5	85.1	67.2
Libraries and Other	100	104.7	102.3	112.3
HOUSING				
Capital Investment	100	120.3	113.6	173.5
Generalised Subsidies	100	150.6	82.1	105.4
Other Housing Assurances	100	139.0	132.3	201.8
OTHER ENVIRONMENTAL SERVICES				
Water Services	100	132.9	141.7	128.6
Local Environmental Services				
Current	n.a.			
Capital	n.a.			
Other Services	n.a.			
TRANSPORT				
Roads				
Capital	100	149.0	172.0	207.0
Current	100	173.0	155.0	199.0
Public Transport	100	108.0	35.0	24.0
Concessionary Fares	100	95.0	103.0	79.0
Other Services	100	144.0	131.0	155.0
LAW, ORDER AND PROTECTIVE SERVICES				
Administration of Justice and Treatment of Offenders	100	105.3	105.2	141.7
General Protective Services	100	111.1	99.3	94.3
INDUSTRIAL AND ECONOMIC				
Derelict Land Clearance	n.a.			
Factory Building	n.a.			
Industrial Activities	n.a.			
OVERALL NEED INDEX (1976-77)	100	116	109	131
SIMPLIFIED NEED INDEX (1976-77)	100	115	108	130
ACTUAL EXPENDITURE INDEX (1976-77)	100	123	101	136

Notes: The weights on each block in the construction of the overall indices are given by the proportions of English expenditure accounted for by that block. The simplified need index is based on the smaller number of indicators (those italicised in Table 6).
n.a. = not available.

Source: Treasury, op.cit. p.5,30,45,46.

for future years. At the other extreme, admitted weaknesses in the methods and data might lead to the argument that the results are meaningless and should be totally ignored. Neither view is correct: the study does not provide a method of determining allocations, but is a display of relevant data designed to help towards better-informed judgements. (18)

The Methodology

The report notes:

'It is a long-established principle that all areas of the United Kingdom are entitled to broadly the same level of public services and that expenditure on them should be allocated according to their relative needs. (19)

What would have been changed by the establishment of the Scottish and Welsh Assemblies (and the calculation of the block grants) was the degree of explicitness of such processes. But despite such statements of principle, there had been

'no previous study either to assess whether present allocations were in conformity with that principle or to devise a systematic method for determining (or assisting in the determination of) future allocations. (20)

During the past two decades, there has been a major switch of public expenditure in favour of Scotland and Northern Ireland. This is demonstrated clearly by the following figures for identifiable public expenditure on the six main programmes covered by the study (but not adjusted to exclude non-devolved items). In 1959-60, the relativities were: England (100), Scotland (105), Wales (95) and Northern Ireland (88). They look very different in 1977-78: England (100), Scotland (128), Wales (100) and Northern Ireland (141). (21)

It is a formidable task to produce assessments of expenditure need whether this is for countries, local authorities (Rate Support Grant) (22) or health boards (Scottish Health Authorities Revenue equalisation - SHARE). (23) It is also a task which must be performed - usually with far from ideal data. The demanding nature of the problem must be emphasised lest my comments on the Treasury methodology might seem to underestimate the difficulties confronting any methodology. (24)

If devolution had gone ahead, considerable attention would have been paid to the Treasury methodology in the same way that the earlier 'Scottish Budget' was evaluated. (25) Given no devolution (but substan-

tial potential importance for Scotland's future allocation of public expenditure), it is necessary to stress the limitations of the Treasury methodology. This is done briefly, and as non-technically as the subject matter allows. There is a fuller discussion by Heald in a book which was completed before the publication of the study and which had to rely on a less precise knowledge of the methodology. (26)

There are five major points which should be made about the methodology:

(1) The study draws a sharp distinction between:

- (a) the measurement of the absolute level of need;
- (b) the assessment of the relative needs of different geographical areas.

'Assessing the relative needs of different geographical areas is a technical matter of determining the amounts of money needed to pursue the same policies in different parts of the country.' (27)

The distinction is important. Nevertheless it is a serious overstatement to describe the assessment of relative need as 'a technical matter' because:

- (i) the definition of 'same policies' is exceedingly troublesome (see (3) below);
- (ii) the choice of which country is taken as the base has far-reaching implications (see (4) below).

(2) Great emphasis is placed upon the distinction between 'objective' and 'subjective' factors. Neither of these terms is neutral. The former is mainly used in the study to refer to demographic structure and social indicators. These are only 'objective' if there is some testable hypothesis about the need-generating process. The latter implicitly relate to preference factors. In some contexts, these may reflect party political differences (e.g. attitudes to public sector housing and rents). More generally, they encompass both the process of perceiving needs, and attitudes towards the use of public expenditure to satisfy whichever needs are perceived.

Table 6 provides a listing of the objective factors which the study concluded were relevant to the expenditure blocks. Those stated to be the most important are underlined. The methodology of identifying such factors is a crucial step:

TABLE 6 THE OBJECTIVE FACTORS

(Note: factors of major importance are italicised and are the basis of the simplified need index)

(i) HEALTH AND PERSONAL SOCIAL SERVICES

Hospitals and Community Health:

Current:

Size of population; structure of population; morbidity; social deprivation; fertility; marital status; sparsity; teaching responsibilities; resource cost differences; cross-boundary flows; special post-graduate hospitals.

Capital:

As on current plus shortfall in volume or quality, locational unsuitability, design unsuitability of existing capital stock. Replacement of capital stock. (All factors are of importance, but in the simplified need index calculations only the factors in italics under current expenditure were taken into account.)

Family Practitioner Services:

Size of population; structure of population; morbidity; deprivation; fertility; sparsity.

Differing social habits in the use of the family practitioner services were recorded as a subjective factor.

Personal Social Services:

Size of population

65 and over: numbers living alone; poverty (low income); quality of housing.

Under 18: numbers of single-parent families; density.

18-64: poverty.

(ii) EDUCATION

Schools

Current:

School population; age distribution; sparsity; population decline; deprivation; pupils taking school meals; proportion supplied free; numbers of nursery-age children; age of buildings; seniority distribution of teachers; resource cost differences.

A number of subjective factors were also recorded:

Bilingualism; graduate-only teaching profession; curriculum differences; denominational schooling.

Capital:

Lack of pupil places; overcrowding; substandard places; deprivation; reorganisation; shortfall of nursery and handicapped places; resource cost differences.

Further Education

Current:

Numbers of students (subdivided by - level of course, type of course) Resource cost differences.

Capital:

Lack of student places; locational mismatch; purpose mismatch; resource cost differences.

Libraries and other

Total population; youth population; school population; sparsity; youth unemployment rates.

Bilingualism was recorded as a subjective factor.

(iii) HOUSING

Capital:

Household/dwelling balance; substandard dwellings; obsolescent housing; overcrowding; homelessness; special needs (i.e. elderly and handicapped); volume of difficult-to-mortgage property; housing needs resulting from sectarian difficulties (Northern Ireland).

Current:

Generalised Subsidies:

Number of public sector dwellings; factors affecting costs per dwelling - loan charges, age, house type e.g. highrise, flat roof, non-traditional construction, sparsity; factors affecting income per dwelling - size, quality of surrounding environment.

Differences of view between countries were also recorded on the extent to which public sector housing was intended to fulfil a social service role.

Housing Assistance:

Public and private tenants having low income.

(iv) OTHER ENVIRONMENTAL SERVICES

Water Services:

Population growth and shift (urban/rural location)

Industrial growth and shift (weighted to reflect relative water usage and relative effluent generation by different industries); rising throughput per head; inequalities in present standards of service (e.g. badly polluted rivers, ineffective sewerage and sewage treatment facilities, poor quality drinking water); rate of deterioration of existing assets; cost variations due to geography, topography, geology (including lengths of haul, e.g. of water from conservation point to consumption point).

Local Environmental Services:

Size of population; relative density of population; relative sparsity of population; capital investment levels; availability of disposal sites; types of industrial waste.

(v) ROADS AND TRANSPORT

Road Construction and Improvement:

Capital:

Congestion on urban and non-urban roads; substandard roads; new housing and industrial development; communities suffering severe environmental damage; needs of the less developed and inner city areas.

Current:

Road mileages and type; existing surface standards; heavy vehicles usage; proportion of urban roads; climatic conditions; resource cost variations.

Public Transport

Capital:

Replacement needs of existing stock; gap between actual stock and warranted stock as determined by population in different areas and the availability of alternative transport.

Current:

Warranted/actual public transport; fleet size and type; elderly; blind; disabled.

(vi) LAW, ORDER AND PROTECTIVE SERVICES

Administration of Justice and Treatment of Offenders

Population; number and types of crime (in particular crimes of violence); families of moderate means.

Factors which could be interpreted as being of a more subjective nature are:

Greater propensity in some areas to make use of the courts; differences between countries in structure of legal aid; differences between countries in court procedures leading to greater use of a higher court; police strength in relation to incidence of recorded crime; differences in sentencing policy.

Note was also made of the special circumstances relevant to Northern Ireland.

General Protective Services (other than Police)

Number of buildings and other installations in the various categories of high fire risk; population density/sparsity; numbers of school children.

(vii) INDUSTRIAL AND ECONOMIC ACTIVITIES

Derelict Land Clearance

Areas of derelict land by type e.g. pits, heaps, buildings, etc.; urban or rural location; difference in costs of clearance arising from topography.

Factory Building

The population as a whole; needs of the New Towns; areas of high unemployment; areas with a concentration of declining industries; costs of land purchase and construction; need to refurbish factories; general availability of vacant factory floor-space.

Industrial Development Activities

Areas of high unemployment; areas with a concentration of jobs in declining industries; variations in construction costs (where applicable).

Note: Activities covered by this block are in practice also determined by opportunities for investment presenting themselves and thus have a passive element not reflected in the above factors.

Source: Annex B of Treasury, op. cit. pp 35-39.

'... the view of the Departments concerned was that a fairly clear distinction could be drawn between the two, three or four factors of major importance and the rest.'⁽²⁸⁾

It is difficult to find in the report any explicit criteria for selecting the objective factors other than that those departments involved in the study agreed them. The full listings of objective factors in Table 6 are very long. They might all be relevant; equally they might not. Criteria are required for selecting variables and for assigning them weights (i.e. making explicit their relative importance). Academic studies of variations in per capita expenditure between jurisdictions have used the framework of multiple regression analysis to choose both factors and weights. This has been the method of constructing the needs element of the English and Welsh Rate Support Grant. The serious flaws in the latter approach have been well-documented.⁽²⁹⁾ One of its offsetting advantages is that the criteria for selecting factors and assigning weights are both explicit and grounded in statistical theory. In the Treasury methodology, these both depend on 'expert judgements' for which there are no external validating criteria.

Even within the regression framework it is very difficult to separate 'need' from 'preference' variables. It is well-known that urban local authorities tend to have a higher level of per capita spending than rural ones. This is open to different explanations:

- (i) urban areas have higher needs than rural areas;
- (ii) urban electorates choose politicians more favourable to public expenditure than their rural counterparts;
- (iii) some mix of (i) and (ii) above.

Multiple regression techniques find it difficult to differentiate between (i) and (ii) because of the high correlation between urbanisation and Labour representation. The needs element distribution formula in England and Wales has been sharply criticised for focusing on (i) exclusively and for neglecting the role of (ii).

The Treasury study does make one important use of the 'objective'/'subjective' dichotomy. This is to distinguish between;

- (a) factors outside the direct control of the public authority providing the service - the examples cited are demographic and geographic ones such as, for education, numbers of pupils, their age distribution, geographical location and home circumstances.

- (b) factors within the control of the public authority and which were the result of policy decisions - such as, for education, pupil/teacher ratios, bilingualism and denominationalism.

This is clearly a distinction relevant to the decision as to which variations in expenditure should be compensated for and which should not. The line drawn above could be challenged. It becomes a very hard line to draw in services which have much more variable participation rates than education (e.g. personal social services, public sector housing and cultural provision such as museums and libraries). It should also be stressed that in the long term the policies pursued in different localities may have profound effects upon the demographic structure (particularly at the local authority level). Redistributive policies in urban authorities may accelerate the process of high income group migration to suburban areas. Similarly, the suburban authorities may attempt to keep out low income groups (e.g. by not providing public sector housing).

(3) General statements of policy (such as appear in legislation and White Papers) are rarely explicit enough to provide a secure foundation for the process of establishing the relative cost of applying the same policies in all four countries. The Treasury study concluded that it was not possible to draw up a comprehensive list of standards.

'It was not therefore reasonable to attempt to construct a single coherent model of policies, standards and levels of service to which could be related all the objective information needed to determine relative expenditure needs in the four countries of the UK. Instead, it was clearly necessary to continue the study on a much more pragmatic basis.'⁽³⁰⁾

The lack of explicitness in policy is a serious obstacle to any system of expenditure needs assessment. One of the consequences is that the Treasury's needs assessment exercise moved to a close examination of the detailed practice in the 'base' country. The cost of implementing this detailed practice in the other countries was then calculated.

(4) The choice of the 'base' is much more important than the study acknowledges for two reasons:

- (a) the study proceeds on the basis of 'the average for England as a whole'. There is no attempt to disaggregate England into standard regions. There is evidence to suggest that the variations within

England both on expenditure data and on social indicators are extremely marked.⁽³¹⁾ Scotland and Wales have more in common with a depressed English region (like the North East) than with England as a whole. The method chosen neglects much valuable information which could be derived from better data for the English regions.

(b) Heald examined the asymmetry of the method.⁽³²⁾ If it had been used for the block grants, it would have conferred responsibility for strategic decision-making on public expenditure upon the United Kingdom Government - but in its capacity as the provider of English equivalent expenditure and not in that as the 'quasi-federal' centre. Higher (lower) English equivalent expenditure would lead to a higher (lower) block grant. A reduction (increase) in the scope of public sector activities in England would lead to a lower (higher) block grant. Higher (lower) public sector charges (e.g. rents) in England would lead to a lower (higher) block grant. None of the converses hold: policy changes in Scotland can neither change English equivalent expenditure nor the block grant. It is English practice which would be dominant. The greater the diversity between policies in the four countries, the more important this question becomes. Table 5 might look somewhat different if the base was, say, Scotland rather than England. This change would alter not only the 'common policies' which have to be costed for each country but also the weights attached to the different expenditure blocks. For example, the assessed need for public sector housing subsidies would be based on lower rent levels and would have a bigger impact on the total index.

(5) During the process of establishing suitable 'objective' factors, the methods used to allocate resources within each country (e.g. Rate Support Grant needs element formula and the health equalisation formula) were regarded as legitimate evidence in the assessment of that country's relative need. At first sight, this seems reasonable. But it is very dangerous ground. The purpose of decentralisation, coupled with equalisation grants, is to permit local variations in policy and expenditure in line with local preferences. If such variations influence the relative need judgements of the grant decision-makers, this will trample upon the exercise of local choice.

IV. Prospects

The referendum and General Election results raised serious doubts about the future prospects of the Scottish public sector.⁽³³⁾ First the devolution affair might have eroded the prestige within government of both the Secretary of State for Scotland and of the Scottish Office. Their claim to be the best judge of Scottish interests might be challenged much more frequently in future. The referendum might therefore have proved a blow not just to the then incumbent (Bruce Millan) but to the office. Furthermore, George Younger's elevation to the office of Secretary of State was a direct result of the earlier resignation of Alick Buchanan-Smith over devolution and the election defeat of Teddy Taylor. It seemed possible that Mr. Younger would be a relatively junior member of Mrs. Thatcher's Cabinet. It is difficult for an outside commentator to make firm judgements so early in the life of the Government. On balance, though, these difficulties do seem to have been surmounted more easily than expected. There appear to have been outbreaks of (what one senior public servant described as) 'get the Jocks' feeling within the governmental machine during the summer of 1979. The evidence cited below suggests that this did not in fact have any damaging consequences for Scotland. Similarly it would seem that Mr. Younger has firmly established himself in a job which is inevitably even more demanding for a Conservative because of the political balance of Scottish MPs.

Second, the devolution debate highlighted the public expenditure differentials between the four countries. It focused MPs' attention upon the existing series of identifiable public expenditure: previously many English MPs seem to have been blissfully unaware of these. New figures had been produced for devolved Scottish expenditure and its English equivalent expenditure. The Treasury's expenditure needs assessment study had been completed by early 1979 and though still then unpublished, was available to other spending departments. The traditional Scottish Office policy of a low profile on public expenditure comparisons might no longer prove tenable. It would have to contend with the argument from other departments that the existing differentials were not due to higher needs but to Scotland's political influence.

Third, the argument that the differentials were justifiable because of higher needs might also be regarded as less compelling in future. The Conservative election victory in 1979 was interpreted by many commentators as a vote against policies of personal redistribution (e.g. progressive income taxation and social security). The geographical pattern of results could similarly be interpreted as the rejection by the prosperous regions of policies of territorial redistribution (e.g. public expenditure differentials and regional policy). The identification of higher needs might not necessarily lead to extra resources being made available to satisfy them.

Fourth, there was the question of the Conservative Government's political strategy quite apart from the influence of 'free market' ideas within the key economic ministries. Given the Government's secure political base at the 'centre' and relative weakness at the 'periphery', it would have to make decisions as to how much it rewarded its own political constituency and how much it tried to win over the 'periphery'. There might be far less attempt than in the past to win over the 'periphery' with kindness: hence there was a potential source of conflict between both the Scottish Office and the Government as a whole and between the Scottish and United Kingdom organisations of the Conservative Party. Paradoxically, the Scottish Office's most potent argument against any attempt to squeeze spending differentials would be the fears of stimulating a new nationalist upsurge. The public expenditure cuts of June 1979, November 1979 and March 1980 did not confirm fears that Scottish expenditure would be disproportionately squeezed. Similarly the Scottish Rate Support Grant settlement for 1980-81 was much more favourable (e.g. grant percentage staying at 68½%) than either earlier finance circulars or leaks from the negotiations had indicated.

Fifth, the discretion of the Secretary of State over Scottish spending programmes might have been curbed. Although included within the appropriate functional programme for Great Britain, public expenditure within the responsibility of the Secretary of State has been increasingly treated as a 'block'. The Government has decided that this role of the Scottish Office will now be formalised through the creation of a territorial programme for Scotland (and also one for

Wales).⁽³⁴⁾ This involves therefore a strengthening, rather than a weakening, of the public expenditure planning functions of the Scottish and Welsh Offices. Similarly, it has been decided that the new form of Rate Support Grant will be implemented separately in England and Wales. The successful (at the time of writing) resistance of Mr. Younger to the extension to Scotland of this block grant system is evidence of the continued desire to assert Scottish distinctiveness.⁽³⁵⁾

Sixth, the Scottish public sector as a whole, rather than the much narrower public expenditure within the responsibility of the Secretary of State, is particularly vulnerable for a number of reasons. It constitutes a higher proportion of Scottish employment and GDP than for the United Kingdom as a whole. Scotland has a disproportionate share of the unprofitable activities of the nationalised industries (e.g. shipbuilding, steel and coal) which are likely to be shut down. The functional composition of Scottish public expenditure adds to its vulnerability. Spending is high on programmes such as public sector housing subsidies and industrial support which the Government has chosen to cut sharply for ideological as well as budgetary reasons.⁽³⁶⁾ The greater relative size of the Scottish public sector, together with its composition, heighten the importance for Scotland of policies designed to roll back the public sector.

The consequences of these factors are not unambiguous as there are clearly some offsetting pressures. The purpose of this chapter has not been to make any firm predictions about future developments but simply to emphasise the potential consequences of the devolution debate on the territorial allocation of public expenditure. It will be some time before the consequences work through. But they are much more important for the future government of Scotland than the desultory attention so far paid to the Treasury's expenditure needs assessment study would suggest.

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Additional information was given in the following written parliamentary answer:

'Mr Allan Stewart asked the Secretary of State for Scotland what changes are proposed in the way in which public expenditure within his responsibility is allocated and administered.
 Mr Younger: From April next year expenditure on all the services in Scotland within my responsibility, which is presently included in public expenditure White Papers as a component of several separate GB public expenditure programmes, will be presented in the form of a separate Scottish programme. Similarly, central Government expenditure on these services, which is contained in Votes in a number of separate estimate classes, will comprise a separate single class. These changes will be reflected in the public expenditure White Paper published after the next annual Survey and in the Supply Estimates for 1981-82.
 The proposals will make it easier to identify and explain in public expenditure White Papers the plans for those services for which I am responsible. Central Government expenditure within my responsibility will also be more easily referred to as it will be presented in a single volume for the new class of estimates.
 The move also gives formal recognition to arrangements under which, where there are comparable English and Welsh programmes, the Secretary of State has discretion in the allocation of expenditure in Scotland within a total determined by reference to these programmes.
 Although it is within the new Scottish programmes, expenditure

on agriculture, fisheries, food and forestry; industry, energy, trade and employment (excluding tourism); and other public services is outwith this flexible arrangement. This is because the first two services are essentially concerned with Great Britain and EEC policies, and there is no directly comparable programme for other public services.' Hansard, 14th April 1980, cols. 458-9. The corresponding answer for Wales can be found in Hansard, 26th March 1980, cols. 623-4.

35. This is a new method of operating the Rate Support Grant (through the merging of the needs and resources elements) and has nothing to do with the proposed block grants for the Scottish and Welsh Assemblies.
36. Policies which involve cutting explicit subsidies whilst allowing implicit subsidies (e.g. the tax expenditures favouring owner occupation) to grow have territorial implications. Scotland's share of tax expenditures is probably much lower than its share of public expenditure. Tax expenditures are not budgeted or accounted for.