| | UK Statistics Authority | Telephone: | 0845 604 1857 |
| --- | --- | --- | --- |
| **UK Statistics Authority** | 1 Drummond Gate | E-mail: | authority.enquiries@statistics.gsi.gov.uk |
| | London | **Website:** | **www.statisticsauthority.gov.uk** |
| | SW1V 2QQ | | |

**Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE**

Will Moy
Director, Full Fact
4 Dyer's Buildings
LONDON
EC1N 2JT

24 November 2014

Dear Will

**ANNUAL TAX SUMMARIES – PUBLIC EXPENDITURE STATISTICS**

Thank you for your letter of 5 November about the new annual tax summaries prepared by HM Revenue and Customs which break down individuals' income tax payments and National Insurance contributions by categories of public expenditure.

As you know I welcome the use of graphics and summaries that bring statistics to life, especially in areas such as government expenditure on public services where the numbers – an estimated £686 billion in 2013-14 – can be too large to be readily understandable in absolute terms.[1] Expressing such numbers in per capita or per taxpayer terms is, generally speaking, helpful.

However, in making such statistics accessible to an audience which may not be expert in government accounting conventions, we believe that it is important to be transparent to help those who wish to understand the statistics better, and to reduce the risk that people misinterpret the statistics. In publishing any kind of numerical information, including official statistics, it is good practice to:

- clearly identify the source of the statistics, and provide precise links to each data item;
- clearly define the category labels or descriptors used and, where they differ from international standards (such as the United Nations' *Classification of Functions of Government*[2]), provide an explanation as to *why* they differ;
- publish supporting analytical information to explain the statistical breakdowns presented; and
- include contextual information (such as about other sources of tax revenue, and the services provided to recipients of public expenditure).

HM Treasury officials have provided us with a table – see annex A – which shows, for each item in the tax summary statement, the corresponding element of Table 5.2 of the latest *Public Expenditure Statistical Analysis*[3] (PESA). This shows that the Government has

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/339324/Public_Spending_Statistics_July_2014_consolidated_revised.pdf
[2] http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/339324/Public_Spending_Statistics_July_2014_consolidated_revised.pdf

applied some discretion in the translation of the PESA data into the tax summary statements – renaming some of the categories and creating new categories of expenditure in other cases.

In particular, the PESA table shows £83,111 million public expenditure on State Pensions, which forms part of 'Social Protection' in PESA[4] but which is separately identified in the tax summary. HM Treasury officials have confirmed to us that the 'welfare' component of the tax summary statement includes elements 10.1 to 10.9 of PESA Table 5.2, this includes the main public sector pensions (for example, armed forces, civil service, Royal Mail, and teachers) and other old age payments such as pension credits, winter fuel payments, and war pensions benefits. As a result, the 'Welfare' component of the tax summary statement includes public sector pensions and a range of old age payments, but excludes the State Pension. Annex B to this letter breaks down the 'Social Protection' category further.

There are, of course, several ways of labelling and summarising the detailed breakdown of public sector expenditure presented in table 5.2 of PESA, each with different merits and limitations, and each of which might have differing degrees of accessibility to the general public. For example, I can see an argument that the PESA term "Public order and safety" is more precise than the term "Criminal justice" used in the tax statements, given that both include some £3 billion of spending on fire-protection services. And some might argue that spending on teachers' pensions, for example, should be regarded as part of education spending; others that all public sector pensions should be a separate, identifiable category.

We also note that the aggregation of public sector expenditure categories presented in the tax summaries differs from that presented alongside the 2012 Budget, when the concept of tax summaries was introduced. In the example versions produced at the time, the category "welfare" included 'old age', for example, and was broken down to show the contribution of 'sickness and disability', 'family and children', 'housing' and 'unemployment', while "public order and safety" included the criminal justice system and the fire service. Examples from then and now are provided below.

I am copying this letter to the Financial Secretary to the Treasury, David Gauke MP, to the Chief Executive of HM Revenue and Customs, Lin Homer, to the Permanent Secretary to HM Treasury, Sir Nicholas Macpherson, to John Pullinger, the National Statistician, and to Ed Humpherson, the Authority's Director General of Regulation.

Yours sincerely

**Sir Andrew Dilnot CBE**

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[4]Table 5.2, element 10.2: Old Age – pensions (see annex B).