

Government expenditure by function

Methodological note

One of the distinctive factors of National accounts is its particular attention to classifications. These make it possible to analyse phenomena in detail through schemes that have been consolidated and agreed at both the national and international level. In compliance with ESA95, National accounts assign a particularly important role to the functional classifications proposed in the system in order to classify transactions according to purpose. Indeed, classifications according to function identify the purposes or objectives behind the transactions entered into by economic agents.

Istat draws up its classification of General Government expenditure according to function by the end of December every year in order to transmit to the European Commission the required statistics in application of the ESA95 transmission program.

The compilation of functional estimates has as its main reference consistency with items in General Government accounts published on 01 July 2009.

The statistical sources used are comprised of the various types of analysis of expenditure according to function adopted in final accounts and by statistical surveys of the financial flows of institutions¹.

The universe of reference for drawing up expenditure according to function is that of General Government which, according to national Accounts, includes all institutional units acting as producers of other non-market output (goods and services) whose production is for collective and individual consumption and is funded mainly through compulsory contributions paid by units belonging to other sectors, and/or whose primary function is to redistribute the country's income and wealth².

The functional classification of General Government expenditure (COFOG) is divided into 3 levels of analysis and offers the possibility of classifying all items of the public operator in a detailed manner. This gives 10 Divisions (first-level functions), which are broken down internally into Groups (second-level functions) and subsequently into Classes (third-level functions). The Divisions represent the primary goals pursued by Government units; the Groups regard the specific areas of intervention of public policies; the Classes identify the individual objectives into which the areas of intervention are organised. Each Division includes two specific Groups regarding Research and Development expenditure and residual expenditures which cannot be placed within specific groups.

COFOG – DIVISIONS:

01. – GENERAL PUBLIC SERVICES
02. – DEFENCE
03. – PUBLIC ORDER AND SAFETY
04. – ECONOMIC AFFAIRS
05. – ENVIRONMENTAL PROTECTION
06. – HOUSING AND COMMUNITY AMENITIES
07. – HEALTH
08. – RECREATION, CULTURE AND RELIGION
09. – EDUCATION
10. – SOCIAL PROTECTION

Through functional classification of General Government expenditure it is possible to distinguish

¹ See *Statistiche in breve sui Conti economici delle AP*, 1980-2008, 01 July 2009.

² See ESA95 par. 2.68 *et seq.*

expenditure for final consumption of an individual nature from expenditure of a collective nature. This distinction makes it possible to quantify actual final consumption³ of households.

In order to carry out the consolidation of expenditure at the level of the entire public sector it is necessary to achieve an adequate level of homogeneity in the classifications for the individual bodies that form part of it. It is necessary, therefore, to perform a thorough analysis and if necessary a reclassification of the accounting records of the institutional units (or their groupings) in order to make them consistent. For the central Government subsector, with reference to the State, the COFOG functional classification was implemented by the budget accounts from 1999 onwards following the National Budget reform law no. 94 of 03 April 1997.

For other central Government bodies recourse is made to specific functional classifications, if they exist, or, otherwise, to an accurate examination of expenditure data which, given the nature of the activity carried on by those bodies, which is in general monofunctional, does not pose particular problems in the application of the COFOG classification.

A different procedure is followed for Research institutions, whose expenditure is measured according to the results of the survey of scientific research conducted on public and private organisations engaged in research activities. These expenditures, which are classified according to their socio-economic purposes, are then put into the functional classification using a bridging matrix.

For local Government bodies, too, the development of functional schemes requires specific intervention procedures. The most significant problems regard regional Government bodies, for which recourse is made to a bridging matrix between the classification of budgetary expenditures according to sector of intervention and the COFOG classification. The passage from one classification to the other is nevertheless particularly complex as it is frequently necessary to revise the original codification of individual expenditure items as government bodies do not follow the standards set in a consistent manner.

For other bodies (of provincial and municipal Government) information sources are constituted by surveys conducted by Istat and the Ministry of the Interior on final account certificates. These provide an economic and functional analysis which is sufficiently compliant with the one furnished by national Accounts.

For Social security funds, the basic sources are constituted by the final balance sheets of INPS and the other major institutions, in addition to the surveys conducted by Istat on the budgets of social security and assistance institutions. The essentially monofunctional nature of these institutions makes it possible to classify expenditure easily.

With regard to functions relating to protection of the environment, estimates of public expenditure reflect those drawn up for the purpose of the corresponding satellite accounts, for which the reference nomenclature is consistent with the COFOG. In particular, the budget items of regional government bodies have been reclassified analytically in accordance with the satellite accounts for environmental expenditure in SERIEE (Système Européen de Rassemblement de l'Information Economique sur l'Environnement) and specifically in accordance with CEPA2000 (Classification of Environmental Protection Activities and Expenditure) and CRUMA (Classification of Resource Use and Management Activities and Expenditure)⁴.

³ ESA95, par. 3.81, "Actual final consumption consists of the goods or services that are acquired by resident institutional units for the direct satisfaction of human needs, whether individual or collective".

⁴ For further details concerning environmental accounts and the relevant classifications see the press release "Spese dell'economia italiana per la gestione dei rifiuti, delle acque reflue e delle risorse idriche. Anni 1997-2007" (*Statistiche in breve*, 08 October 2008).