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Do governments crowd out governments? Evidence from embassies at fiscal year-end

Stuart Baumann, Margaryta Klymak

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Oxford, OX1 3UQ

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Do governments crowd out governments? Evidence from embassies at fiscal year-end

Stuart Baumann Margaryta Klymak*

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Abstract

Many governments operate budgets that expire at the end of the fiscal year and rush to spend large amounts at this time. The scale and breadth of this heightened spending raises the possibility of government departments crowding out each other at the year-end while competing with one another for limited suppliers. This may exacerbate the extent of year-end spending spikes. We investigate this possibility using expenditures of all overseas embassies and offices of the UK. We leverage a unique setting where embassies share the UK fiscal year for their budgeting but operate in countries with varying fiscal years and local economic conditions. Our results show that: (1) in every country embassies spend more at the UK fiscal year-end than in the average month; (2) the extent of this extra spending is greater in countries that have a fiscal year that overlaps with the UK; (3) embassies spend more at the end of the fiscal years of local firms.

JEL classification: H50, H61.

Keywords: government spending, embassies, fiscal year-end, crowding out, United Kingdom.

*Klymak (corresponding author): margaryta.klymak@economics.ox.ac.uk, Somerville College, University of Oxford. We thank the UK government for sharing the data with us. Daniel Schaefer and Carl Singleton provided useful comments. All errors are our own.

1 Introduction

Governments around the world typically operate under annually expiring budgets and spend substantially more at the end of the fiscal year than at any other time. This pattern has been observed in the United States (Liebman and Mahoney, 2017), the United Kingdom (Baumann, 2019), Ukraine (Klymak and Baumann, 2022) and across 27 OECD countries (Eichenauer, 2020). The size of this effect can be substantial. For instance, in the United Kingdom capital expenditure in the last month of the fiscal year is about twice as much as in the average month (Baumann, 2019), and the United States Government spends 4.9 times more in the last week of the fiscal year compared to the average week (Liebman and Mahoney, 2017). This phenomena has recently attracted the attention of economists and policymakers due to the potential for waste.[1]

Many government departments simultaneously spending at high levels can have general equilibrium effects in the economy. This simultaneous spending can cause the crowding out of suppliers, which can impact government departments in several ways. Government suppliers may raise their prices due to high demand (Klymak and Baumann, 2022), which could result in bigger spending spikes than would be seen without price effects. Conversely, departments may spend less than they otherwise would as they move some expenditure to other times of the year to avoid price increases or supplier unavailability. Supplier firms may also less aggressively target orders from government agencies at times when other government agencies are spending more. We study the impact of these general equilibrium effects on the sizes of observed year-end spending spikes. We find that these effects exacerbate end of fiscal year spending - many government departments spending at year-end results in larger spending spikes than in the case where such effects are not present.

The identification challenge is to disentangle the impact of a department's fiscal year away from the impact of the fiscal years of other government agencies in the economy. Most government entities in a country operate under the same fiscal year rules, so the budgetary fiscal year for a department is the same as for all government departments operating in that economy. To overcome this, we analyze the purchasing decisions of all United Kingdom's (*"home"*) foreign office's embassies, high commissions,[2] consulates, missions and other offices (henceforth simply *"overseas offices"*) that are located outside of the UK (in *"host"* countries) over the period from 2008 – 2018. This setting is ideal to study our question as all overseas offices are

[1] For instance, drawing on United States Government IT procurement data, Liebman and Mahoney (2017) found that projects commissioned at the end of the fiscal year were 2.2 to 5.6 times more likely to receive a "low quality" score. Based on Ukrainian government procurement auctions, Klymak and Baumann (2022) showed that firms charged 7.5% higher margins at the end of the fiscal year relative to other times of the year.

[2] The United Kingdom, as well as other commonwealth countries, have a naming convention of calling the principal diplomatic mission to other commonwealth countries a "High Commission" rather than an embassy.

operating under the home fiscal year but are located in countries with different fiscal year cycles which may or may not overlap with home.[3] Furthermore, our dataset covers a substantial number of countries as the UK has a large network of overseas offices to support its foreign policy. According to the latest ranking of the Lowy Institute, the UK was ranked as having the 11th highest level of international diplomatic engagement (Lowy Institute, 2019).

We find that overseas offices on average spend more at the end of the UK fiscal year in March than in other months and we observe this pattern in all countries. The home year-end spending is greater in countries that share fiscal year-end with the UK. This finding indicates a crowding out effect coming from the year-end spending of the host government. Our results imply that there is a multiplier effect on year-end spending coming from all government departments spending more at the same time.[4]

As a secondary aim we investigate the extent to which the fiscal years of firms in the local economy can influence year-end spending. One mechanism through which this can occur is that salespeople in supplier firms may attempt to move sales between fiscal years to maximise their commissions, given targets in their incentive structure (Oyer, 1998). In some settings, we might expect higher spending right before/after the end of the firm fiscal year as accelerated/deferred sales are moved to these times. While there is not in general one fiscal year used by all firms in any given country,[5] there is often rough alignment in the fiscal year choices of each firm in a country. This alignment varies between countries, which enables us to estimate the effect of a firm fiscal year on spending patterns of overseas offices at the year-end. We find that overseas offices spending increase later in the fiscal years of local firms.

Our findings have direct relevance for the year-end spending literature, which has primarily attributed this behaviour to the budgeting of government departments at the end of fiscal year. Specifically, Liebman and Mahoney (2017) suggest that government departments build up precautionary savings funds which they expend at year-end when funds would otherwise expire. As they cannot roll over funds into the following fiscal year, these departments spend the remaining amount at the end of the year. Baumann (2019) proposed that the behaviour was motivated by procrastination. Both of these explanations agree on spending

[3] We examine how the local fiscal year-end affects the spending of each overseas office. While the scale of spending of an overseas office will generally be small in relation to their local economy, the spending of the host government will be significantly larger. We ascertain the general equilibrium effect of this host government's spending on the overseas office's spending patterns.

[4] More generally however our setting is an ideal one to study the extent to which government agencies crowd out other government agencies in the economy. Similar crowding out is also likely to occur at other times of heightened spending such as when there is an expansionist fiscal policy. The spending response of embassies, which do not have the same fiscal year as other governmental agencies in their local economy, provide a view on the extent of this crowding out.

[5] For some countries, firms typically align with the national governmental fiscal year (e.g. Australia) while in other countries (like the USA) they do not.

being driven by a government department's internal budgetary and reporting fiscal year and neither paper considers the impact of other agents in the economy (including other government departments) having their end of fiscal year at the same time.

Our paper is also related to work examining fiscal spillovers focusing on the impact of the taxation and spending decisions of one jurisdiction on the decisions of another. Various types of strategic interactions between the fiscal and spending policies of neighbouring governments have been studied, including yardstick competition (Besley and Case, 1995), tax competition (Devereux, Lockwood and Redoano, 2008; Parchet, 2019) and spending spillovers on other jurisdictions (Case, Rosen and Hines Jr, 1993; Baicker, 2005). To our knowledge, no previous research has examined the spillover of fiscal year spending behaviours.

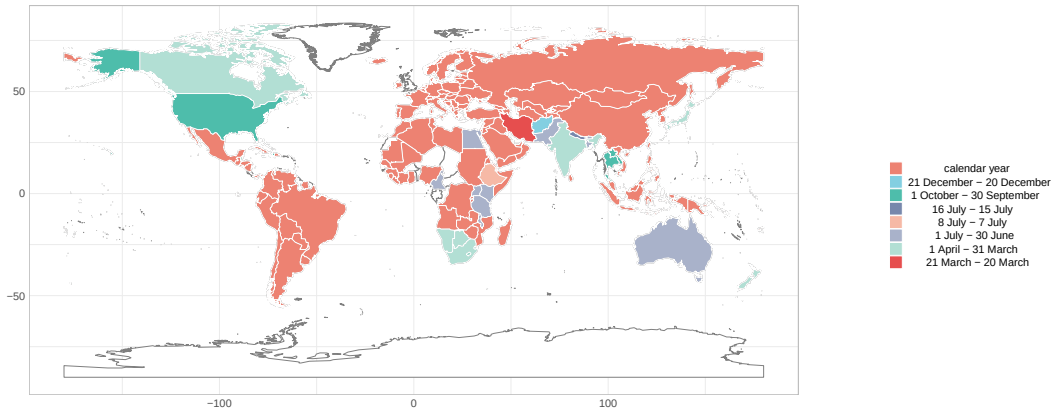
There are three main implications of this short paper. First, the home fiscal year is the most important for the pattern of spending over the year. This finding confirms that the focus of the literature on the role of the budgetary fiscal year in explaining year-end spending spikes. Second, the size of year-end spending is larger in countries that have overlapping fiscal years with home. This indicates that general equilibrium effects exacerbate year-end spending. Third, home government spending is higher later in the fiscal year of local firms.

2 Methodology

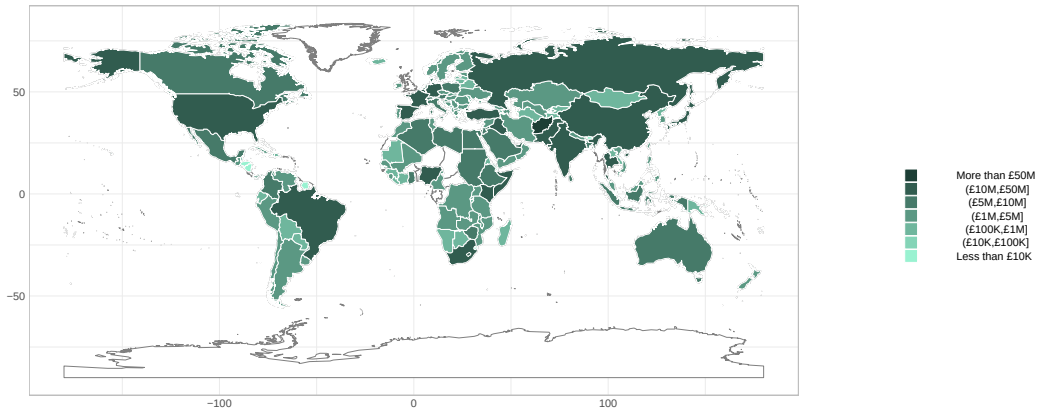
2.1 Data

We use a monthly spending dataset covering the spending of the UK Foreign and Commonwealth Office between the 2008 – 2009 and 2017 – 2018 fiscal years. There are two budgets for each overseas office and year. The first is the *resource* budget, which is used for regular expenses such as stationary, staff training, diplomatic events, salaries and rent. The second is the *capital* budget, which is for office renovations, office furniture, new computers and other capital purchases. For each overseas office, we have one observation for each budget, each month and each year (i.e. overseas office-budget-month-year). Overall we rely on an unbalanced panel of 399 overseas offices, located over 180 countries, resulting in 4,932 overseas office-budget-years.[6] The majority of offices are located in countries operating under a calendar year fiscal year. This can be seen in the top panel of Figure 1. We do however have many office-budget-years with different fiscal year ends, with 16% of countries (and 65 overseas offices) sharing the same fiscal year-end with the UK in March.

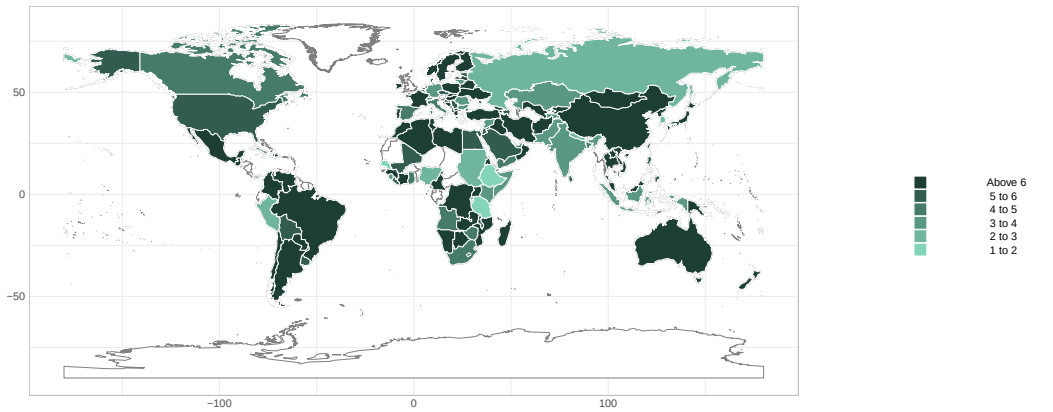
[6] This number is lower than the number of offices multiplied by ten years and two budgets per department, reflecting that some overseas offices did not exist for all ten years. We deflate the spending data with a monthly consumer price index obtained from the UK's Office for National Statistics.



(a) Government fiscal year-end around the world



(b) Average annual expenditure of overseas offices



(c) UK fiscal year-end spending divided by annual monthly average

Figure 1: Fiscal year spending of UK overseas offices in 2008 – 2018

Note: The figure presents the fiscal year-end and spending for all UK overseas offices over the period 2008 – 2018. The first graph demonstrates the fiscal year cycles. The second graph depicts the average annual spending across countries. The third graph shows spending in March over the average monthly spending. For the second and third graphs, darker colours imply more spending. Note that while our data is at the level of an individual overseas office, we aggregated them to a country level for the purposes of these plots.

Overseas offices in our sample tend to spend at very different scales.[7] On one end is the Kabul Embassy, which spent more than 100 million pounds in each fiscal year between 2015 – 2016 and 2017 – 2018. On the other extreme, there are many small offices, such as the embassy in Minsk where annual expenditures are around one million pounds per year. While our data is at an overseas office level, we also aggregate spending levels at a country level and present it in the middle panel of Figure 1.[8] Finally, the bottom panel of Figure 1 presents home year-end capital expenditure for each country divided by the monthly average for overseas offices in that country. For example, a value of two for this ratio means the office is spending twice as much in March as in the average month. It shows that overseas offices spend more at the end of the UK fiscal year in every country.

Several embassies in our data sold some assets and obtained revenues from the asset sales. Under the accounting conventions in place, these were recorded as negative expenditures. As a result, some months have negative total expenditures for some departments and budgets. These are relatively few, however, with less than 3.5% of office-budget-year-month observations having negative total spending. As a result of the possibility of negative spending figures and different scales of spending, we use two different transformations of this variable. First, we calculate the mean and standard deviation for each office-budget-year, and use these to create a z-score for each month. We call this standardised variable *"Spending Z"*. Second, for each office-budget-month, we create a dummy variable taking the value of one if more is spent that month than the monthly average for that office-budget-year. We call this variable *"Spending Binary"*.

We present each of these two measures in Figure 2, where we have separated overseas offices into four groups based on when the local fiscal year ends.[9] The profile of spending is dominated by a large spending spike occurring at the end of the UK fiscal year in March. We then observe lower spending in April and May. Spending picks up again at the end of the calendar year in December. In addition, the resource expenditure rises more in March for overseas offices operating in countries where the fiscal year ends in March. This is suggestive evidence for a crowding out effect where an economy exhibiting heightened government spending leads to higher spending on the part of overseas offices. We will examine this more rigorously in the section that follows.

[7] Appendix A presents the descriptive statistics of our sample.

[8] Similar figure is available in Appendix A which split spending by capital and resource expenditures.

[9] Note that most countries have a fiscal year that ends at the end of a quarter. For instance, Australia has a fiscal year ending at the end of June, while the United States fiscal year ends at the end of September. There are four exceptions, however, including Afghanistan (fiscal year-end December 20); Ethiopia (fiscal year-end July 7); Iran (Fiscal year-end March 20) and Nepal (fiscal year-end July 15). In each case, we round these cases to the closest month-end which is always on the end of a quarter.

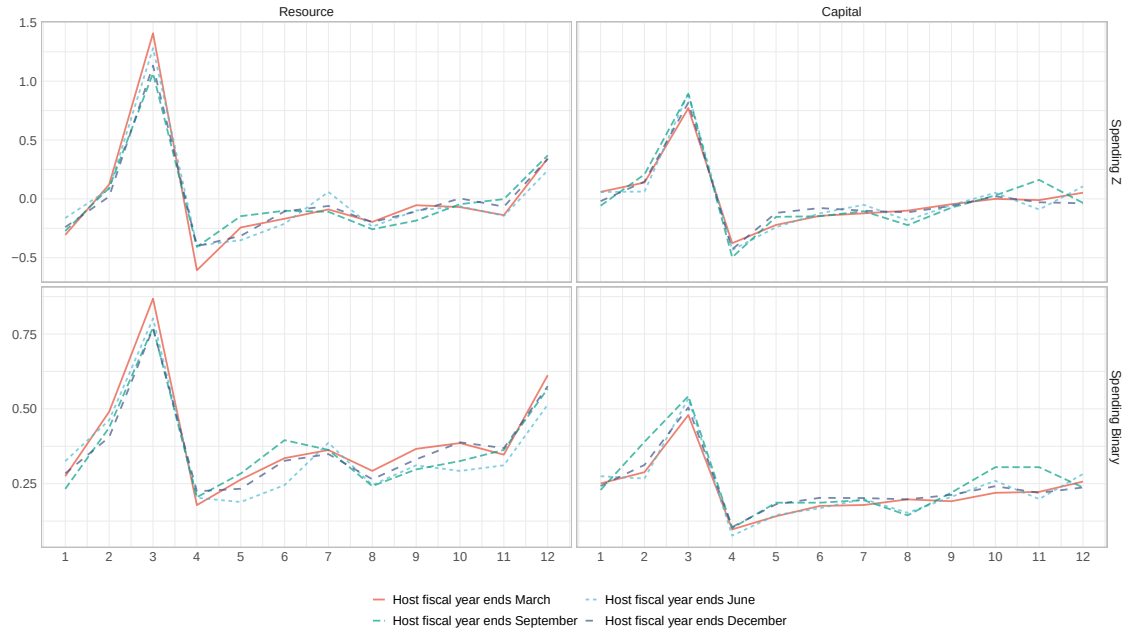


Figure 2: Spending over the fiscal year

Note: The figure depicts the fiscal year spending pattern of all overseas offices depending on fiscal year-end month (either March, June, September or December) and budget (either resource or capital). We report these figures for the standardised variable Spending Z (on the top row) and for Spending Binary (on the bottom row).

2.2 Empirical strategy

We examine the extent to which the home fiscal year, the host government fiscal year and local firm fiscal years can affect overseas offices expenditures with the following benchmark specification:

$$\begin{aligned}\text{Spending}_{i,b,m,y} = \beta_0 + \beta_1 \text{LFY End}_{i,m} \times \text{Home FY End}_{i,m} + \beta_2 \text{Home FY End}_{i,m} + \\ + \beta_3 \text{LFY End}_{i,m} + \beta_4 \text{Firms LFY End}_{i,m} + m + \psi_{iy} + \epsilon_{i,b,m,y}\end{aligned} \tag{1}$$

where $Spending_{i,b,m,y}$ is the spending for overseas office i, budget b, in month m and year y. We use both the Spending Z and Spending Binary as dependent variables. $Home\ FY\ End_{i,m}$ is a dummy variable taking value one in March (at the end of the UK fiscal year). We use two variables to control for the local fiscal year-end. First, $LFY\ End_{i,m}$ is a dummy variable for the end of the local fiscal year. Second, $\text{LFY End}_{i,m} \times \text{Home FY End}_{i,m}$ is an interaction between the UK fiscal year-end and the local fiscal year end.

The behaviour and preferences of firms can also influence when governmental spending

occurs (e.g. Oyer 1998). To examine this impact, we obtain the constituents of the major large-cap stock indices for 44 countries from the Bloomberg terminal.[10] For each company, we obtain their fiscal year-end month. Then for each country and each month, we calculate the average (across firms) number of months until the end of the firm fiscal year. We normalise this to the the $[0, 1]$ range[11] where a value near one means many firms are near the end of their fiscal years and a value near $zero$ means most firms are near the start of their fiscal year. This is the *Firms LFY End*$_{i,m}$ variable in the regression.[12]

We use the m vector of fixed effects for each calendar month. The role of this fixed effect is to separate the effect of the home fiscal year from the other effects we seek to study.[13] Given the end of the home fiscal year is of particular interest we do explicitly control for March and hence the corresponding fixed effect drops out. Our baseline month for Home FY End$_{i,m}$ is January. ψ_{oy} is a vector of fixed effects for each overseas office $\times$ year, which allows focusing on variation within a particular office and year rather than using variation between departments.[14] $\epsilon_{i,b,m,y}$ is the statistical error term. We cluster standard errors at a country level.[15]

3 Results

We present the main results of this paper in Table 1. The top panel displays findings for the resource expenditure while the results for capital expenditures are reported in the bottom panel. In each panel the first three columns use Spending Z as the dependent variable while the last three columns rely on the binary spending variable. Columns 1 and 4 include only governmental (i.e. local and home) fiscal year ends. Columns 2 and 5 include only the home fiscal year and the firm year-end variable. In these regressions there is a drop in sample size reflecting that this firm fiscal year variable cannot be calculated for all countries. Columns 3 and 6 include all of these variables.

[10] Details on these indices can be found in Appendix B.

[11] Denoting the average number of months until the end of the fiscal year to be x which will be in the $[0, 11]$ range the transformation is $\frac{(11-x)}{11}$.

[12] Note that given how this variable is constructed, it is only available for countries with a number of publicly traded companies. As a result, we carry out several regressions that exclude this variable. This variable works out to be roughly uniformly distributed with a minimum of 0, a maximum of 1.0 and the 20%, 40%, 60%, 80% quartiles being 0.236, 0.43, 0.61, 0.79 respectively.

[13] If this is not done, there would be an important omitted variable. We would have obtained the result that the end of the local fiscal year coefficient is statistically significant because many overseas offices operate in countries with a calendar fiscal year and December tends to be a high spending month in the UK foreign office generally.

[14] These fixed effects are most important for the Spending Binary dependent variable. For the Spending Z score, we have already effectively done a within transformation by subtracting the mean annual spending while calculating the z score so the fixed effects in an OLS regression do not have a large impact.

[15] Note that conclusions of this paper are robust to bootstrapping of standard errors. This is presented in Appendix C.1.

Table 1: End of fiscal year spending effects

	Spending Z (1)	Spending Z (2)	Spending Z (3)	Spending Binary (4)	Spending Binary (5)	Spending Binary (6)
Panel A: Resource Budget						
Home FY End	1.393***	1.410***	1.368***	0.496***	0.503***	0.492***
	(0.062)	(0.075)	(0.082)	(0.023)	(0.028)	(0.031)
LFY End×Home FY End	0.312***		0.370***	0.091**		0.106**
	(0.103)		(0.125)	(0.040)		(0.050)
LFY End	−0.036		−0.074	−0.022		−0.033
	(0.035)		(0.046)	(0.016)		(0.022)
Firms LFY End		0.128	0.083		0.043*	0.036*
		(0.091)	(0.073)		(0.025)	(0.021)
Observations	36,588	21,732	21,732	36,720	21,756	21,756
R^2	0.224	0.211	0.212	0.234	0.223	0.223
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Panel B: Capital Budget						
Home FY End	0.821***	0.858***	0.875***	0.261***	0.271***	0.277***
	(0.053)	(0.069)	(0.066)	(0.016)	(0.023)	(0.021)
LFY End×Home FY End	0.060		−0.034	0.006		−0.012
	(0.154)		(0.202)	(0.037)		(0.052)
LFY End	−0.067*		−0.099**	−0.027*		−0.039*
	(0.034)		(0.040)	(0.015)		(0.021)
Firms LFY End		0.132***	0.186***		0.028	0.049
		(0.049)	(0.057)		(0.031)	(0.040)
Observations	19,728	11,352	11,352	21,456	12,192	12,192
R^2	0.160	0.168	0.169	0.318	0.322	0.323
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months as well as local firms year-ends. The dependent variable in columns 1–3 is *Spending Z*; in the last three columns, it is *Spending Binary*. Panel A relies on the resource budget spending whilst panel B uses spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for clustering at the country level. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

Three main findings emerge from this table. First, the overseas offices spend more in the last month of the home fiscal year for both the capital and the resource expenditure budgets. Focusing on our full model in the resource budget panel, the result for the home fiscal year-end indicates that spending is 1.368 standard deviations higher in the last month. This coefficient for the capital budget is 0.875 standard deviations. This result is robust in every specification for resource and capital expenditure. This finding confirms the focus of the previous literature on the budgetary fiscal year as a key driver of year-end spending.

The second key finding is that the *LFY End* $\times$ *Home FY End* coefficient is significantly positive in the resource expenditure case. In the benchmark specification, it shows that the size of the year-end spending spike is 0.370 standard deviations higher in countries with a fiscal year-end in March than in countries with a different fiscal year-end. This finding indicates that general equilibrium effects exacerbate the size of year-end spending spikes. In addition, the *LFY End* coefficient is negative for capital expenditure. This is consistent with embassies moving capital expenditure to other times in the fiscal year where there is less crowding out from host country governmental spending.[16]

Finally, in the capital expenditure case there is greater spending later in the fiscal year of local firms.[17] This finding is broadly in agreement with the findings of Oyer (1998) who found evidence of salespeople moving sales with respect to their firm's fiscal year. One explanation for why this effect is only seen for capital expenditure is that capital expenditure items (e.g. computers, furniture, vehicles) are larger items and hence are more likely to be influenced by supplier sales efforts than resource expenditure items such as salaries, rents and office supplies.

We confirm the robustness of our findings with a number of checks in the online appendices. First, we use alternate variables to represent host government and local firm fiscal years in Appendix C.1. Specifically we show that our finding are robust if we use $\log(\textit{Firms LFY End}_{i,m}+1)$ in place of the firm fiscal year variable, if we control for the start of the local government fiscal year,[18] and if change our end of fiscal year variables (*LFY End* $\times$ *Home FY End*, *LFY End* and *Home FY End*) to represent the last two months of the fiscal year. These changes do not impact our conclusions. Second, we use a jackknife procedure reestimating our regressions after dropping each country and year, in turn, to ensure our results are not driven by any singular countries or years in Appendix C.2.[19] Third, in Appendix D, we explore whether the

[16] In the resource expenditure case the corresponding coefficients are not significantly different from zero. This may reflect a greater difficulty in moving the purchase of these goods/services within the fiscal year.

[17] Note that there is a similar effect is significant at the 10% level for some specifications of the resource budget regressions.

[18] It is possible that the start of the host government fiscal year could be busy due to the arrangement of annual contracts. We do not find a significant effect here however.

[19] This section also includes a placebo test to ensure that specification estimated coefficients are distributed

level of economic development, inflation, distance between the UK and local economy matter for the pattern we identified in this section. Whilst home fiscal year remain statistically significant in all specifications, there is no evidence that local fiscal year-end can be explained by these factors.

4 Conclusion

Aside from the budgetary fiscal year, a government department's expenditure pattern could in principle be affected by the fiscal year behaviour and spending of other government departments and firms in the economy. We study the impact of this crowding out using the spending behaviours of the overseas offices of the UK's foreign and commonwealth offices.

We present three key findings that are new to the literature. First, the impact of the home budgetary fiscal year is strong in comparison to the impact of the other government and firm fiscal years. This is a strong result that can be seen in all countries. Second, government spending is higher later in the fiscal year of local firms. Third, the size of year-end spending is larger for overseas offices operating in countries which share the home's end of the fiscal year in March. This finding indicates that general equilibrium effects coming from heightened spending of many government agencies in the economy can exacerbate end of fiscal year spending spikes.

Our results have two main policy implications that could deter year-end spending. First, our findings suggest that measures to prevent year-end spending in one department could indirectly decrease year-end spending in another. Second, year-end spending could potentially be reduced if the fiscal years of different departments were unaligned. This could be achieved for instance by assigning departments different fiscal years so that only a small fraction has their year-end in any given month.

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around zero if we deliberately randomise the local host government fiscal year and firm fiscal years in the data.

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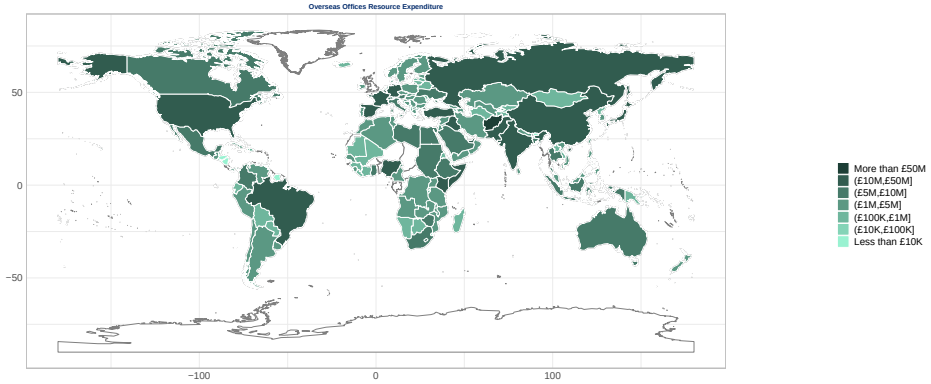
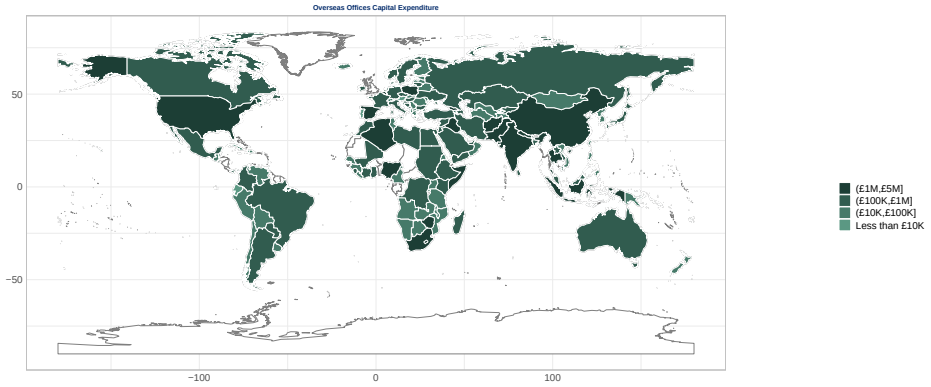
Appendices

A Spending map for capital and resource expenditure



(a) Average annual expenditure of the resource budget



(b) Average annual expenditure of the capital budget

Figure A.1: Overseas offices expenditure by budget types

Note: The figure illustrates the average annual spending for overseas offices at a country level. The top panel shows average annual resource expenditure while the bottom panel shows average annual capital expenditure. These averages are calculated for the 2008 – 2018 period. Note that while our data is at the level of an individual overseas office, they have been aggregated to a country level for the purposes of these plots.

Table A.1: Descriptive statistics

Variable	Group	All months except March and local year-end	Local year-end	Home year-end	N
(1)	(2)	(3)	(4)	(5)	(6)
Budget	Capital	23,686.260	36,712.830	89,312.850	21,883
Budget	Resource	195,851.900	312,171.000	421,637.100	37,356
Distance from UK	High	132,591.600	237,912.700	316,159.700	27,558
Distance from UK	Low	138,396.600	194,692.100	296,355.900	29,425
GDP per capita	High	131,276.600	201,567.700	276,614.100	27,063
GDP per capita	Low	145,987.800	237,461.900	334,601.600	27,195
Inflation	High	131,888.900	184,202.900	314,979.300	19,884
Inflation	Low	143,730.400	227,620.100	284,094.600	19,776
UK fiscal year	2008 – 09	97,605.990	158,865.100	254,626.900	6,037
UK fiscal year	2009 – 10	110,181.300	145,382.800	275,831.900	5,994
UK fiscal year	2010 – 11	117,858.000	167,491.100	240,797.500	5,917
UK fiscal year	2011 – 12	122,301.000	158,946.400	265,875.300	6,035
UK fiscal year	2012 – 13	132,269.500	196,804.300	293,187.000	5,824
UK fiscal year	2013 – 14	128,266.900	201,044.000	298,152.500	6,216
UK fiscal year	2014 – 15	126,944.400	174,589.100	306,214.600	6,136
UK fiscal year	2015 – 16	155,009.300	210,588.400	337,440.800	5,613
UK fiscal year	2016 – 17	147,055.600	427,117.000	351,418.800	5,673
UK fiscal year	2017 – 18	189,351.500	281,878.200	373,044.100	5,794

Note: This table describes the average spending for all overseas offices by budget, level of GDP per capita, distance from the UK, inflation and each fiscal year. Budget is separated by type. GDP per capita, distance and inflation are divided into two groups depending on whether each variable is below or above the median value in our dataset. Column (3) presents expenditure for all months excluding March (i.e. the UK fiscal year end) and the end of the local fiscal year, whilst column (4) shows spending in the last month of the local fiscal year. Column (5) describes expenditure for the UK fiscal year-end and the last column (6) reports the number of observations.

B Data sources

Our primary datasource for this analysis was the spending of the United Kingdom's foreign office's embassies, high commissions, consulates, missions and other offices. To determine governmental fiscal year dates we performed a number of searches for each country. Finally, we also obtained major large cap stock market indices for each country. Then for each constituent we found out their fiscal year-end month from the Bloomberg terminal (using *EQY_FISCAL_YR_END* field name). These stock market indices included in Table B.1.

Table B.1: Stock market indices

Bloomberg Index Ticker	Country
MERVAL	Argentina
AS51	Australia
ATX	Austria
BEL20	Belgium
IBOV	Brazil
SPTSX	Canada
IGPA	Chile
SHSZ300	China
PX	Czechia
OMXC25	Denmark
EGX30	Egypt
TALSE	Estonia
HEL25	Finland
CAC	France
DAX	Germany
HSI	Hong Kong
BUX	Hungary
ICEXI	Iceland
NIFTY	India
JCI	Indonesia
ISEQ	Ireland
TA-35	Israel
NKY	Japan
JOSMGNFF	Jordan
MEXBOL	Mexico
AMX	Netherlands
NZSE50FG	New Zealand
NSEASI	Nigeria
OBX	Norway
KSE100	Pakistan
PCOMP	Philippines
WIG20	Poland
PSI20	Portugal
SASEIDX	Saudi Arabia
STI	Singapore
TOP40	South Africa
IBEX	Spain
OMX	Sweden
TWSE	Taiwan
SET	Thailand
XU100	Turkey
DFMGI	United Arab Emirates
SPX	United States
VNINDEX	Vietnam

Note: The table shows the list of stock market indices we use to create the local firm fiscal years. We choose a relatively broad stock market index for each country. In countries where there are multiple prominent indices (e.g. the USA has SPX, RUA and others) a larger cap index was chosen (e.g. SPX rather than RUA for the USA).

C Robustness

C.1 Alternative regressors of interest and clustering

In the paper's main body, we showed that our results are generally robust to two different dependent variables. We additionally show that our findings are robust to alternative variables defining the ends of fiscal years and clustering of standard errors.

Our first such robustness check is presented in Table C.1. We recreate Table 1 but use bootstrapped standard errors instead of standard errors clustered at the country level. All findings remain robust throughout all specifications and confirm the year-end effects presented before.

Our second robustness check relies on specification where we separate each local fiscal year-end. Specifically we have a different variable for each end of the local fiscal year depending on whether it happens in December, March, June or September. We exhibit our results in Table C.2. The overlapping fiscal year-end (i.e. *LFY End March*) result for the resource budget remain robust. Within the same budget we find negative effects for June and September. The findings for December year-end coefficients suggest no effect for the resource budget and negative spending for capital budget.

While year-end spending has generally been observed to be highest in the last month of the fiscal year, there is also heightened spending in the second last month (e.g. Liebman and Mahoney (2017); Klymak and Baumann (2022)). We could alternatively define the end of fiscal year (and corresponding dummy variables) as the last two months of the fiscal year rather than only the last month. We do this, replicate Table 1 and present our findings in Table C.3.[20] As expected, the findings are consistent with previous findings. There is higher year-end spending for home and overlapping local fiscal year-end coefficients with lower magnitudes.

For our fourth robustness check, we take the logarithm of the variable representing the local firm fiscal year ends which we call *Log Firms LFY End*.[21] We present our findings in Table C.4. In line with our benchmark results, there is higher spending at the local firms year-end for the capital budget and no statistically significant effect for the resource budget. Home and overlapping local year-end coefficients remained statistically significant.

For our fifth check we control for the start of local fiscal year along with our regular variables. There are plausible reasons why the start of the local fiscal year might have an impact on the spending of overseas offices. This could occur because annual contracting often takes place in the first month of the fiscal year (e.g. Klymak and Baumann (2022)) which may lead

[20] For this table single month fixed effects were still applied except for February and March which are accounted for by the Home FY End$_{i,m}$ variable. Relative to Table C.1, we made no changes to the the *Firms LFY End* variable.

[21] We take logarithm while adding one (i.e $\log($*Firms LFY End*$_{i,m} + 1)$.

to crowding out at this time. Our results are presented in Table C.5. The findings remain robust throughout all specifications and we do not find any evidence for the start of fiscal year effect.

Table C.1: End of fiscal year spending effects with bootstrapped standard errors

	Spending Z (1)	Spending Z (2)	Spending Z (3)	Spending Binary (4)	Spending Binary (5)	Spending Binary (6)
Panel A: Resource Budget						
Home FY End	1.393***	1.410***	1.368***	0.496***	0.503***	0.492***
	(0.032)	(0.038)	(0.041)	(0.012)	(0.015)	(0.016)
LFY End×Home FY End	0.312***		0.370***	0.091***		0.106***
	(0.073)		(0.090)	(0.026)		(0.033)
LFY End	−0.036*		−0.074**	−0.022		−0.033*
	(0.029)		(0.037)	(0.015)		(0.018)
Firms LFY End		0.128***	0.083**		0.043*	0.036
		(0.039)	(0.040)		(0.022)	(0.024)
Observations	36,588	21,732	21,732	36,720	21,756	21,756
R^2	0.224	0.211	0.212	0.234	0.223	0.223
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Panel B: Capital Budget						
Home FY End	0.821***	0.858***	0.875***	0.261***	0.271***	0.277***
	(0.051)	(0.064)	(0.068)	(0.016)	(0.021)	(0.022)
LFY End×Home FY End	0.060		−0.034	0.006		−0.012
	(0.119)		(0.151)	(0.035)		(0.046)
LFY End	−0.067**		−0.099**	−0.027*		−0.039**
	(0.035)		(0.043)	(0.015)		(0.019)
Firms LFY End		0.132**	0.186***		0.028	0.049
		(0.059)	(0.062)		(0.037)	(0.040)
Observations	19,728	11,352	11,352	21,456	12,192	12,192
R^2	0.160	0.168	0.169	0.318	0.322	0.323
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months as well as local firms year-ends. The dependent variable in columns 1–3 is *Spending Z*; in the last three columns, it is *Spending Binary*. Panel A relies on the resource budget spending whilst panel B uses spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for bootstrapping. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

Table C.2: Separated end of fiscal year spending effects

	Spending Z		Spending Binary	
	Resource	*Capital*	*Resource*	*Capital*
	(1)	(2)	(3)	(4)
Home FY End	1.139***	0.831***	0.494***	0.265***
	(0.053)	(0.044)	(0.023)	(0.016)
LFY End March	0.272***	−0.045	0.070**	−0.023
	(0.082)	(0.130)	(0.031)	(0.035)
LFY End June	−0.093	−0.026	−0.070**	−0.015
	(0.071)	(0.050)	(0.032)	(0.025)
LFY End September	−0.087***	−0.015	−0.034	0.002
	(0.030)	(0.044)	(0.022)	(0.019)
LFY End December	0.017	−0.090**	−0.001	−0.037**
	(0.052)	(0.044)	(0.026)	(0.018)
Observations	36,348	19,488	36,480	21,216
R^2	0.171	0.086	0.233	0.320
Month FE	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes

Note: *p<0.1; **p<0.05; ***p<0.01. This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months. The dependent variable in (1) and (2) columns is *Spending Z*; in columns (3) and (4), it is *Spending Binary*. The first two specifications rely on the resource budget spending whilst the latter two use spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for clustering at the country level. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

Table C.3: Fiscal year-end effects for capital and resource expenditures with two months regressors of interest

	Spending Z (1)	Spending Z (2)	Spending Z (3)	Spending Binary (4)	Spending Binary (5)	Spending Binary (6)
Panel A: Resource Budget						
Home FY End 2M	0.669***	0.833***	0.760***	0.236***	0.322***	0.253***
	(0.050)	(0.056)	(0.093)	(0.022)	(0.025)	(0.037)
LFY End 2M	−0.024		−0.097***	−0.007		−0.029*
	(0.028)		(0.031)	(0.014)		(0.017)
LFY End×Home FY End 2M	0.232***		0.204**	0.074**		0.061
	(0.072)		(0.094)	(0.030)		(0.038)
Firms LFY End		0.322***	0.322***		0.104***	0.105***
		(0.092)	(0.100)		(0.031)	(0.034)
Observations	36,588	21,732	21,732	36,720	21,756	21,756
R^2	0.164	0.157	0.157	0.211	0.202	0.202
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Panel B: Capital Budget						
Home FY End 2M	0.485***	0.481***	0.490***	0.169***	0.165***	0.228***
	(0.036)	(0.036)	(0.040)	(0.015)	(0.014)	(0.031)
LFY End 2M	−0.064***		−0.122***	−0.029***		−0.051***
	(0.022)		(0.027)	(0.009)		(0.012)
LFY End×Home FY End 2M	0.085		0.003	0.008		−0.014
	(0.076)		(0.075)	(0.031)		(0.031)
Firms LFY End		0.274***	0.386***		0.067***	0.121***
		(0.069)	(0.078)		(0.023)	(0.032)
Observations	19,728	11,352	11,352	21,456	12,192	12,192
R^2	0.139	0.145	0.147	0.310	0.314	0.315
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end two months as well as local firms year-ends. The dependent variable in columns 1–3 is *Spending Z*; in the last three columns, it is *Spending Binary*. Panel A relies on the resource budget spending whilst panel B uses spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for bootstrapping. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

Table C.4: Fiscal year-end effects for capital and resource expenditures with alternative local firms fiscal year end

	Spending Z (1)	Spending Z (2)	Spending Z (3)	Spending Binary (4)	Spending Binary (5)	Spending Binary (6)
Panel A: Resource Budget						
Home FY End	1.393***	1.405***	1.364***	0.496***	0.501***	0.491***
	(0.062)	(0.076)	(0.083)	(0.023)	(0.029)	(0.032)
LFY End×Home FY End	0.312***		0.369***	0.091**		0.106**
	(0.103)		(0.124)	(0.040)		(0.049)
LFY End	−0.036		−0.072	−0.022		−0.032
	(0.035)		(0.046)	(0.016)		(0.022)
Log Firms LFY End		0.187	0.122		0.065*	0.053*
		(0.125)	(0.099)		(0.034)	(0.029)
Observations	36,588	21,732	21,732	36,720	21,756	21,756
R^2	0.224	0.211	0.212	0.234	0.223	0.223
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Panel B: Capital Budget						
Home FY End	0.821***	0.850***	0.866***	0.261***	0.269***	0.275***
	(0.053)	(0.069)	(0.066)	(0.016)	(0.024)	(0.022)
LFY End×Home FY End	0.060		−0.036	0.006		−0.013
	(0.154)		(0.201)	(0.037)		(0.052)
LFY End	−0.067*		−0.095**	−0.027*		−0.038*
	(0.034)		(0.039)	(0.015)		(0.020)
Log Firms LFY End		0.212***	0.280***		0.049	0.075
		(0.069)	(0.079)		(0.046)	(0.057)
Observations	19,728	11,352	11,352	21,456	12,192	12,192
R^2	0.160	0.169	0.169	0.318	0.323	0.323
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months as well as local firms year-ends. The dependent variable in columns 1–3 is *Spending Z*; in the last three columns, it is *Spending Binary*. Panel A relies on the resource budget spending whilst panel B uses spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for clustering at the country level. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

Table C.5: Fiscal year-end effects for capital and resource expenditures with start of local fiscal year

	Spending Z (1)	Spending Z (2)	Spending Z (3)	Spending Binary (4)	Spending Binary (5)	Spending Binary (6)
Panel A: Resource Budget						
Home FY End	1.374***	1.410***	1.343***	0.493***	0.503***	0.480***
	(0.067)	(0.075)	(0.091)	(0.024)	(0.028)	(0.035)
LFY End×Home FY End	0.313***		0.375***	0.091**		0.109**
	(0.103)		(0.126)	(0.040)		(0.050)
LFY End	−0.036		−0.071	−0.022		−0.032
	(0.035)		(0.045)	(0.016)		(0.022)
Firms LFY End		0.128	0.065		0.043*	0.027
		(0.091)	(0.080)		(0.025)	(0.024)
LFY Start	−0.028		−0.041	−0.005		−0.020
	(0.027)		(0.041)	(0.011)		(0.015)
Observations	36,588	21,732	21,732	36,720	21,756	21,756
R^2	0.224	0.211	0.212	0.234	0.223	0.223
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Panel B: Capital Budget						
Home FY End	0.816***	0.852***	0.876***	0.267***	0.271***	0.286***
	(0.055)	(0.068)	(0.067)	(0.019)	(0.023)	(0.023)
LFY End×Home FY End	0.061		−0.035	0.006		−0.015
	(0.153)		(0.203)	(0.037)		(0.053)
LFY End	−0.067*		−0.099**	−0.027*		−0.040*
	(0.034)		(0.041)	(0.015)		(0.021)
Firms LFY End		0.129**	0.188***		0.028	0.056
		(0.052)	(0.064)		(0.031)	(0.041)
LFY Start	−0.006	−0.010	0.002	0.009		0.014
	(0.034)	(0.040)	(0.043)	(0.014)		(0.016)
Observations	19,728	11,352	11,352	21,456	12,192	12,192
R^2	0.160	0.168	0.169	0.318	0.322	0.323
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months as well as local firms year-ends. The dependent variable in columns 1–3 is *Spending Z*; in the last three columns, it is *Spending Binary*. Panel A relies on the resource budget spending whilst panel B uses spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for clustering at the country level. We denote significance using *p<0.1; **p<0.05; ***p<0.01.

C.2 Placebo and Jacknife tests

We do a number of bootstrap, jackknife and placebo tests to ensure the robustness of our findings. These are presented in figures C.2, C.3 and C.4. For all of the tests we use the same specification as in the first column of Table 1 with the exception of the tests on the *Firms LFY End* variable which use the specification of the third column of Table 1.

In each case we present the distribution of selected coefficients produced by a certain change to the dataset. For the bootstrap panels this change is a sampling with replacement of observations from the dataset. In all cases we observe the center of the distribution around the coefficient values presented in Table 1, with the spread of the distribution reflecting the standard errors.

The panels immediately below the bootstrap results are for jackknifing. We present two jackknife findings. In the first case we drop each country in turn from our dataset while estimating the coefficient based on the remaining countries. In the second jackknife we drop each year in turn and estimate based on the remaining years. The results presented below display that the coefficients that we estimate do not change much in any of the jackknife samples. This indicates that our results do not come from a single outlier country or year.

Finally in the bottom panels (for all except Figure C.1)[22] we present a placebo test result which we undertake in two ways. First, we replace the end of the local host country fiscal years by a random month. Second, we also randomise the Firms LFY End$_{i,m}$ variable. This is done by adding a random number in the $[0, 1]$ range to this variable which in effect rotates the local firm fiscal year a number of months in the year. The results of these placebos report coefficients around zero which indicates that our specification does not deliver significant coefficients on randomised data.

[22] No placebo was done in this case as the UK fiscal year effect affects all observations in our dataset. The possible placebo techniques would be to randomise the UK fiscal year variable in a way that is not internally consistent, pretend that a different month was the end of the fiscal year, or shuffle the monthly spending figures. Whilst the results from these all deliver coefficients centered around 0, this is not surprising given how heavyhanded these randomisations were. As a result we decided not to report them.

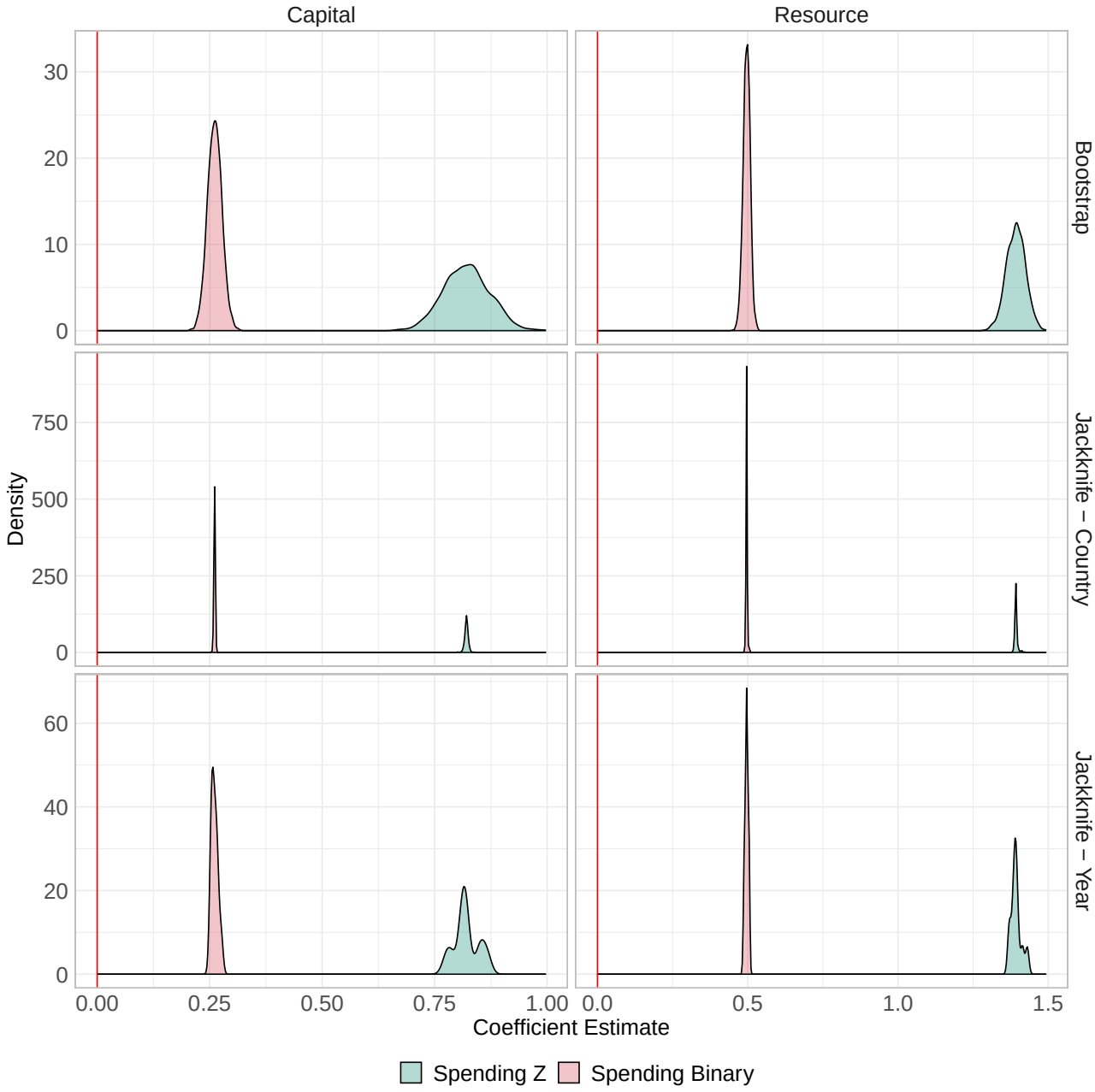


Figure C.1: Robustness of the home fiscal year-end

Note: The figure illustrates the findings of several robustness tests of the home fiscal year-end *Home FY End* for capital (on the left) and resource (on the right) budgets. The top panel presents bootstrap results, while the next two panels report the jackknife tests outcome for countries and years.

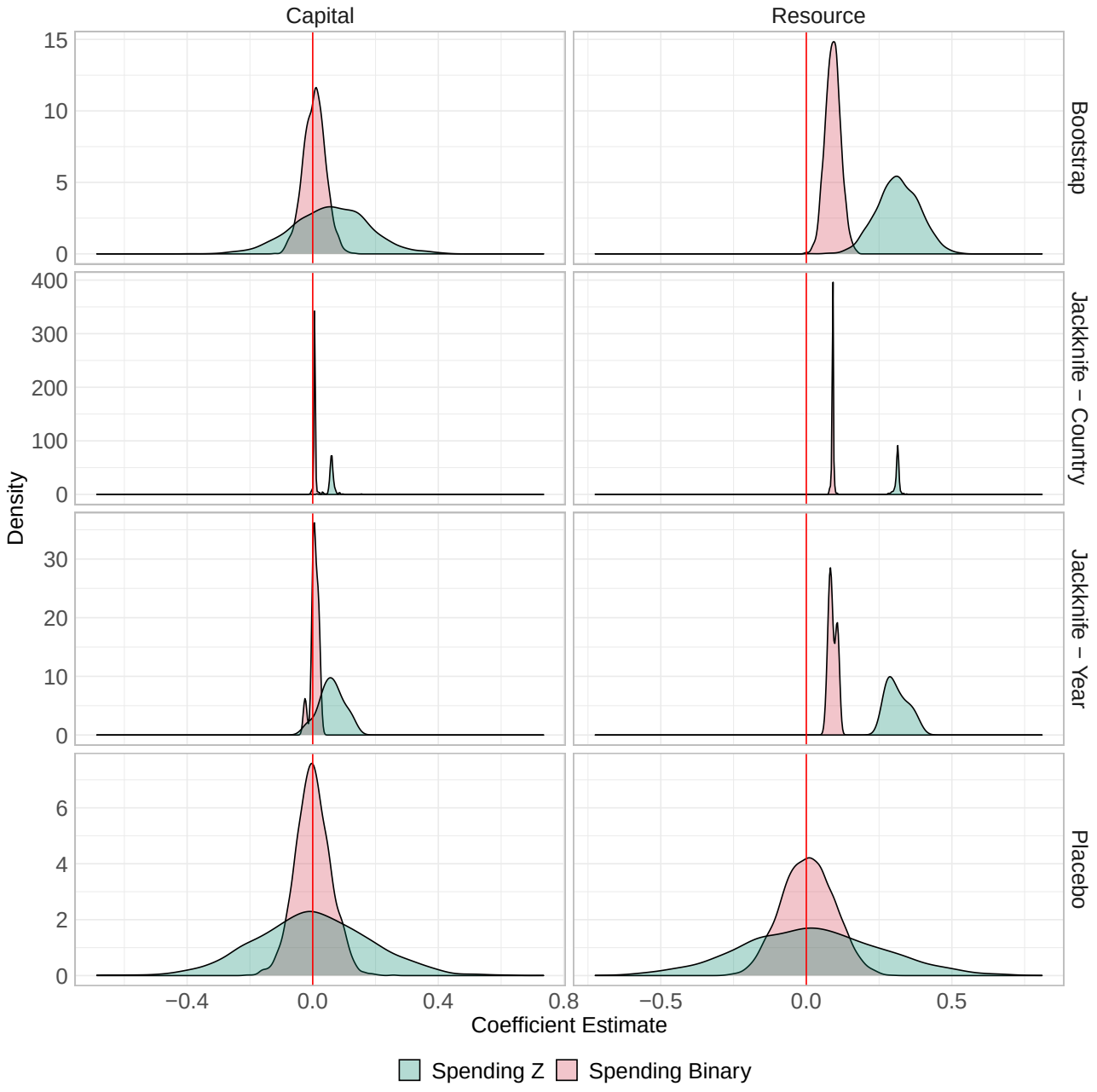


Figure C.2: Robustness of the overlapping fiscal year-end

Note: The figure illustrates the findings of several robustness tests of the overlapping local fiscal year-end *LFY End*×*Home FY End* for capital (on the left) and resource (on the right) budgets. The top panel presents bootstrap results, while the next two panels report the jackknife tests outcome for countries and years. The bottom panel presents the results of placebo tests.

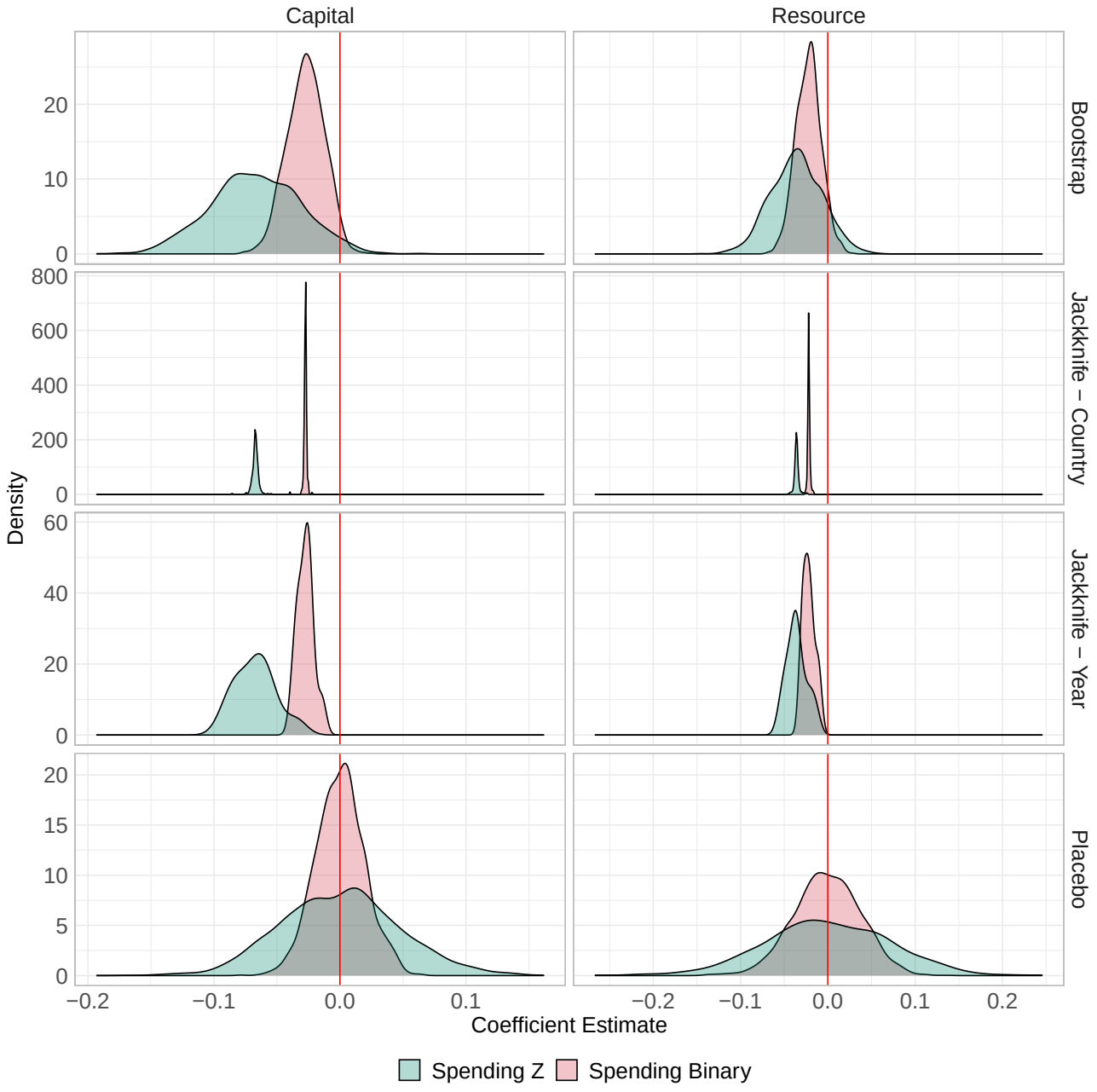


Figure C.3: Robustness of the local fiscal year-end

Note: The figure illustrates the findings of several robustness tests of the non-overlapping local fiscal year-end *LFY End* for capital (on the left) and resource (on the right) budgets. The top panel presents bootstrap results, while the next two panels report the jackknife tests outcome for countries and years. The bottom panel presents the results of placebo tests.

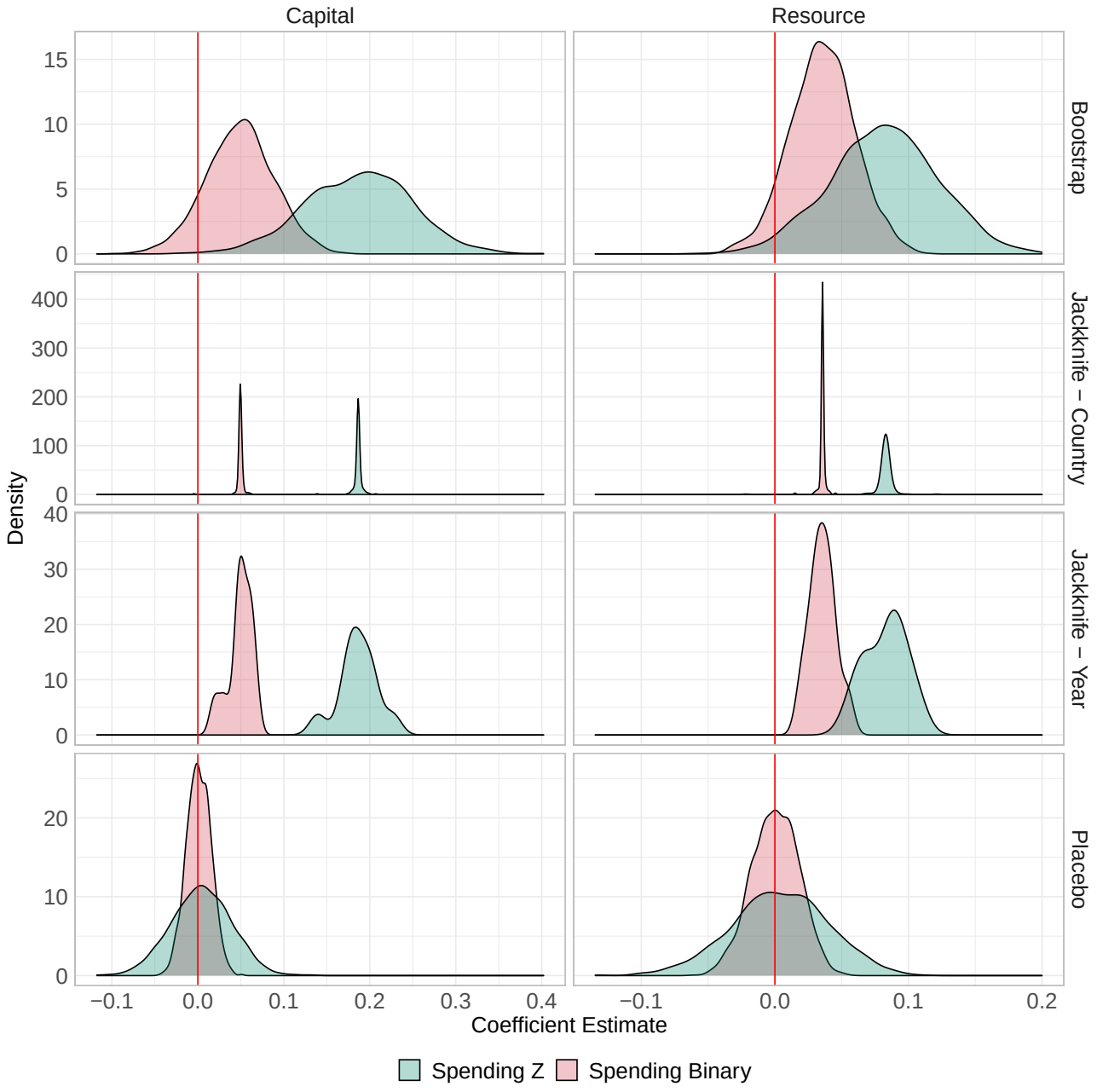


Figure C.4: Robustness of firms local fiscal year-end

Note: The figure illustrates the findings of several robustness tests of the local firms fiscal year-end *Firms LFY End* for capital (on the left) and resource (on the right) budgets. The top panel presents bootstrap results, while the next two panels report the jackknife tests outcome for countries and years. The bottom panel presents the results of placebo tests.

D Extensions

One potential consideration is that the influence of a host country's fiscal year on home overseas office spending patterns could depend on its economics conditions. To investigate this, we repeat the specifications controlling for home, overlapping and local fiscal year-end along with regular fixed effects (i.e. specification in column 1 of Table 1). We then interact the local fiscal year with several selected variables obtained from the dataset of Conte, Cotterlaz and Mayer (2022). Our specification is as follows:

$$\text{Spending}_{i,b,m,y} = \beta_0 + \beta_1 \text{LFY End}_{i,m} \times \text{Home FY End}_{i,m} \times V_{i,m} + \beta_2 \text{Home FY End}_{i,m} + \\ + \beta_3 \text{LFY End}_{i,m} \times V_{i,m} + m + \psi_{iy} + \epsilon_{i,b,m,y} \tag{D.1}$$

where all variables have the same meaning as described below equation 1. The one addition is $V_{i,m}$ which stands in for one of our three selected interaction variables.[23]

The first selected variable is GDP per capita (PPP).[24] The motivation for this is that wealthier countries may have larger year-end spending spikes.[25] These large year-end spending spikes may lead to more crowding out and hence more of an impact on the UK overseas offices located in these wealthier countries. The second selected variable is an EU membership dummy. Throughout the study period the UK was a member of the European Union and hence had freetrade with EU countries. In these circumstances the overseas office might be expected to source more goods and services from the UK and hence have less exposure to the local fiscal year. The third selected variable is the logarithm of distance (measured in kilometres) between the UK and the overseas country. This is also a proxy for the ease of trade between the UK and the overseas country.

Our finding are presented in Table D.1. The results for GDP per capita in columns (1) and (4) indicate that in the resource expenditure case there is a greater impact of the host government fiscal year. This finding is intuitive and is consistent with wealthier countries having larger governmental sectors have have a greater impact on overseas offices. The findings in columns (2) and (5) control for the EU membership show no statistically significant effect. This indicates that friction free access to the UK market does not have a large impact on our

[23] Note that $V_{i,m}$ is not included as a standalone regressor as a result of the fixed effects structure which causes it to drop out. In the EU membership case the interaction with LFY End × Home FY End also drops out as no EU countries have a March year-end.

[24] The coefficients in the below table use a z transform of this variable. Note that as a linear transformation this will not affect significance but does moderate the size of coefficients.

[25] The extent to which year-end spending spikes occur in poorer countries has not been well studied. Most previous studies in the economics literature on this topic have only examined OECD countries with the exception of our previous paper examining the (transition economy) Ukraine (Klymak and Baumann, 2022).

benchmark results. Finally, the results in columns (3) and (6) demonstrate that in the capital case larger distances means a greater impact of the local fiscal year when that local fiscal year ends in March. This could reflect greater difficulty in avoiding crowded out local suppliers by trading with the UK.[26]

[26] We note however that there are a small number of countries (notably including Japan and New Zealand) that are far away from the UK and with a fiscal year ending in March. This coefficient could be substantially influenced by a small number of such countries.

Table D.1: Extensions using *Spending Z*

	Resource (1)	Resource (2)	Resource (3)	Capital (4)	Capital (5)	Capital (6)
Home FY End	1.376***	1.400***	1.397***	0.841***	0.813***	0.815***
	(0.064)	(0.063)	(0.063)	(0.055)	(0.053)	(0.053)
LFY End×Home FY End	0.303***	0.312***	0.325***	−0.016	0.005	−0.168
	(0.108)	(0.096)	(0.108)	(0.154)	(0.152)	(0.170)
LFY End	−0.049	−0.033	−0.033	−0.065*	−0.068*	−0.068*
	(0.041)	(0.036)	(0.038)	(0.035)	(0.035)	(0.035)
LFY End×Home FY End×GDP Per Capita	−0.051			0.048		
	(0.060)			(0.068)		
LFY End×GDP Per Capita	0.089***			−0.001		
	(0.034)			(0.023)		
LFY End×EU		0.013			−0.004	
		(0.044)			(0.018)	
LFY End×Home FY End×Log Distance			−0.0003			0.311**
			(0.072)			(0.151)
LFY End×Log Distance			−0.022			−0.009
			(0.035)			(0.022)
Observations	33,072	35,499	35,259	17,817	19,071	19,047
R^2	0.218	0.224	0.224	0.161	0.158	0.159
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Overs. Office×Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: This table reports the estimates of home, overlapping and non-overlapping fiscal year-end months as well as local firms year-ends. We interact each local fiscal year end variable with GDP per capita, logarithm of distance between the UK and overseas office country and overseas office is based in the EU. The dependent variable in all columns is *Spending Z*. Columns (1) – (3) rely on the resource budget spending while columns (4) – (6) use spending from the capital budget. FE refer to each calendar month and overseas office-times-year fixed effects. The omitted reference category is spending during January. We report a standard error in parenthesis below each coefficient. Standard errors allow for clustering at the country level. We denote significance using *p<0.1; **p<0.05; ***p<0.01.