

Help Sheet 2: Key Elements in the Public Spending Policy Process in the United Kingdom

○ Introduction

This Help Sheet is designed to supplement discussion of the debates over welfare funding addressed in *The Companion*. It provides an introductory overview of the formal public spending process in the United Kingdom and the Government's main measures for managing its expenditure. The focus here is on current procedures, that is, those put in place and utilized by the Coalition Government elected in 2010.

○ Budget-Setting & Management

❖ **The Role of the Chancellor and the Treasury**

In the United Kingdom, the Chancellor of the Exchequer is the Finance Minister and Her Majesty's Treasury (HMT), the ministry responsible for formulating and overseeing the Government's economic and financial policy. Within the framework set by the Government's strategy, its officials advise, develop, and implement policies on issues such as: the overall management of the economy; determining the affordability and level of current and capital spending; the allocation of resources between programmes; provision for possible future needs; revenue raising, including the types and levels of taxation and borrowing levels; the distributional, financial, and broader economic implications of differing fiscal interventions; ways of containing public spending and ensuring its effective use.

❖ **Public Spending Policy Cycle**

Consultation and debate on public spending, like Government interventions generally, is clearly an ongoing process. It revolves, however, around the Chancellor's annual presentation of the Government's Budget to Parliament (usually in the spring) and the processes building up to this.

In the case of the Coalition Government elected in May 2010, an Emergency Budget was presented in June setting out the overall level of public spending – the so-called 'spending envelope'. This was followed in October by the publication of a Spending Review (SR). The Government's first main budget was delivered in March 2011, with an Autumn Statement in November setting the way for a biannual cycle in normal circumstances of a spring budget and follow-up Autumn Statement. (In practice, elements of the Government's proposals are often widely trailed ahead of publication.)

In line with its commitment to five-year fixed term Parliaments, the fiscal mandate set in the 2010 June Budget and the ensuing SR covered the four years 2011–2012 to 2014–2015. The 2011 Autumn Statement extended the Government's planning horizon beyond the 2015 election (to 2016–2017).

❖ **The Budget**

This is the Government's key financial and economic document, in which the Chancellor

- reports on the state of the economy and the public finances, including responding to the Office for Budget Responsibility's (OBR) forecasts (see below);

- sets out the Government's economic objectives and fiscal strategy (including its borrowing policy);
- spells out the overall level of public spending planned for a specified period (often called the 'spending envelope', this is usually set in the first budget);
- announces key initiatives or policies within the 'spending envelope' (in subsequent budgets, this may involve changes in the deployment of resources');
- details the taxes to be raised to finance planned spending, the Government's planned borrowing, and related matters; and
- provides updates on progress on the Government's objectives.

The Chancellor's Budget Speech is followed by a response from the Leader of the Opposition and an extended debate on its key proposals and the 'Budget Resolutions' (involving the renewal of taxes).

❖ The Finance Act

The tax and finance measures announced in the Budget are presented annually in the Finance Bill, which, once enacted (see Help Sheet 3), authorizes any changes to the tax law and, in effect, the Government's expenditure plans.

❖ The Autumn Statement¹

This facilitates policy-making by enabling the Chancellor to

- present an update on the state of the economy and the public finances, including a response to the OBR's forecasts (see below);
- provide a progress report on the Government's policies;
- preview policies that will inform the main budget ;
- announce new initiatives or measures to support the Government's objectives (this may involve changes within its spending plans and 'envelope'); and
- announce any revenue raising or funding changes.

It also enables the Chancellor and his advisors to take stock of the responses and feed those seen as relevant into the preparation of the main budget. Like the Spending Review (see below), the formulation of the Autumn Statement is subject to intense lobbying both within the Government with different departments pursuing their priorities and from external interest groups.

❖ The Spending Review (SR)²

¹ The Autumn Statement replaced the system of Pre-Budget Reports introduced in 1997 to set the context for the main budget in the spring, traditionally the only vehicle for announcing a government's economic and fiscal policies.

² The SR is part of the five-year financial planning cycle developed by the Coalition to replace Labour's three-year planning system introduced in 1998 (sometimes termed the Comprehensive Spending Review – CSR).

The SR is a Treasury-led system instigated in 2010 for apportioning resources in a 'spending envelope' to meet the Government's responsibilities for a specified time period. It sets out the Government's planned expenditure on central and local Government and public corporations and within this it

- Defines each Department's cash spending limits for current and capital expenditure for the period. The particular Department is then responsible for determining how it will manage and assign its allocation between its different responsibilities and ensuring it conforms to Government financial procedures for managing that expenditure (see below); and
- Assesses non-departmental spending that cannot be firmly set on a multi-year basis. This includes social security payments, tax credits, spending funded from the National Lottery and some components of local authority spending.

In preparing SRs, Treasury officials consult widely both within Government and beyond; the process is also subject to intense media coverage and lobbying as different departments make their funding case before the Cabinet makes its decisions.

In 2010, the SR process was headed by a committee of senior Cabinet Ministers (the Public Expenditure (PEX) Committee – or 'Star Chamber'), whose decisions drew on the work of a Permanent Secretaries Spending Review Group and other Treasury-departmental meetings. Departments were set criteria against which to prioritise their programming and spending, and the Government also created an Independent Challenge Group (ICG) of external experts and leading civil servants to advise it and a Spending Challenge scheme inviting public sector staff and the general public to feed ideas into the review.

○ **The Fiscal Framework: Key Mechanisms for Managing Public Expenditure**

Since the 1990s, UK Governments have developed various mechanisms intended to maintain fiscal stability by financing public spending from taxation rather than borrowing and hence limiting it to the sums the Government considered could be raised through taxes. Procedures designed to keep expenditure by departments, local authorities, and other public bodies within their allocated cash limits have also been introduced, along with measures to ensure relevant and efficient use of public resources in line with the Government's objectives.

The effectiveness of these is disputed, but the main controls for managing public expenditure are:

❖ **The Fiscal Stability Targets**

The Coalition Government has set itself two fiscal targets³:

- to balance the cyclically adjusted current budget by the end of the five-year forecast period (i.e., for current public spending to be funded from taxation with no additional borrowing requirement by 2015–2016);

³ These were instigated by the Chancellor in 2010. They replaced the 1998 Code for Fiscal Stability, which similarly provided for some flexibility and centred on: the 'golden rule' (under which government over the economic cycle would borrow to invest but not to finance current spending), and 'the sustainable investment rule' (under which net public debt would be held at a prudent level of GDP over the economic cycle – normally below 40%). There is some flexibility in the time frames, and the 2011 Autumn Statement (see above) extended the government's planning horizon.

- to reduce Public Sector Net Debt (i.e., the Government's financial liabilities minus its liquid assets) as a share of GDP by the end of the same forecast period.

❖ **The Office for Budgetary Responsibility (OBR)**

Established in May 2010, the OBR is a statutory independent fiscal watchdog charged with

- producing regular assessments and five-year forecasts on the state of the economy and the public finances;
- judging the Government's progress in meeting its fiscal targets;
- assessing the long-term sustainability of the public finances (including analysing aspects such as the costs of ageing and the Private Finance Initiative); and
- scrutinizing the Treasury's draft proposals in the buildup to the budget and Autumn Statement and assessing its final costings.

○ **The Transparency Framework⁴**

Launched in 2010, this is an accountability mechanism intended to ensure Government departments' planned expenditure meets their projected aims. It obliges them (and other public agencies) to publish business plans that incorporate performance indicators and provide monthly progress reports on these for general scrutiny. To further public accountability, spending departments (and local authorities) must also publish all Government contracts and details of all spending over £25 000.

○ **The Public Spending Process in Northern Ireland, Scotland, & Wales**

Under the current fiscal framework, responsibility for economic and fiscal policy and public expenditure across the United Kingdom rests with the Treasury and the UK Government allocates budgets to the devolved national administrations to fund the areas over which they have jurisdiction. Like departmental allocations, these are determined by the Spending Review (with the national 'share' calculated according to the population-based Barnett Formula). The individual administrations then have discretion to determine how their allocated budgets are spent in terms of their respective objectives and priorities.

Though the details may vary, the process for each of the national administrations revolves around two stages:

- ❖ The presentation of a Draft Budget in the Autumn which sets out spending plans and priorities for the following, and subsequent, years. It is subject to scrutiny by the elected members of the devolved assemblies, by the different administrations' committees and via public consultation.
- ❖ The second stage involves the presentation and approval by the elected members of the Final Budget and its linked budgetary legislation. (In Wales, this usually occurs later the same year;

⁴ This replaces the system of Public Service Agreements introduced in 1998 and published up until 2007 with the CSRs and associated auditing processes.

in Northern Ireland and Scotland early in the following year; and the Scottish Budget Bill having to complete all its Parliamentary stages by 14 February.)

The procedures in each administration also enable assessments of the Government's progress in implementing its financial plans as well as a review phase prior to the next UK Spending Review.

● **Further Reading**

The debates over public spending and taxation in the United Kingdom can be followed throughout *The Companion* and particularly in *chapters 35 and 36 and Parts VII and VIII*.

The UK Government's fiscal policies, including its Budgets, the Autumn Statement and Spending Review, expenditure management tools, and related consultations can be found on the Treasury web site (www.hm-treasury.gov.uk) and that of the OBR (budgetresponsibility.independent.gov.uk).

Policy development in the devolved administrations is addressed in *chapter 42 of The Companion*. Their governing party's/parties' spending plans and views on proposals to give the devolved Governments greater fiscal powers and budgetary discretion can be found on their respective web sites (see the *Guide to Key Sources on UK Social Policy* on this web site).