UK Spending Control
The role of HM Treasury

- Statutory role, accountable to Parliamentary scrutiny
- Designs budgeting framework
- Must centrally approve all public commitments to expenditure, before collective approval by Cabinet
- Chancellor and Chief Secretary on Cabinet
- Sets annual Budget (including tax changes); and allocates multi-year Spending Reviews
- Responsible for laying Estimates
- Departmental Accounting Officers accountable to Parliament
HM Treasury in practice

- Spending team focused on each department.
  - Ensure policy advice is consistent with Governments fiscal plan
  - Approve spend above ‘delegated limits’
  - Ensure that estimate and accounts adhere to spending plans.

- Central teams monitor overall spending and taxation position. Advise ministers on fiscal policy based on this position.

- (Usually) 2 fiscal events per year. This is the Chancellor’s opportunity to make changes to spending and taxation plans.
The UK budgeting framework – overview

**Spending Review**
Sets spending limits for future years

**Budget**
Sets out annual policy on revenue, spending and borrowing; followed by annual Finance Bill

**Supply Estimates**
Means by which Parliament approves spending for a specific year

**Annual Reports and Accounts**
Accounts report spending outturn against provision in the Supply Estimate (audited by the NAO)
The Budgetary Framework in 2012

- Move from Cash to Resource Account Budgeting in 2001
- Devolved budgets, split into resource and capital:
  - **Departmental Expenditure Limits (DEL):** fixed annual limits for departmental spending
  - **Annually Managed Expenditure (AME):** automatic stabilisers, debt interest, net EU, self-funded etc.
- DEL contingency reserve
- Restrictions on switches & end-year carry over
- Departmental Unallocated Provision
- Strict response to breaches of departmental limits
The UK budgeting framework (part 2)

- Departments need Treasury consent before undertaking expenditure above a delegated level
- Treasury monitors spending by Departments throughout the year, and assesses risks at both departmental and aggregate level
- DEL contingency reserve (less than 1%)
- Restrictions on switches and end-year carry over (Budget Exchange)
- (New) requirement for departments to identify 5% contingency
Office for Budget Responsibility

- Chancellor established the new Office for Budget Responsibility (OBR).
- It makes independent assessments of the public finances and economy. It has direct control over the forecast and makes all key judgments that drive official projections.
- Independence of the OBR’s judgements will ensure policy is made on an unbiased view of future prospects, improving confidence in the fiscal forecasts.
- The Chancellor retains responsibility for fiscal policy and sets the fiscal mandate, his target for fiscal policy.
- In each Budget and Autumn forecast the OBR will confirm whether the Government’s policy is consistent with a better than 50 per cent chance of achieving the forward looking fiscal target.
Accountability - NAO and parliament

Following the National Audit Act 1983, the National Audit Office (NAO) introduced value for money (VFM) studies – up to 70 reports are published each year.

- Appointed by the House of Commons, the Committee for Public Accounts (PAC) examines the accounts expenditure, showing the appropriation of the sums granted by Parliament to meet public.
- Committee established in 1861.
- Committee consists of 14 members. Chairman is opposition to current Parliament. Economic Secretary to the Treasury is an ex-officio member.
Accountability – the NAO process

NAO carries out a Value for Money study and produces a report.

An NAO report is discussed with the Departmental Accounting Officer at a PAC Hearing.

Department’s update the PAC on outstanding recommendations through a special Treasury Minute.

Government responds to PAC report through a Treasury Minute.

PAC hearing transcript agreed with Department. PAC produce a report.
Accountability – overall process

• If department is going to overspend their budget then in the first instance they are required to bear down on other policy pressures.

• If that is too difficult then HMT will consider additional funding for pressures that are truly “unforseeable, unavoidable and unabsorbable”. But total contingency pot is very small.

• If a department exceeds the amount of money that is voted to them by parliament then they are required to get an ‘excess vote’ by parliament to top up their budget.

• An excess vote, or any other irregularity in their accounts, will lead the NAO to qualify their accounts.

• The Public Accounts committee may then hold an meeting to challenge why the overspend or irregularity occurred.
Treasury’s approach to allocating budgets

Prior to 1992
- Public Expenditure Surveys.
- Annual bilateral negotiations between Treasury & departments.

1992-1998
- More top-down approach.
- Overall “control total” set each year for next three years.
- Only first year set in stone.

1998-2010
- Separation into DEL/AME and current/capital.
- Firm and fixed three-year departmental budgets set in SRs.
Spending Reviews: outline of process (part 1)

- UK Treasury sets departmental budgets in multi-year Spending Reviews – combination of programme-based and zero-based approach
- Government sets a spending ‘envelope’, divided between resource and capital
- HM Treasury issues each department with a ‘spending assumption’ and guidance for what data and analysis to provide
- Series of bilateral meetings and collective meetings (‘Quad’, PEX Cabinet Committee and Cabinet)
- Stakeholder engagement – seminars, independent reviews, internet portal

16 October 2013
Spending Reviews: outline of process (part 2)

- Announcement of Spending Review by Chancellor to Parliament (speech) and publication of Spending Review document (hard copy and online)
- Debate in Parliament
- Scrutiny by Treasury Select Committee
- But Parliament does not have to vote on or approve the Government’s plans at this stage – this happens in the annual Estimates process
- Estimates are the means by which the Government seeks funds from Parliament, and parliamentary authority for departmental expenditure, each year
Strengthening financial management

- HM Treasury continuously seeking to improve financial management, review of Financial Management reporting this Autumn
- Publication of Improving Spending Control – better (earlier) risk management, requirement for 5% contingency, improved data sharing
- Establishment of Efficiency and Reform Group in the Cabinet Office
- Ongoing programme of finance professionalism, including recent replacement of database used to store and monitor public spending data, and programme of staff training
- Announcement of ‘firm limit’ on welfare expenditure – detail to be developed