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 related fiscal arrangements and budget processes in the devolved administrations are outlined in Help Sheet 4).

Budget-Setting and Management

The Role of the Chancellor and the Treasury

In the UK, the Chancellor of the Exchequer is the Finance Minister and Her Majesty’s Treasury (HMT) the ministry responsible for constructing and overseeing the Government’s economic and financial policy. Within the framework set by a 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 practice, elements of the Government’s proposals are often widely trailed ahead of the Budget and related announcements).

The Budget

This is the Government’s key financial and economic policy document, ordinarily delivered in late March or after a general election, 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 (this is usually set in a Government’s 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;

provides updates on progress in meeting the Government’s objectives.

The key features of the Budget are summarised in the Chancellor’s Budget Statement to the House of Commons and detailed in full in the Budget Report published by the Treasury as ‘Budget 20..’ and often referred to as the ‘Red Book’.

The Chancellor’s Statement is followed by a response from the Leader of the Opposition and an extended (four-day) debate on its key proposals and the ‘Budget Resolutions’ (the tax measures proclaimed in the Budget). These become effective as soon as the House of Commons agrees them, though they only become legal with the enactment of the Finance Bill.

The Finance Act

The tax and finance measures announced in the Budget are presented annually in the Finance Bill. Once ratified this authorises any changes to the tax law and, in effect, the Government’s expenditure plans. As noted in Help Sheet 1 the bill has to be introduced in the House of Commons and then follows a similar route through Parliament. However, the Commons alone has the right to amend (as well as initiate) bills that are concerned primarily with levying taxes or approving expenditure. The first Introduction stage is followed by a second reading and the Committee Stage when elements of the bill are debated by the whole House before the Committee scrutiny stage (which can take several weeks). This is followed by the Report stage and third reading before it progresses through the Lords and receives the royal assent.¹

The Spending Review (SR)

This is a Treasury-led system introduced by the Labour administration in 1998 to provide an overview of the Government’s spending plans and its use of tax payments over a period of five years.² It sets out the Government’s planned expenditure and the share of what is often termed the ‘spending envelope’ for UK-wide/English Departments and also (within the Barnett Formula) provisions for the devolved legislatures.

For accounting purposes Government spending is divided into two types:

- Departmental Expenditure Limits (DEL), which cover the predictable elements of public spending such as Departments’ outlays on running the services they oversee, for example, health, housing or education.

- Annually Managed Expenditure (AME), which refers to demand-led outgoings that are difficult to forecast and cannot be firmly set on a multi-year basis as they are determined by factors beyond a Department’s control. These include spending on social security (which could, for instance, rise if unemployment increased) and Government debt interest payments.

¹ While the House of Lords holds a second reading debate, its role is limited and it does not consider the bill in detail or amend it, though its Economic Affairs Sub-Committee scrutinises aspects of the bill. Fuller scrutiny of the Budget is undertaken by the Commons Treasury Select Committee.

² It was initially termed the Comprehensive Spending Review and covered a three-year period. It was placed on a five-year basis by the Coalition government in 2010.

The Student’s Companion to Social Policy, Website for the Fifth Edition. Edward Brunsdon and Margaret May.
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Both DEL and AME include resource (or current) spending (recurrent outlays that are used up each year and constitute the bulk of public expenditure) and capital spending on buildings, land and other assets. From 2015 the SR also included AML (and the use of the ‘welfare cap’, see below).

The SR process is managed by the Treasury, which steers the complex negotiations with Departments that determine their spending limits for the set period (often referred to as the ‘spending round’). As part of that process Treasury officials consult widely within Government and beyond and the process is also subject to intense media coverage and lobbying as different Departments make their funding case. High-level spending decisions are dealt with by a committee of senior Cabinet Ministers formed in 2010, the Public Expenditure Cabinet Committee or ‘Star Chamber’. Once a Department’s budget is agreed it becomes responsible for determining how it will manage and distribute that budget between its different responsibilities and ensuring it conforms to Government financial procedures for managing that expenditure.

睑 The Autumn Statement

Instituted by the Coalition government in 2010, this facilitates policymaking by enabling the Chancellor to:

- present an update on the state of the economy and the public finances, based on the latest forecast from the OBR (see below);
- preview policies that will inform the main Budget (and in the case of a Government’s first Autumn Statement its overall strategy and policies);
- provide a progress report on the Government’s policies, taxation and spending plans (in later statements);
- announce new initiatives or measures to support the Government’s objectives (this may involve changes within its spending plans and ‘envelope’);
- Announce any revenue raising or funding changes.

Like the Spending Review the formulation of the Autumn Statement is subject to intense lobbying both within Government as different Departments press their priorities, and by external interest groups. It also enables the Chancellor and her/his advisors to take stock of responses to the Statement and feed those seen as relevant into the preparation of the main Budget.

睑 The Fiscal Framework: Key Mechanisms for Managing Public Expenditure

Since the 1990s UK Governments, like several others, have developed various mechanisms to limit the use of short-term measures that may be damaging over the longer term. More particularly they are intended to maintain fiscal stability by financing public spending from taxation rather than borrowing and hence limiting it to the sums the Government in office 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.

3 It replaced the system of Pre-Budget Reports instigated by the Labour administration 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.
As elsewhere the fiscal framework comprises a set of fiscal rules aimed at ensuring financial responsibility and debt sustainability and independent oversight of the Government’s decisions.

**The Charter for Budget Responsibility**

Under the 2011 Budget Responsibility and National Audit Act, the Government is obliged to provide Parliament with a ‘charter’ setting out its fiscal policy and approach to managing the public finances. In particular this has to specify the Treasury’s fiscal objectives, its fiscal mandate (the target for public sector borrowing), a supplementary debt target and the bases for its Budgets.

In addition since 2014 it also details the ‘welfare cap’ or ceiling placed on welfare spending. Introduced in the 2014 Budget this restricts the amount the Government can spend on certain social security benefits over a rolling (five-year) forecast period. The Treasury has to specify the scope and level of the Cap for the forthcoming five years in the first Budget of each Parliament and, once agreed, any changes to the level require approval by the House of Commons.

The fiscal rules set out in the Charter have been updated since the first in 2011. That for 2015 set the following Treasury targets for the period up to 2019/20:

- a fiscal mandate for the public sector’s overall Budget to be in surplus;
- the debt target for public sector net debt (i.e., the Government’s financial liabilities minus its liquid assets) to fall as a percentage of GDP each year;
- the welfare cap, covering 55% of social security spending, including tax credits, child and disability benefits but excluding pensions and Jobseekers Allowances.

**The Office for Budget Responsibility (OBR)**

Established in May 2010, the OBR is a statutory independent fiscal watchdog created to overcome concerns about flaws in and the authority of Government’s economic and fiscal forecasting and hence their fiscal policies. It is charged with:

- Assessing and reporting on the long-term sustainability of the public finances (including analysing aspects such as the costs of ageing), its main duty. Its projections on spending, tax and other revenues and their implications for public sector debt are published in its Fiscal Sustainability Report (published annually to 2015 and then biannually with reports on specific issues in-between).
- Providing five-yearly forecasts for the economy and public finances. These are produced at least twice a year and published alongside the Budget and Autumn Statement in its Economic and Fiscal Outlook.
- Judging the Government’s progress in meeting its fiscal targets.
- Scrutinising the Treasury’s draft costings of spending and tax measures in the build-up to the Budget and Autumn Statement, assessing the final costings and stating whether it endorses them.

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4 The OBR was initially governed by terms of reference set out by the Chancellor, and fully established by the 2010 Budget Responsibility and National Audit Act.
• Appraising the Government’s performance against the welfare cap. The assessment is published in its *Fiscal Sustainability Report* and it also publishes a yearly *Welfare Trends Report* addressing the drivers of and trends in welfare spending.

• Providing a biennial fiscal risk statement (a role introduced in 2015).

• Producing forecasts of devolved taxes (see Help Sheet 4).

Guidance on its role in scrutinising and reporting on the sustainability of the public finances is provided in the Charter for Budget Responsibility.

❖ **Departmental Performance Framework: Departmental Single Plans**

Published in early 2016 the plans are an accountability mechanism intended to ensure Departments meet the Government’s manifesto commitments and priorities and Budgets (agreed in the 2015 Spending Review transparently and efficiently. They set out Department’s prime objectives for the period 2015–2020 and how they will deliver these within their spending envelopes. The plans are updated annually in April and, with the aim of encouraging the public to track Department’s performance, they also include outcome indicators for charting their progress in meeting their objectives.  

❖ **The Public Spending Policy Cycle Since 2010**

The Coalition government elected in May 2010 presented an Emergency in June setting out the overall level of public spending. This was followed in October by the publication of a Spending Review. 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. Its first main Budget was delivered in March 2011. The Autumn Statement in November set the way for a cycle in normal circumstances of a spring Budget and follow-up Autumn Statement. It also extended the Government’s planning horizon beyond the 2015 election (to 2016–2017).

Following its election in May 2015 the Conservative government presented its first Budget in July (‘the Summer Budget’), followed by a joint Spending Review and Autumn Statement in November with a Budget in March 2016 setting the subsequent cycle in normal circumstances.

❖ **Further Reading**

The debates over public spending and taxation in the UK are evidenced throughout the *Companion* and particularly in *Chapters 21, 40, 41 and Parts VIII and XI*.

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 website ([www.gov.uk/government/organisations/hm-treasury](http://www.gov.uk/government/organisations/hm-treasury)) and that of the OBR ([www.budgetresponsibility.org.uk](http://www.budgetresponsibility.org.uk)) (See the *Guide to Key Sources on UK Social Policy* on this website).

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5 This framework replaces the 2010–2015 system of Departmental Business Plans and the earlier process of Public Service Agreements introduced in 1998 and published up to 2007.