



HM TREASURY

# **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

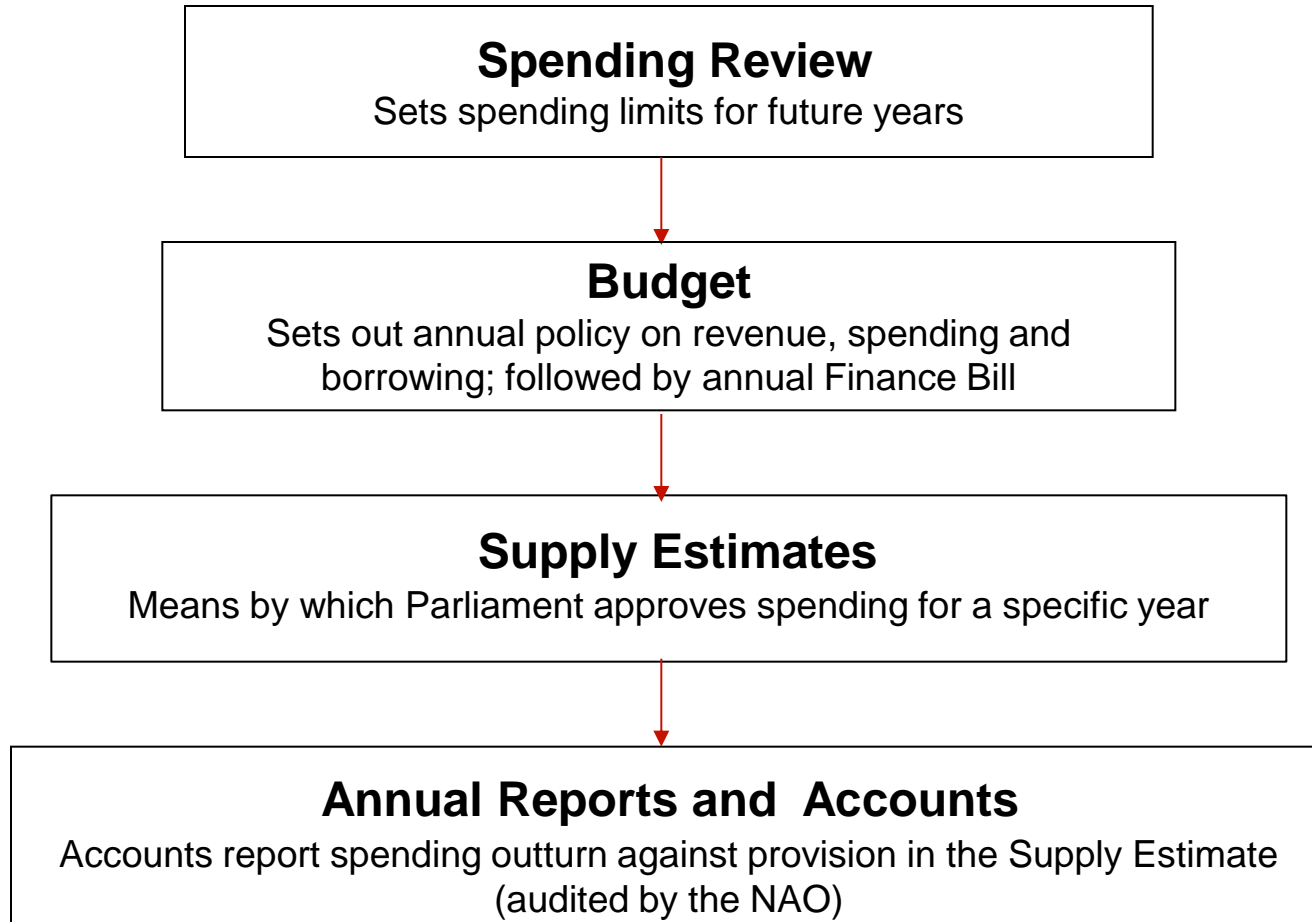


## HM Treasury in practice

- Spending team focussed on each department.
  - Ensure policy advice is consistent with Government's 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





## 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.
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## Accountability - NAO and parliament



National Audit Office

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.



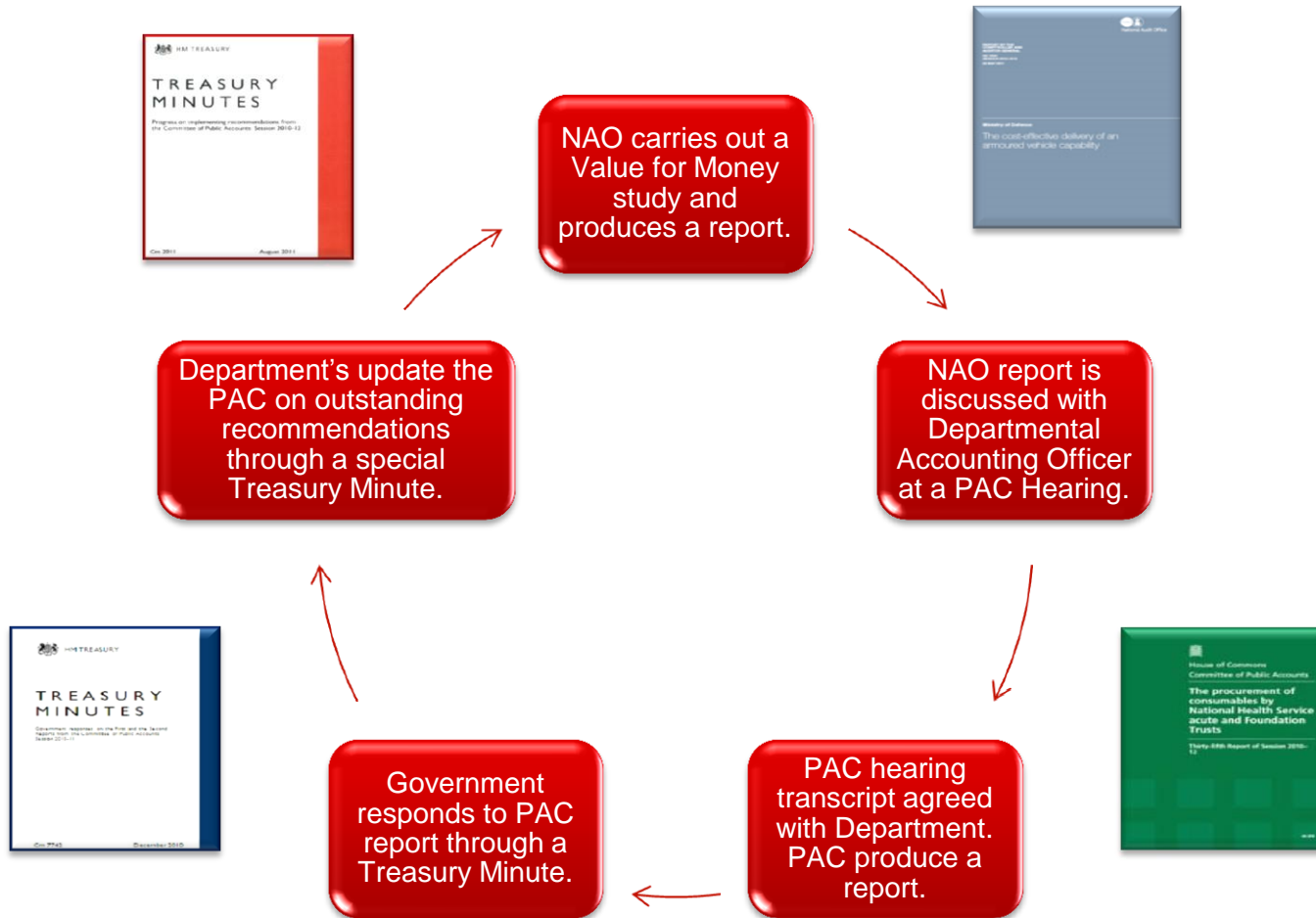
HOUSE OF COMMONS

- 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



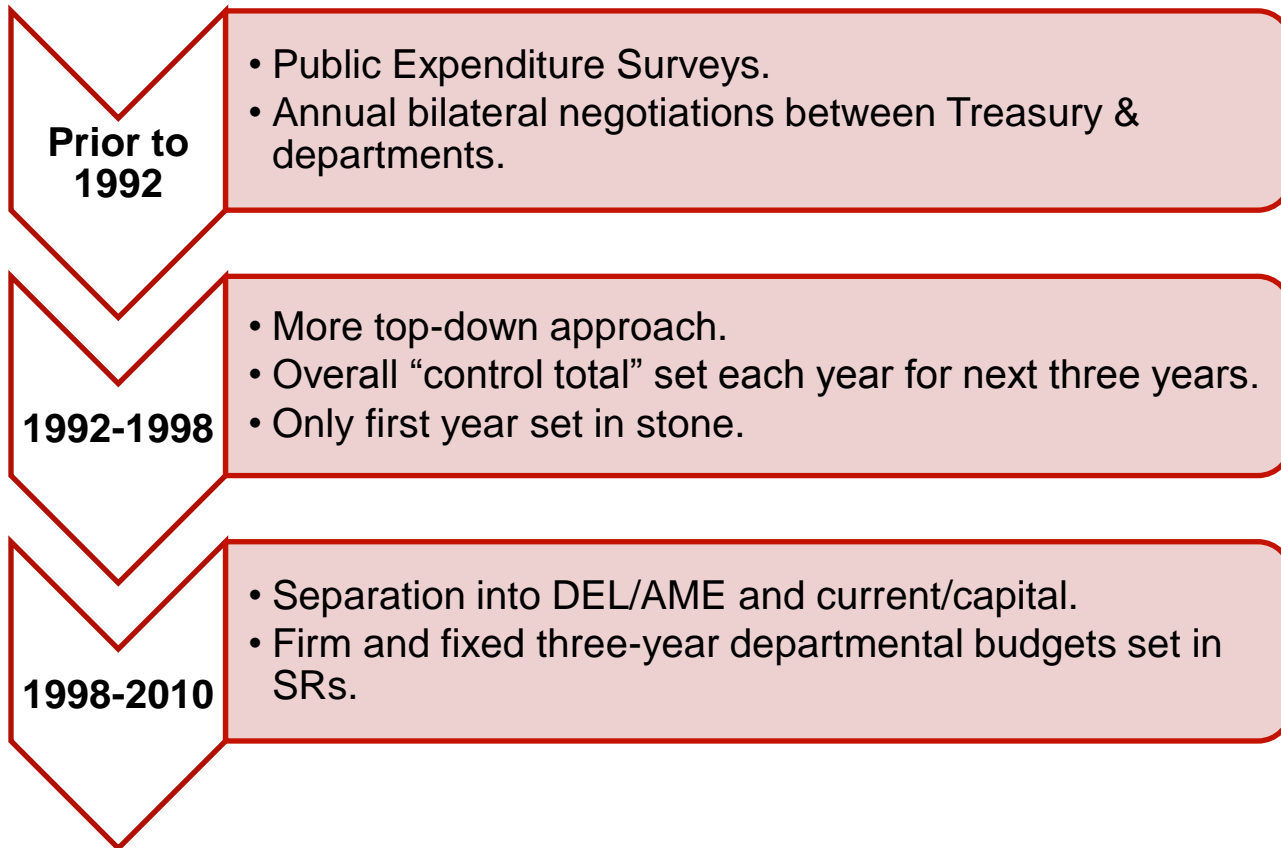


## Accountability –overall process

- 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 “unforeseeable, 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 a meeting to challenge why the overspend or irregularity occurred.



# Treasury's approach to allocating budgets





## **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



## 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