



HM TREASURY

UK Spending Review process

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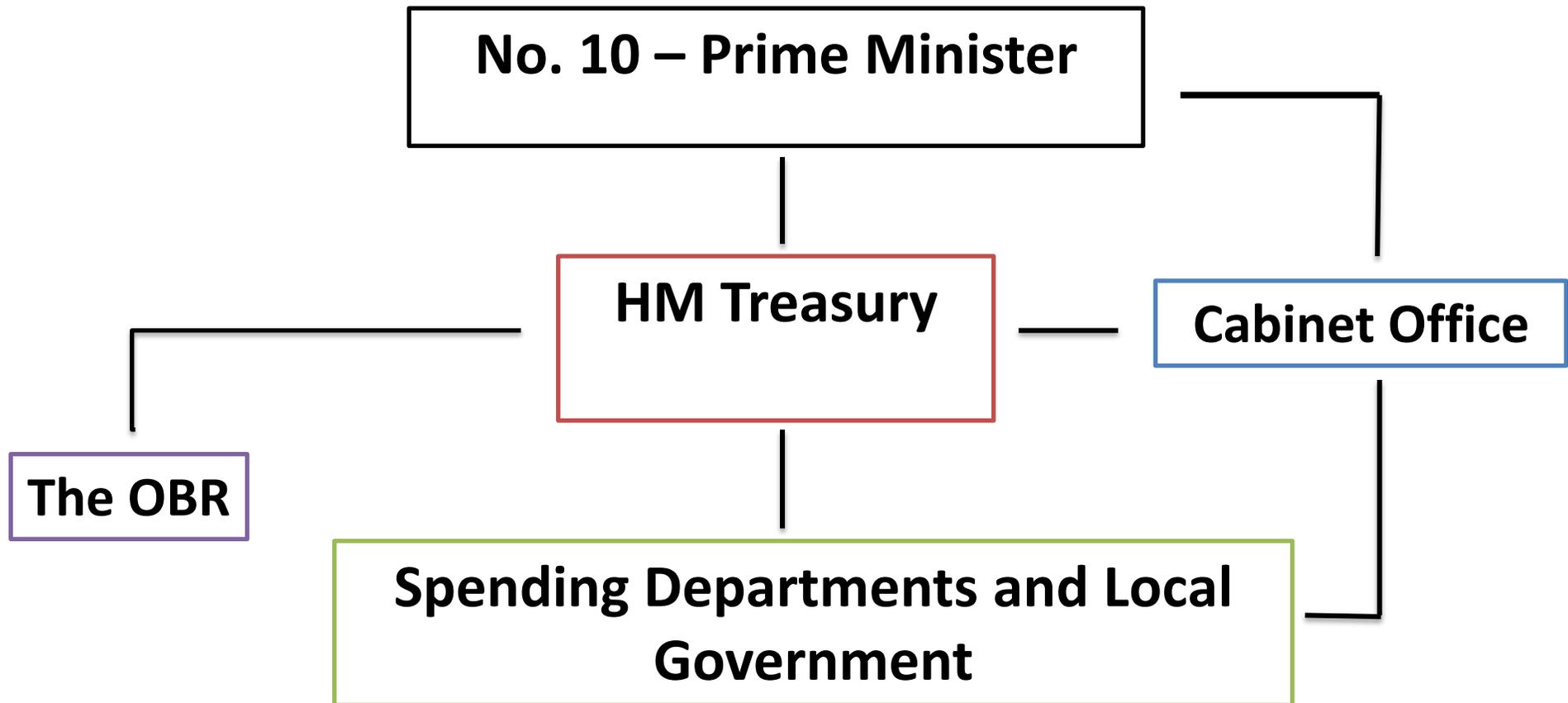
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The role of HM Treasury

- Allocating, controlling and reporting public expenditure
- Chancellor and Chief Secretary in Cabinet
- Designs budgeting framework and fiscal mandate
- Runs multi-year Spending Reviews
- Annual Budgets and Autumn Statements predominantly about tax
- Departmental Accounting Officers accountable to Parliament

Treasury within the UK government



A brief history of Spending Reviews

**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 multi-year departmental budgets set in SRs

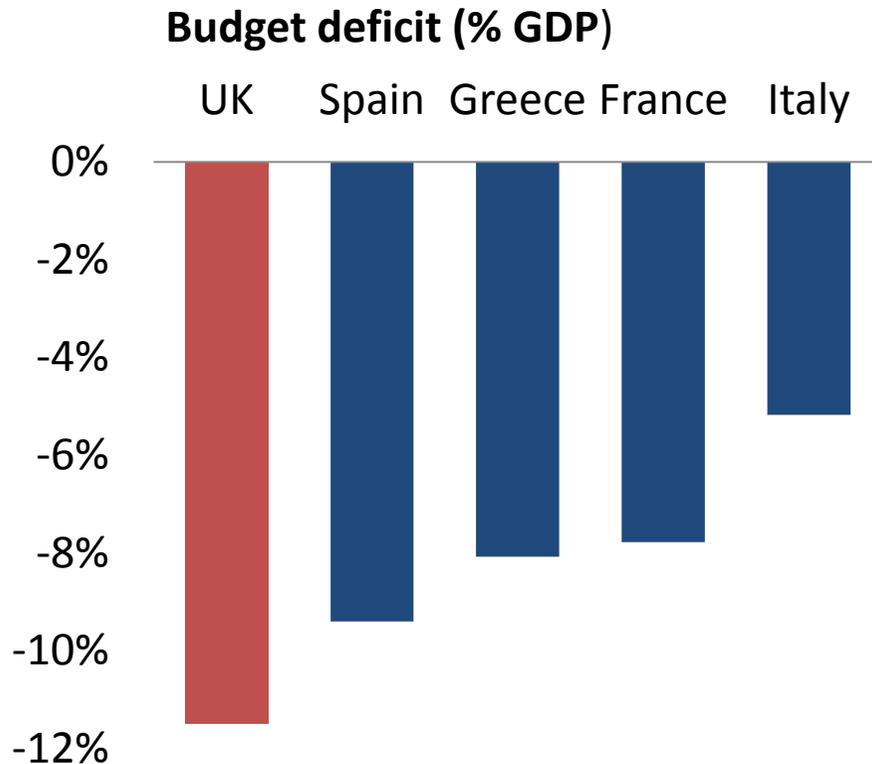
The Budgeting Framework in 2013

- Devolved budgets, split into resource and capital:
 - **Departmental Expenditure Limits (DEL):** fixed annual limits for departmental spending
 - **Annually Managed Expenditure (AME):** welfare, debt interest, net EU, self-funded etc.
- DEL contingency reserve
- Restrictions on switches & end-year carry over
- Strict response to breaches of departmental limits
- Departmental Unallocated Provision

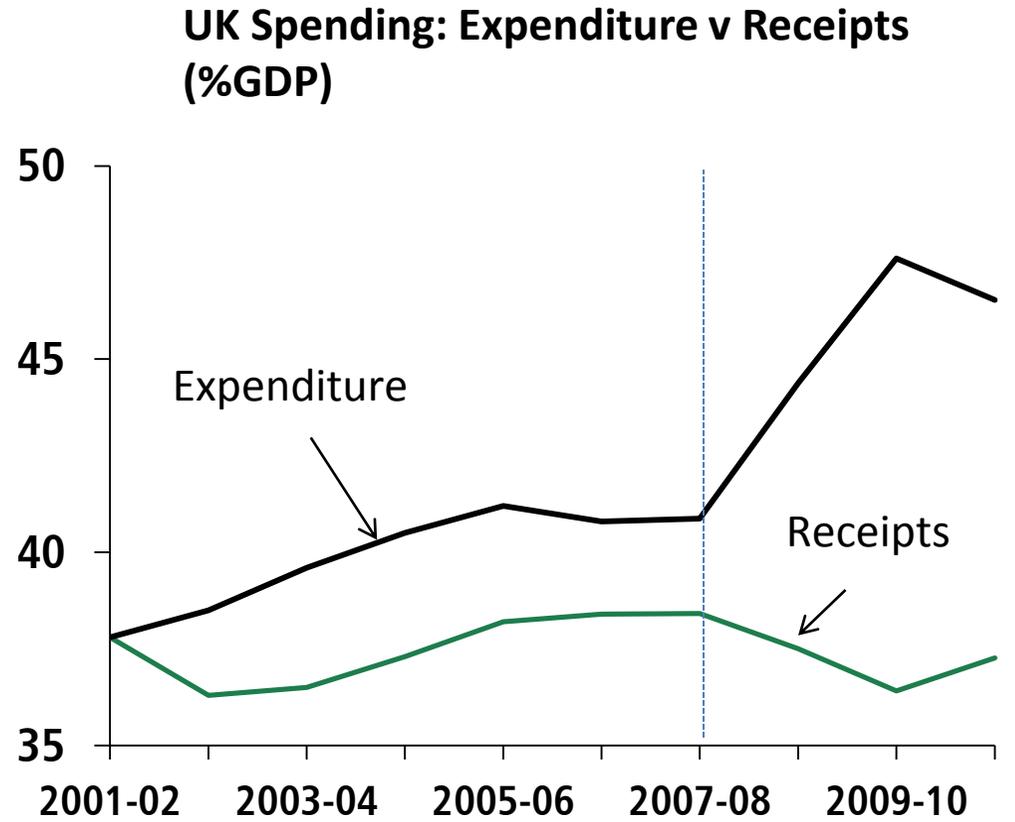
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2010: the Need for Consolidation



Source: OECD Economic Outlook 87 database, General Government Financial Balances (2010)



Source: OBR and ONS

In 2010, the UK had one of the highest deficits in the developed world – UK Government spending was following an unsustainable path.

General Election, May 2010

➤ Coalition agreement:

- strong political commitment to deficit reduction focussed on spending cuts;
- independent Office for Budget Responsibility established.

➤ Emergency Budget, June 2010:

- Fiscal mandate and debt target set path for deficit reduction (c.£80bn by 2014/15)
- Announced £30bn savings:
 - £11bn welfare savings
 - £3.3bn two year pay freeze
 - £6bn efficiency
 - £10bn debt interest savings as a result of consolidation
- Launched Spending Review 2010

SR10 process: June to Oct 2010

- **Engagement with departments:**
 - Spending Review Framework (June)
 - HMT sets guidance and planning assumptions (June/July)
 - Departmental submissions returned by late July
- **Ministerial engagement:**
 - Bilaterals
 - PEX Cabinet Committee
 - Quad
- **External engagement:**
 - Independent Challenge Group
 - Internet portal
 - Independent reviews: public service pensions, tuition fees
 - Strategic Defence and Security Review

SR 2010 – scale of consolidation

Expenditure (% of GDP)	2010	2011	2012	2013	2014	2015	2016
Canada	44.0	42.7	42.0	41.7	41.3	40.9	40.8
France	56.6	56.0	56.2	56.1	55.5	54.7	53.7
Germany	47.7	45.3	44.9	44.8	44.7	44.4	44.2
Italy	50.5	49.9	51.0	50.6	50.4	50.2	50.1
Japan	39.0	40.4	41.1	40.6	40.0	40.0	40.2
United Kingdom	46.4	45.3	45.5	44.4	43.1	41.6	40.3
United States	42.9	41.5	40.6	40.5	39.8	39.6	39.7

Source: IMF staff estimates and projections, *IMF Fiscal Monitor October 2012*

SR 2010 Choices

- The Government made choices to prioritise key areas of spending: Health, Schools, Overseas Aid.
- The major savings came from **welfare, public sector pay** (2 year freeze) and significant **reforms to public sector pensions**.
- Spending contributes around 80% of the total consolidation by 2014/15, mostly delivered through **spending departments**.

Source: Budget 2013

Table 1.2: Total consolidation plans over the forecast period					
	£ billion				
	2011-12	2012-13	2013-14	2014-15	2015-16
Total discretionary consolidation	41	74	84	103	130
Spending	23	53	58	80	105
Tax	18	21	25	23	25
Spending share of consolidation (per cent)	56	72	70	77	80

Sustainable public finances

- The Government made short term choices to about what services the should be provided by the public sector, including:
 - **Higher education:** The Higher Education budget will be reduced by c£3bn between 2010-11 and 2014-15
 - **Health:** over the SR period, £20bn in efficiency savings from the National Health Service - in 2011-12 made £5.8bn of efficiency savings
- And choices to improve the long-term sustainability of public finances, including changes to state pension age and the uprating of benefits from RPI to CPI
- Changes to pensions announced at SR2010 have been followed up by further reforms, giving estimated savings over €500bn over the next 50 years.

Strengthened financial management

- Successful implementation began with open engagement with spending departments and the wider public before SR10
- Treasury continues to work closely with the rest of Government; particularly with the Efficiency and Reform Group in Cabinet Office.
- The Treasury has pushed improved financial management:
 - identifying spending risks early
 - improved data and information sharing (on a monthly basis).
- Spending data is collated and presented to the Chief Secretary every month.

Success stories

- Setting a **four year plan and sticking to it**: increases credibility in the markets and has given departments valuable certainty to plan for diminishing spending power.
- **Transparency**: HM Treasury scrutinises Department spending, the OBR does so for the whole of Government, to ensure we are on track to meet our objectives.
- **External engagement**: resource intensive, but helps make the consolidation stick with departments and the wider public.

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The next challenge: a deteriorating forecast

- Since SR10, the OBR has forecast a lower level of trend output and higher borrowing.
- The UK's response has been:
 - Using the flexibility in the fiscal framework to allow the automatic stabilisers to support the economy in the short-term
 - Reduce spending in the medium and long-term to make the public finances more sustainable
 - Accelerate supply side reforms to invest in infrastructure, support enterprise and build a stronger and more balanced economy.
- The Government will set budgets for 2015-16 (the final year of this Parliament) in June