

# Public expenditure and taxation in the UK

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# The structure of the lecture

History and development of public budgeting and public expenditure planning

The political context of budgeting, including key actors, roles and processes

Current challenges and problems with the budgetary and spending processes

Comparative perspectives on budgeting

# Origins – State expenditure

States require resources to pay for their activities

Early English/British government:

First 'appropriation' [denoting of use] in 1340

Royal household ('Civil List' – 1698)

- civil government, Royal Household

Public construction, eg, palaces

Army, Navy

War

Subsidies, patronage

# Origins - income

Revenues derived from:

Levies on trade, markets

Property: Poor Law, 1601

Stamp Duty

Duty on commodities, eg, tea (NB: colonies)

Poll taxes (per capita)

Windows

Taxes on alcohol

Income tax only from 1799-1802, then 1842

'Rates' (property – parishes)

# Modern budgeting

“In most countries [the term ‘budget’] refers to the annual expenditure and revenue plans tabled in the legislature”

- Joachim Wehner, 2010

Ubiquitous in democratic governments across the world

Principle of Parliamentary consent to taxation gained constitutional recognition in Magna Carta

# UK government budgeting -1

HM Treasury enjoys powers inherited from the Crown, especially in relation to 'appropriations'

Cabinet has a powerful role in determining the annual budget

Powers of House of Commons in relation to voting on the annual budget are limited by Standing Orders

House of Lords cannot vote on legislation concerned with public money, but does hold a budget debate

# UK government budgeting - 2

Role of Parliament reflects historic relationship with the Crown

- Sovereign sought approval and authority of Parliament to raise taxes for spending

The Crown (Cabinet/HMTreasury) proposes taxation and expenditure, not Parliament

Scotland and Wales now have devolved budgetary processes

# UK government budgeting - 3

The principle of annuality for 'supply' (resource provision) is explicit in law

Specific provision for expenditure is only for a specified financial year only

The principle of universality – all revenues and expenditures are included in budget-related documents – is not embedded in legislation in the UK, although it is practised

The principle of unity is absent: separate laws and legal processes are used to approve the annual revenue and expenditure estimates.

The principle of specificity needs to be qualified. Parliament approves very broad aggregates.

# UK government budgeting - 4

## Key actors

(The Crown)

Prime Minister

- wide, informal, powers (eg, right (by convention) to appoint and dismiss ministers)

HM Treasury derives power from Royal prerogative

Chancellor of the Exchequer is 'finance minister'

- Civil servants work to deliver government policy
- Permanent Secretaries (in spending departments) are 'Accounting Officers' for each department's use of resources

# UK government budgeting - 5

## The process of budgeting

The Chancellor's annual *Financial Statement and Budget Report* [March, or after GE]

- Determines overall tax take and rates for each tax
- Now subject to Office for Budget Responsibility oversight

Finance Bill

- Parliamentary scrutiny, Committee stage, amendments

Parliamentary approval for expenditure delivered through the 'supply' process

- *Supply Estimates* published in line with government's published *Spending Review* [Department-by-department totals]
- Can be revised by mid-year *Supplementary Estimates*



HM TREASURY

# BUDGET 2013

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HC 1033

March 2013

Table 2 Supply Estimates by department

	£'000		
	2013-14 Plans	2012-13† Provisions	2011-12† Outturn
<b>Supply Estimates presented by HM Treasury</b>			
<b>Department for Education</b>			
Departmental Expenditure Limit			
Resource	53,266,962	53,246,452	50,281,442
Capital	3,982,600	4,501,600	5,042,189
Annually Managed Expenditure			
Resource	-16,385	1,070,968	63,634
Capital	-	-	-
Total Net Budget			
Resource	53,250,577	52,317,420	50,345,076
Capital	3,982,600	4,501,600	5,042,189
Non-Budget Expenditure	-	-	-
Net Cash Requirement	56,496,886	54,533,818	67,494,285
<b>Teachers' Pension Scheme (England &amp; Wales)</b>			
Departmental Expenditure Limit			
Resource	-	-	-
Capital	-	-	-
Annually Managed Expenditure			
Resource	10,227,675	10,577,939	11,399,947
Capital	-	-	-
Total Net Budget			
Resource	10,227,675	10,577,939	11,399,947
Capital	-	-	-
Non-Budget Expenditure	-	-	-
Net Cash Requirement	3,651,494	3,438,453	3,078,689
<b>Office for Standards in Education, Children's Services and Skills</b>			
Departmental Expenditure Limit			
Resource	175,782	171,421	171,573
Capital	-	1,100	173
Annually Managed Expenditure			
Resource	-3,000	-71	-6,218
Capital	-	-	-
Total Net Budget			
Resource	170,782	171,350	165,355
Capital	-	1,100	173
Non-Budget Expenditure	-	-	-
Net Cash Requirement	169,442	171,463	170,941
<b>Office of Qualifications and Examinations Regulation</b>			
Departmental Expenditure Limit			
Resource	17,304	18,058	16,132
Capital	100	100	602
Annually Managed Expenditure			
Resource	-	-	-
Capital	-	-	-
Total Net Budget			
Resource	17,304	18,058	16,132
Capital	100	100	602
Non-Budget Expenditure	-	-	-
Net Cash Requirement	17,807	17,338	15,860

# UK government budgeting - 6

Legal authority for government expenditure given by Appropriation Acts and the Consolidated Fund Act

Appropriation Acts give legal force to the Supply Estimates

The Consolidated Fund Act authorises a single sum of money for the supply of resources for government expenditure

These Acts are voted on without debate

# A real process of merely a formality?

Closer to a formality than a true budgetary process

‘Supply’ debates are now largely used for Opposition or general debates, and are rarely linked to the government’s financial proposals laid out in the Supply Estimates

- Anyway, constitutional practice dictates that the House of Commons cannot propose increases to estimates or, indeed, transfers within budget heads
- Rejection is the only (nuclear) option which government MPs will stop
- More recently, departmental select committees consider estimates

“99.9 per cent of government spending is passed without even the pretence of formal debate” (Alex Brazier and Vidya Ram in *Inside the Counting House*, Hansard Society, 2005)

# Other important processes

## Government Spending Reviews

- generally every two years
- determined by negotiations between the Treasury and all other departments

## Public Expenditure Statistical Analyses

- annual publication showing outturn expenditure

## Departmental Annual Reports

- outline policies, aims and objectives of each department
- also expenditure on major elements of services

**Table 1.1 Total Managed Expenditure, 2008-09 to 2014-15**

	National Statistics							£ million
	2008-09 outturn	2009-10 outturn	2010-11 outturn	2011-12 outturn	2012-13 outturn	2013-14 plans	2014-15 plans	
<b>CURRENT EXPENDITURE</b>								
<i>Resource DEL</i>								
Resource DEL excluding depreciation	305,012	323,905	330,149	326,380	321,663	320,700	315,700	
Depreciation in resource DEL	12,389	13,843	20,509	19,266	21,065	19,700	20,400	
<b>Total resource DEL <sup>(M)</sup></b>	<b>317,401</b>	<b>337,748</b>	<b>350,658</b>	<b>345,646</b>	<b>342,728</b>	<b>340,300</b>	<b>336,100</b>	
<i>Resource departmental AME</i>								
Social security benefits	146,343	159,165	164,806	170,791	178,332	180,466	184,499	
Tax credits <sup>(M)</sup>	24,171	27,667	28,938	29,976	30,170	30,091	30,165	
Net public service pensions <sup>(M)</sup>	5,340	1,528	-78,073	6,012	4,797	7,269	6,820	
National lottery	1,011	1,001	995	1,399	1,283	932	932	
BBC domestic services	3,316	3,464	3,559	3,391	3,370	3,611	3,826	
Student loans	-976	-256	-301	-642	-756	-1,081	-1,689	
Non-cash items	42,271	46,723	55,064	52,418	54,070	45,752	47,988	
Financial sector interventions	41,551	-27,592	-14,247	-16,143	-18,122	-1,609	-151	
Other departmental expenditure	2,879	4,147	2,011	-848	2,596	4,258	4,313	
<b>Total resource departmental AME</b>	<b>265,906</b>	<b>215,847</b>	<b>162,751</b>	<b>246,354</b>	<b>255,740</b>	<b>269,689</b>	<b>276,701</b>	
<i>Resource other AME</i>								
Net expenditure transfers to the EU	3,060	6,419	8,414	7,702	9,131	8,293	7,366	
Locally financed expenditure <sup>(M)</sup>	26,966	25,794	22,968	22,062	25,774	36,832	38,758	
Central government debt interest	30,852	30,479	45,165	47,714	46,967	49,530	51,847	
Accounting adjustments <sup>(M)</sup>	-77,626	-12,189	44,526	-25,179	-22,861	-31,760	-30,734	
<b>Total resource other AME</b>	<b>-16,748</b>	<b>50,503</b>	<b>121,073</b>	<b>52,299</b>	<b>59,011</b>	<b>62,894</b>	<b>67,236</b>	
<b>Total resource AME</b>	<b>249,158</b>	<b>266,350</b>	<b>283,824</b>	<b>298,653</b>	<b>314,751</b>	<b>332,583</b>	<b>343,938</b>	
<b>Public sector current expenditure</b>	<b>566,559</b>	<b>604,098</b>	<b>634,482</b>	<b>644,299</b>	<b>657,479</b>	<b>672,900</b>	<b>680,000</b>	
<b>CAPITAL EXPENDITURE</b>								
<i>Capital DEL</i>								
<b>Total capital DEL</b>	<b>48,511</b>	<b>56,959</b>	<b>49,665</b>	<b>42,317</b>	<b>39,304</b>	<b>42,200</b>	<b>44,900</b>	
<i>Capital departmental AME</i>								
National lottery	536	752	597	404	513	497	568	
BBC domestic services	81	123	122	172	109	138	145	
Student loans	4,475	4,601	4,958	5,857	6,860	8,506	10,713	
Financial sector interventions	85,525	38,281	-3,015	-4,571	-3,606	-1,871	-	
Other departmental expenditure	249	738	1,147	734	-76	2,278	2,188	
<b>Total capital departmental AME</b>	<b>90,866</b>	<b>44,494</b>	<b>3,809</b>	<b>2,597</b>	<b>3,799</b>	<b>9,549</b>	<b>13,614</b>	
<i>Capital other AME</i>								
Locally financed expenditure	6,926	5,415	5,342	16,330	8,087	6,405	6,267	
Public corporations' own-financed capital expenditure	9,331	8,191	9,300	6,547	6,653	4,995	5,005	
Accounting adjustments <sup>(M)</sup>	-87,941	-46,666	-8,679	-17,484	-40,068	-16,013	-19,395	
<b>Total capital other AME</b>	<b>-71,683</b>	<b>-33,061</b>	<b>5,963</b>	<b>5,393</b>	<b>-25,328</b>	<b>-4,613</b>	<b>-8,123</b>	
<b>Total capital AME</b>	<b>19,182</b>	<b>11,434</b>	<b>9,772</b>	<b>7,990</b>	<b>-21,528</b>	<b>4,936</b>	<b>5,491</b>	
<b>Public sector gross investment <sup>(M)</sup></b>	<b>67,693</b>	<b>68,393</b>	<b>59,437</b>	<b>50,307</b>	<b>17,776</b>	<b>47,200</b>	<b>50,400</b>	
less public sector depreciation	19,146	19,999	20,784	21,625	22,528	22,990	23,810	
<b>Public sector net investment <sup>(M)</sup></b>	<b>48,547</b>	<b>48,394</b>	<b>38,653</b>	<b>28,682</b>	<b>-4,752</b>	<b>24,200</b>	<b>26,600</b>	
<b>TOTAL MANAGED EXPENDITURE <sup>(M)</sup></b>	<b>634,252</b>	<b>672,491</b>	<b>693,919</b>	<b>694,606</b>	<b>675,255</b>	<b>720,000</b>	<b>730,400</b>	

# Audit

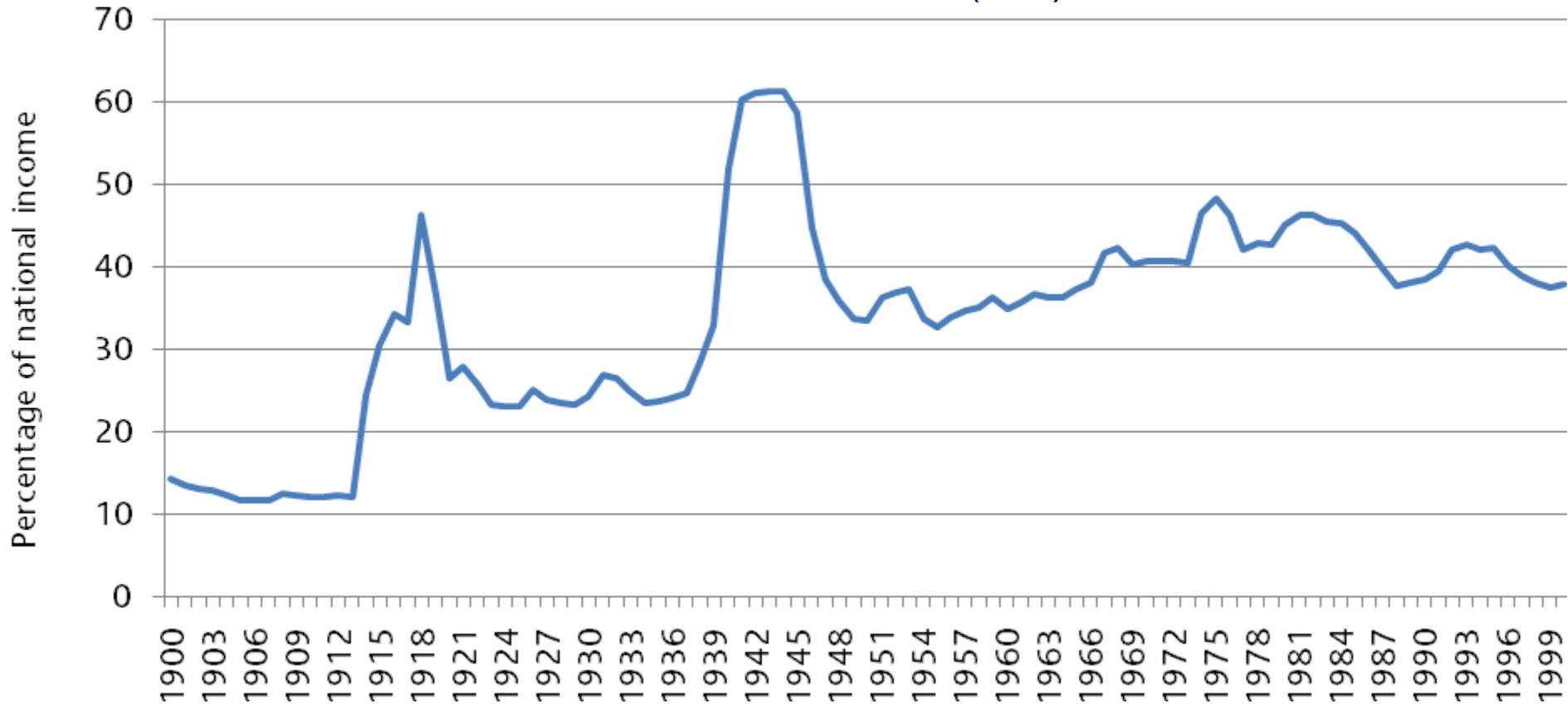
External audit function established in 1866

Exchequer and Audit Department

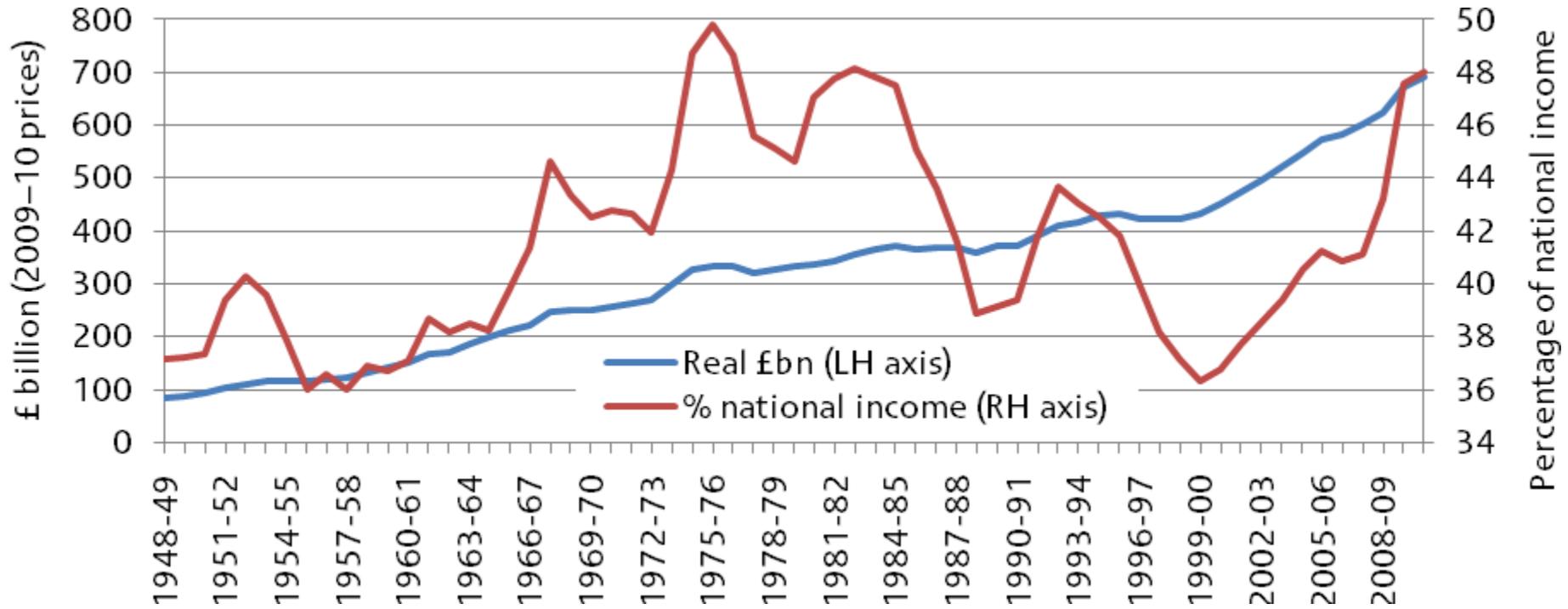
Today: National Audit Office, headed by  
Comptroller & Auditor General

- C&AG is an officer of Parliament

# General government expenditure since 1900 (IFS)

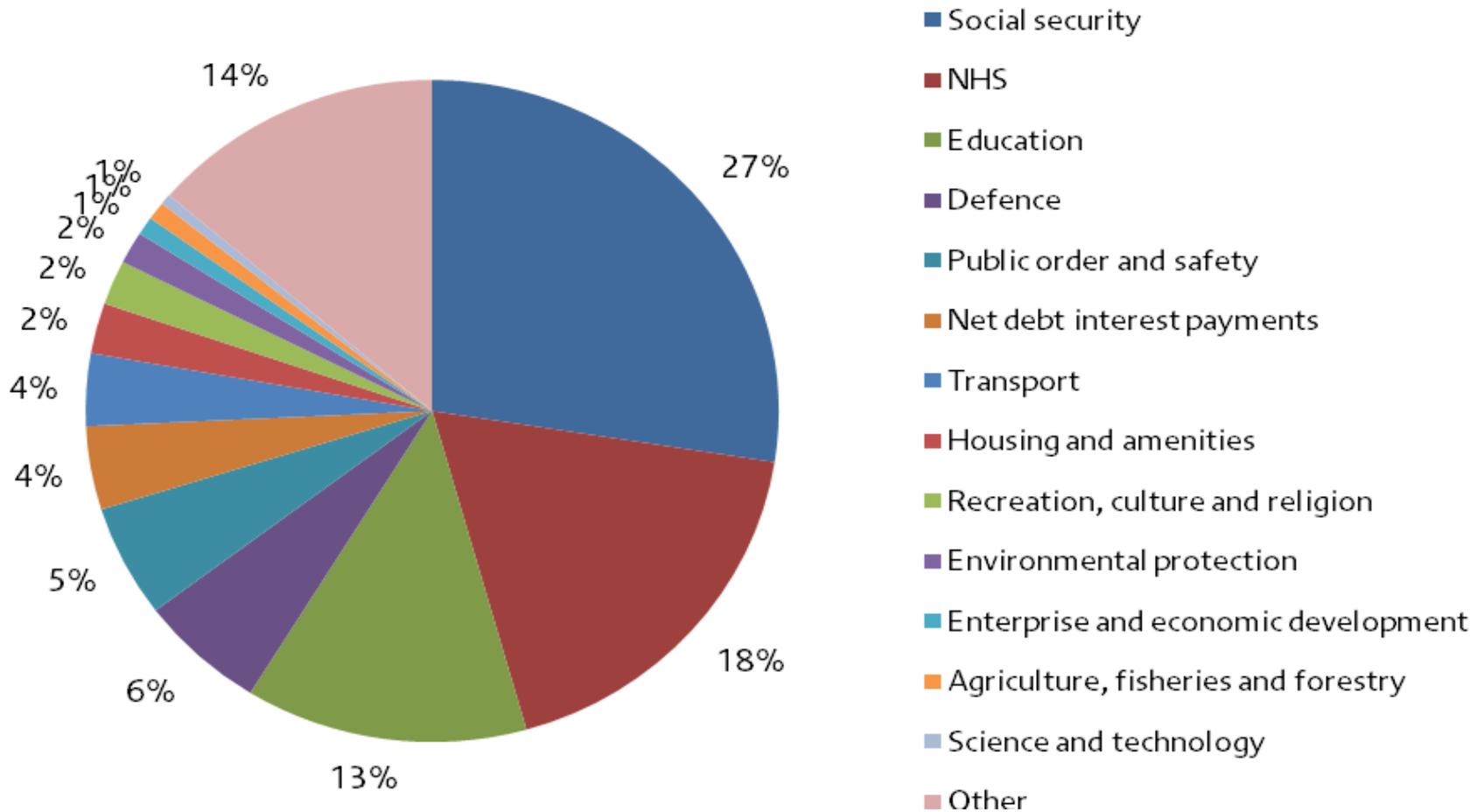


# UK public expenditure - growth since late 1940s (IFS)

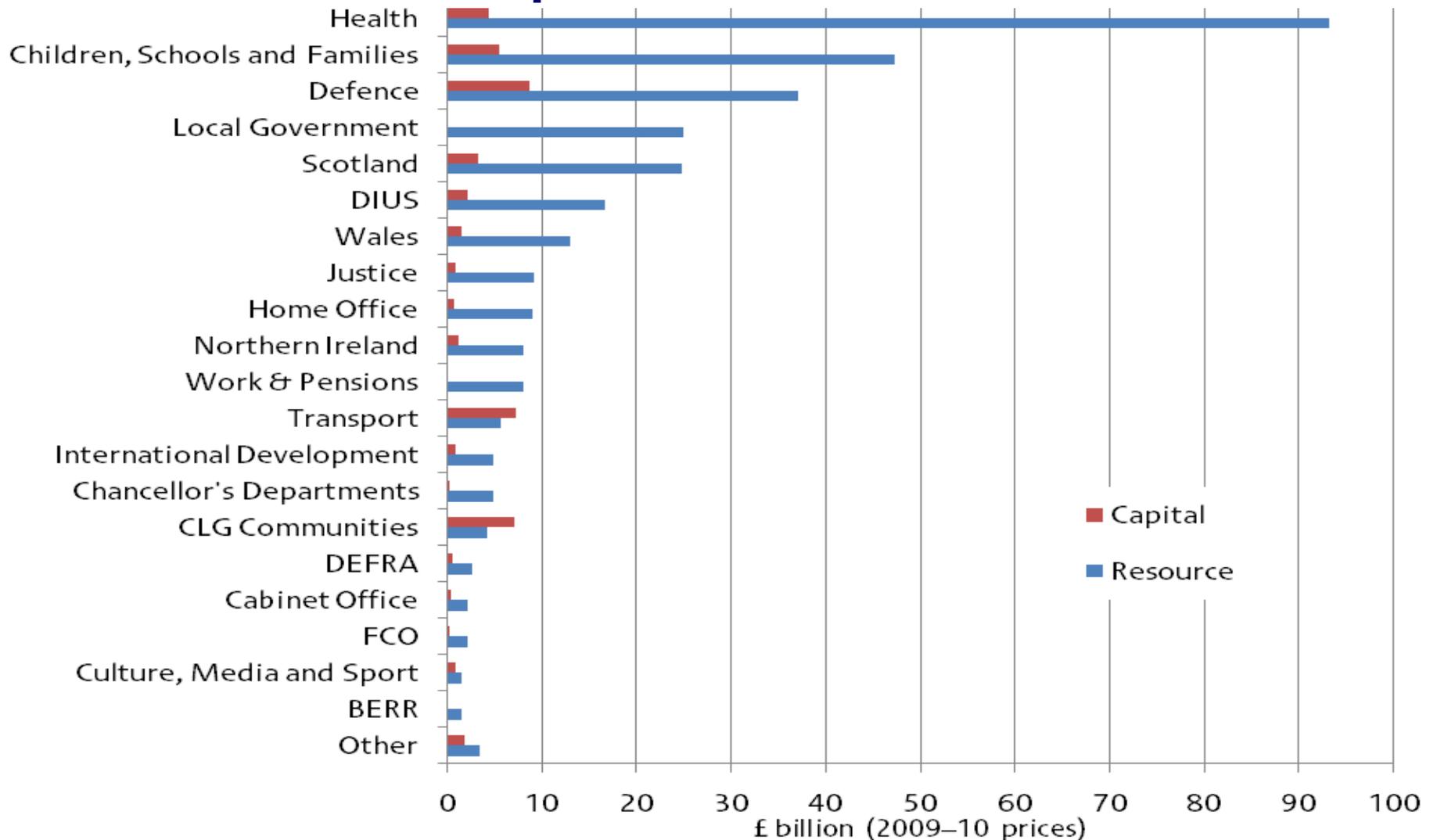


# UK public expenditure – by service

(IFS)



# UK public expenditure – by department (IFS)



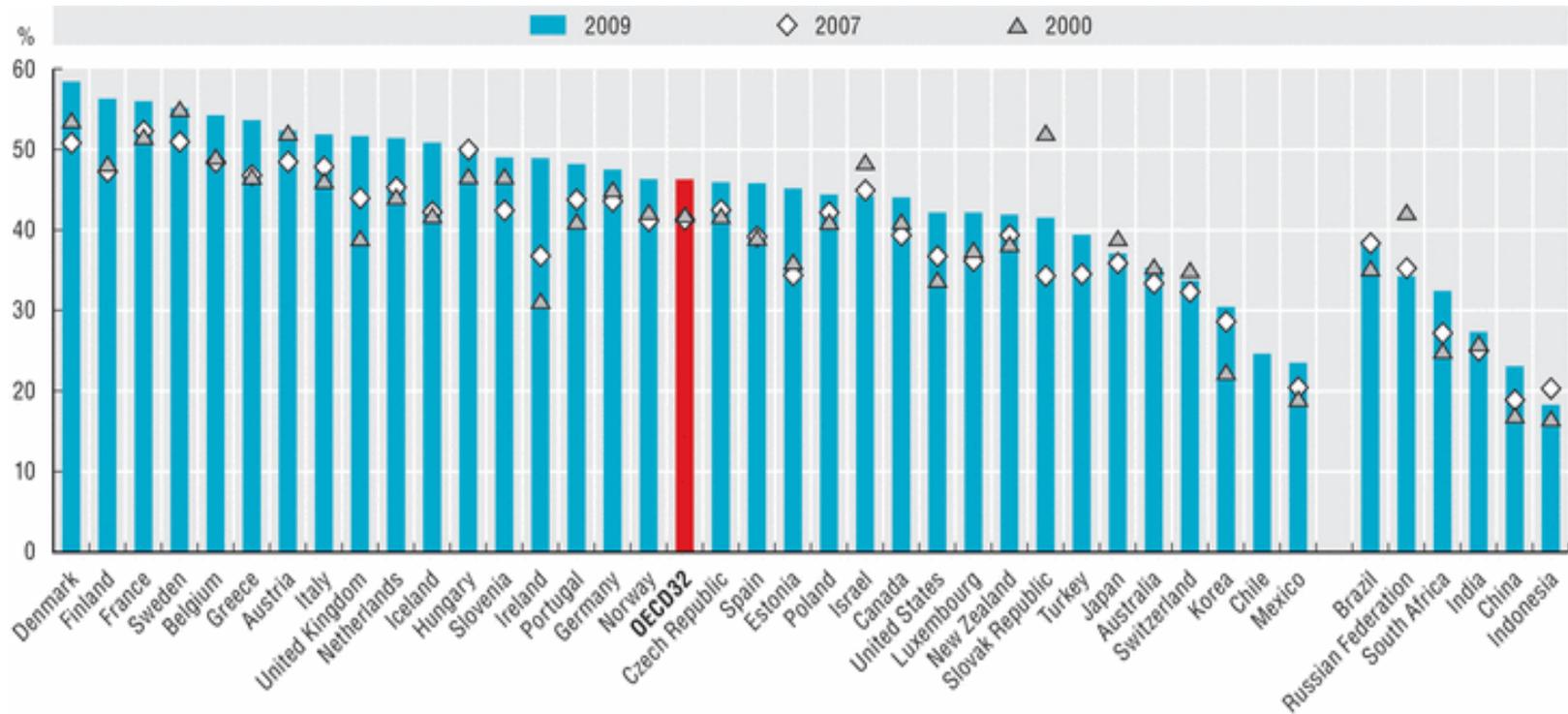
# Public expenditure as a share of GDP

(IFS, TT: 2012-13 on a slightly different basis)

<b>Percentage of GDP</b>					
	1958-59	1978-79	1996-97	2008-09	2012-13
Social security	6.0	9.8	13.1	11.9	16.1
NHS	3.2	4.4	5.1	7.8	7.9
Education	3.3	5.2	4.6	5.7	5.6
Defence	6.4	4.5	2.8	2.6	2.3
Public order	n/a	1.5	2.0	2.4	2.0
Debt	2.7	3.9	2.9	1.7	
Transport	n/a	1.6	1.2	1.5	1.2
'TME' of which:	36.9	45.1	39.9	43.2	43.1
Investment	3.4	2.5	0.7	2.5	2.0
Recurrent	33.5	42.6	39.2	39.4	41.0

# Public expenditure as % of GDP -

(Comparative)  
(OECD)



# UK taxation in 2013-14

	£bn
Income tax	155
National Insurance	107
VAT	103
Corporation tax	39
Council tax	27
Fuel duties	26
Other	130
<b>TOTAL REVENUE</b>	<b>587</b>

# UK public expenditure in 2013-14 (HMT)

	£ billion						
	Outturn 2011-12	2012-13	2013-14	Forecast			
	2014-15	2015-16	2016-17	2017-18			
<b>Public sector current expenditure (PSCE)</b>							
<b>PSCE in RDEL<sup>1</sup></b>	<b>322.6</b>	<b>319.5</b>	<b>320.8</b>	<b>317.2</b>	<b>314.2</b>	<b>307.4</b>	<b>299.1</b>
<b>PSCE in Annually Managed Expenditure</b>	<b>321.2</b>	<b>337.7</b>	<b>352.1</b>	<b>362.8</b>	<b>380.1</b>	<b>396.3</b>	<b>413.9</b>
<i>of which:</i>							
Social security benefits	174.9	182.8	180.4	184.4	189.1	193.1	197.6
Tax credits	27.2	28.6	29.0	29.8	31.3	33.2	34.4
Net public service pension payments	8.0	10.5	11.1	12.4	13.6	14.9	16.2
<i>of which:</i>							
CG unfunded pension schemes	6.7	8.9	9.5	10.7	11.9	12.9	14.1
LG police and fire pension schemes	1.4	1.6	1.6	1.6	1.8	1.9	2.0
National lottery current grants	1.1	1.1	1.2	1.3	1.5	1.6	1.7
BBC domestic services current expenditure	3.8	3.4	3.5	4.0	3.7	3.8	3.9
Fees associated with financial interventions	-2.0	-0.6	-0.3	-0.2	0.0	0.0	0.0
Other PSCE items in departmental AME	1.1	2.0	1.4	1.2	1.1	1.1	1.2
Expenditure transfers to EU institutions	5.9	7.4	6.5	5.7	6.1	5.9	6.0
Locally-financed current expenditure	21.6	23.8	36.1	38.0	39.5	41.0	43.1
Central government gross debt interest	47.9	46.5	49.5	51.8	57.8	64.4	71.3
Depreciation	16.0	16.9	17.7	18.4	19.2	19.9	20.6
Current VAT refunds	11.7	11.6	12.3	12.3	12.4	12.2	11.8
Single use military expenditure	5.5	4.7	4.7	4.2	4.7	4.7	4.7
Environmental levies	0.5	1.3	1.7	2.1	2.6	3.1	3.8
Other National Accounts adjustments	-2.2	-2.4	-2.6	-2.6	-2.5	-2.5	-2.4
<b>Total public sector current expenditure</b>	<b>643.8</b>	<b>657.2</b>	<b>672.9</b>	<b>680.0</b>	<b>694.2</b>	<b>703.7</b>	<b>713.0</b>
<b>Public sector gross investment (PSGI)</b>							
<b>PSGI in CDEL<sup>1</sup></b>	<b>34.8</b>	<b>3.3</b>	<b>33.7</b>	<b>36.9</b>	<b>36.1</b>	<b>36.5</b>	<b>36.7</b>
<b>PSGI in Annually Managed Expenditure</b>	<b>15.0</b>	<b>12.8</b>	<b>13.5</b>	<b>13.5</b>	<b>14.4</b>	<b>14.7</b>	<b>15.4</b>
<i>of which:</i>							
National lottery capital grants	0.4	0.4	0.5	0.6	0.6	0.7	0.7
Other PSGI items in departmental AME	-7.0	0.8	0.8	0.9	0.8	0.7	1.3
Locally-financed capital expenditure	16.5	7.1	6.4	6.3	6.8	7.0	6.7
Public corporations capital expenditure	6.7	6.2	5.9	5.9	6.0	6.2	6.4
Other National Accounts adjustments	-1.6	-1.7	-0.1	-0.2	0.2	0.2	0.2
<b>Total public sector gross investment</b>	<b>49.8</b>	<b>16.1</b>	<b>47.2</b>	<b>50.4</b>	<b>50.4</b>	<b>51.3</b>	<b>52.1</b>
<i>Less depreciation</i>	<i>-21.1</i>	<i>-22.1</i>	<i>-23.0</i>	<i>-23.8</i>	<i>-24.6</i>	<i>-25.4</i>	<i>-26.3</i>
<b>Public sector net investment</b>	<b>28.7</b>	<b>-6.0</b>	<b>24.2</b>	<b>26.6</b>	<b>25.8</b>	<b>25.8</b>	<b>25.8</b>
<b>Total managed expenditure</b>	<b>693.6</b>	<b>673.3</b>	<b>720.0</b>	<b>730.4</b>	<b>744.7</b>	<b>754.9</b>	<b>765.1</b>

<sup>1</sup> Implied DEL numbers for 2015-16, 2016-17 and 2017-18. Calculated as the difference between PSCE and PSCE in AME in the case of PSCE in RDEL, and between PSGI and PSGI in AME in the case of PSGI in CDEL.

# Deficit

The UK deficit is the gap between Total Managed Expenditure and total revenue

£720bn - £587bn (with adjustments)

2013-14 deficit: c£110bn

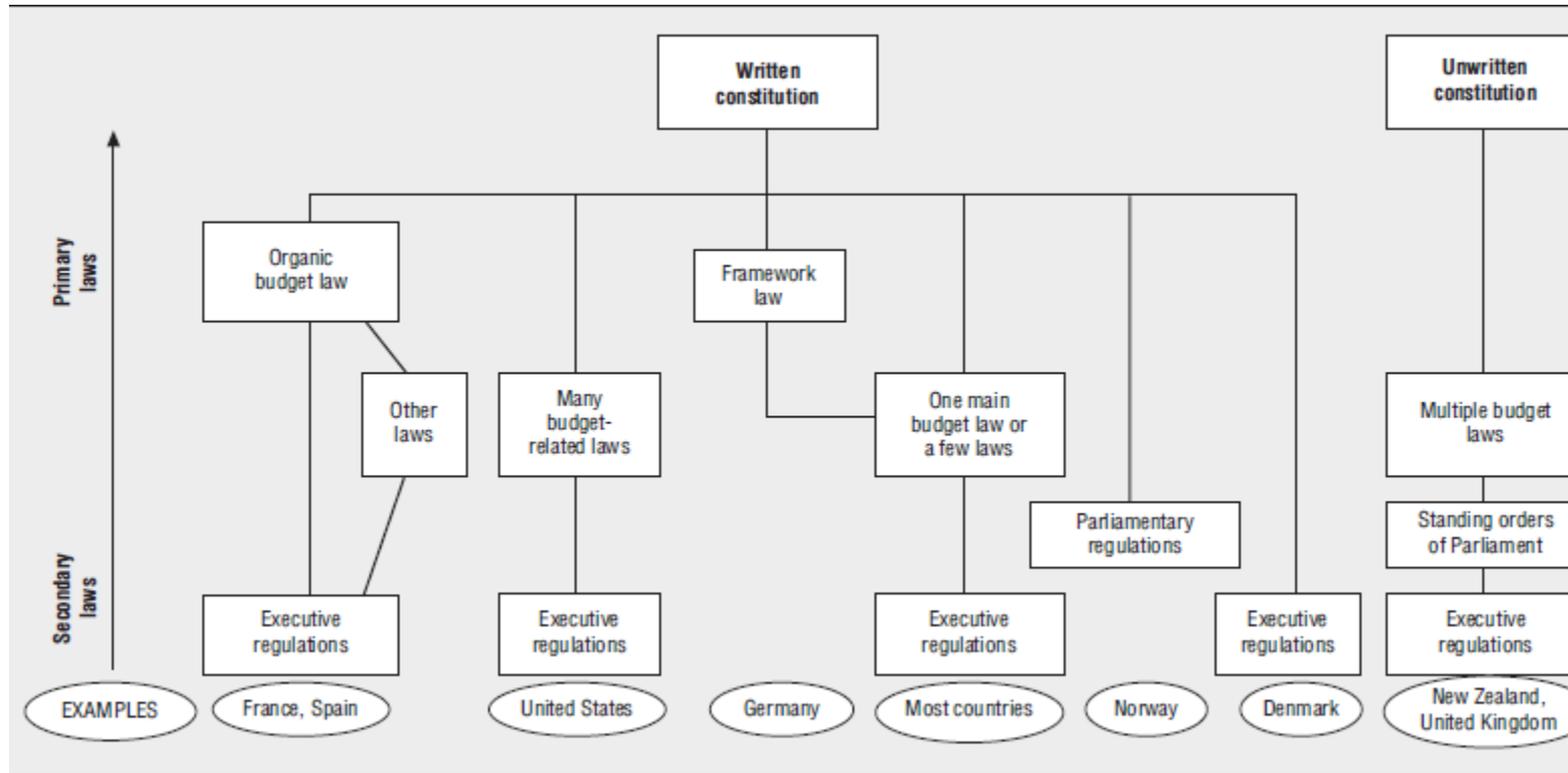
# Traditional analysis of the Treasury and public finance processes

Heclo & Wildavsky in their study *The Private Government of Public Money* and others argued that there is a powerful relationship between the Treasury and spending departments within a 'Whitehall village' which has powerful values and norms.

Civil servants are loyal not just to the department but to the civil service, who prize coherence and continuity

# Contemporary analysis of UK in international context

(OECD JOURNAL ON 50 BUDGETING – VOLUME 4 – NO. 3 – ISSN 1608-7143 – © OECD 2004)



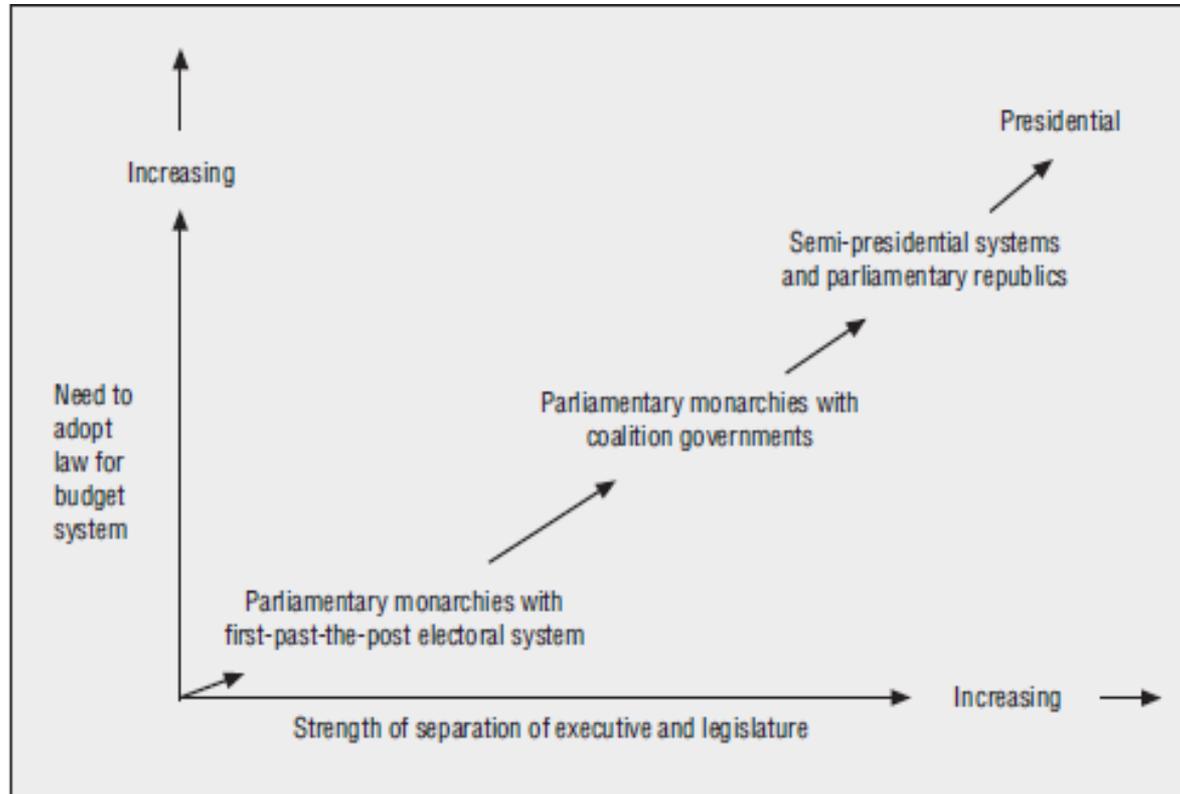
# Differences in budgetary powers of executive and legislature: UK and US

(OECD JOURNAL ON 50 BUDGETING – VOLUME 4 – NO. 3 – ISSN 1608-7143 – © OECD 2004)

	United Kingdom	United States
<b>Executive</b>		
An executive office drafts the annual budget.	H.M. Treasury prepares a draft budget for Cabinet approval, subject to government-decided rules on fiscal aggregates, which will not be challenged by Parliament.	The Office of Management and Budget, a presidential agency, prepares a draft detailed budget. The executive may propose a medium-term fiscal strategy, but this is not binding on Congress, which has unlimited power to adopt its own fiscal strategy.
The political executive proposes the budget to Parliament.	The Chancellor of the Exchequer makes a speech, at around the beginning of the fiscal year, outlining the decisions that Cabinet has reached on all important budget matters.	The President submits a draft budget to Congress eight months before the new fiscal year begins. The President's budget provides a baseline for the "real" budget that is made by the legislature.
<b>Legislature</b>		
The legislature considers the budget in committees.	Yes, but only in the House of Commons. Most committees take little interest in the draft budget, mainly because any proposals for substantial changes are unlikely to be adopted. Such proposals are vetted by the House of Commons Liaison Committee and only three days of debate are allowed in plenary session.	Budget committees of both the House of Representatives and the Senate first agree on a "budget resolution" which could propose fiscal aggregates quite different from those proposed by the President. Subsequently, appropriation sub-committees may alter budget programmes substantially.
The legislature approves the budget as law.	Yes, but the adoption of finance acts and appropriation acts are mere formalities – they are not debated at the stage when the budget becomes formal law.	Yes, for discretionary spending, the budget becomes law in the form of 13 separate appropriation bills, which cover about one-third of total federal expenditure. Non-discretionary spending and taxes are also approved but by other laws.

# Separation of powers and the need to adopt budget-related laws

(OECD JOURNAL ON **50** BUDGETING – VOLUME 4 – NO. 3 – ISSN 1608-7143 – © OECD 2004)



# Political science research into effects legislative control

Wehner (2010) found that “legislative effects on public expenditures are largely driven by one particular variable, that is, the power of legislators to amend the budget. In contrast, a number of other budget institutions highlighted in the literature do not appear to significantly affect the size of government”. And...

“Parliamentary control of the budget is difficult to attain if not elusive. Many national legislatures have neither the institutional means nor the political independence to be influential budgetary actors....Active legislative bodies, on the other hand, are prone to suffer from a pro-spending bias”

OECD Journal, Volume 4 No 3 concludes: “The executive branch has two particularly important roles to play in budget processes. First, it must prepare the initial draft of the annual budget, which should be set in the context of a coherent medium-term fiscal strategy. Second, the executive is responsible for executing the annual budget and accounting to the legislature for budget implementation and result”

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Tony Travers

Department of Government