

# 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*

# BUDGET 2014

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# Supply Estimates: example

## Main Estimates, 2014-15

### Table 2 Supply Estimates by department

	£'000		
	2014-15 Plans	2013-14† Provisions	2012-13† Outturn
Department of Health			
<b>Departmental Expenditure Limit</b>			
Resource	91,604,299	89,322,052	84,479,682
Capital	4,653,667	4,444,379	3,789,693
<b>Annually Managed Expenditure</b>			
Resource	6,006,000	5,502,000	5,775,114
Capital	10,000	120,000	-
<b>Total Net Budget</b>			
Resource	97,610,299	94,824,052	90,254,796
Capital	4,663,667	4,564,379	3,789,693
<b>Non-Budget Expenditure</b>	-	-	-
<b>Net Cash Requirement</b>	<b>95,699,318</b>	<b>92,012,960</b>	<b>85,884,279</b>
National Health Service Pension Scheme			
<b>Departmental Expenditure Limit</b>			
Resource	-	-	-
Capital	-	-	-
<b>Annually Managed Expenditure</b>			
Resource	18,017,977	14,023,000	13,103,319
Capital	-	-	-
<b>Total Net Budget</b>			
Resource	18,017,977	14,023,000	13,103,319
Capital	-	-	-
<b>Non-Budget Expenditure</b>	-	-	-
<b>Net Cash Requirement</b>	<b>-1,129,538</b>	<b>-1,021,017</b>	<b>-1,115,177</b>
Food Standards Agency			
<b>Departmental Expenditure Limit</b>			
Resource	95,214	94,580	88,731
Capital	353	5,079	1,458

# 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 expenditure

# Public Expenditure Statistical Analyses

Table 1.1 Total Managed Expenditure, 2009-10 to 2015-16

	National Statistics						£ million
	2009-10 outturn	2010-11 outturn	2011-12 outturn	2012-13 outturn	2013-14 outturn	2014-15 plans	2015-16 plans
<b>CURRENT EXPENDITURE</b>							
<i>Resource DEL</i>							
Resource DEL excluding depreciation	324,172	330,329	326,519	321,870	316,861	318,200	314,200
Depreciation in resource DEL	13,843	20,509	19,269	21,507	22,054	20,600	22,300
<b>Total resource DEL</b>	<b>338,015</b>	<b>350,838</b>	<b>345,788</b>	<b>343,376</b>	<b>338,915</b>	<b>338,800</b>	<b>336,500</b>
<i>Resource departmental AME</i>							
Social security benefits	158,887	164,512	170,677	178,269	179,759	184,380	189,392
Tax credits <sup>(1)</sup>	27,667	28,938	29,976	29,761	29,394	29,764	30,684
Net public service pensions <sup>(2)</sup>	1,528	-78,073	6,012	4,958	6,347	8,370	7,373
National lottery	1,001	995	1,335	727	1,160	1,401	994
BBC domestic services	3,464	3,559	3,033	3,291	3,165	3,917	3,769
Student loans	-256	-301	-642	-763	-1,096	-1,549	-3,262
Non-cash items <sup>(3)</sup>	47,141	55,305	52,436	53,341	49,442	84,622	53,702
Financial sector interventions	-27,592	-14,247	-16,143	-18,384	7,944	-1,202	-151
Other departmental expenditure	3,740	1,783	-859	3,899	13,185	16,817	16,310
<b>Total resource departmental AME</b>	<b>215,581</b>	<b>162,472</b>	<b>245,824</b>	<b>255,098</b>	<b>289,299</b>	<b>326,520</b>	<b>298,811</b>
<i>Resource other AME</i>							
Net expenditure transfers to the EU	6,419	8,414	7,702	9,131	9,716	8,881	8,899
Locally financed expenditure	25,797	22,969	22,104	23,892	23,870	24,872	26,234
Central government gross debt interest	30,479	45,165	48,375	47,549	47,384	52,073	59,119
Accounting adjustments <sup>(4)</sup>	-11,280	45,410	-25,759	-22,806	-43,027	-71,306	-38,030
<b>Total resource other AME</b>	<b>51,415</b>	<b>121,958</b>	<b>52,422</b>	<b>57,766</b>	<b>37,942</b>	<b>14,521</b>	<b>56,223</b>
<b>Total resource AME</b>	<b>266,996</b>	<b>284,430</b>	<b>298,246</b>	<b>312,864</b>	<b>327,242</b>	<b>341,040</b>	<b>355,033</b>
<b>Public sector current expenditure</b>	<b>605,010</b>	<b>635,268</b>	<b>644,034</b>	<b>656,240</b>	<b>666,157</b>	<b>679,900</b>	<b>691,500</b>
<b>CAPITAL EXPENDITURE</b>							
<i>Capital DEL</i>							
<b>Total capital DEL</b>	<b>57,007</b>	<b>49,816</b>	<b>42,338</b>	<b>38,961</b>	<b>42,021</b>	<b>45,000</b>	<b>46,000</b>
<i>Capital departmental AME</i>							
National lottery	752	597	380	513	468	499	606
BBC domestic services	123	122	172	121	262	113	95
Student loans	4,601	4,958	5,857	6,858	9,292	11,331	12,665
Financial sector interventions	38,281	-3,015	-4,571	-3,601	-4,938	-2,985	-
Other departmental expenditure	691	1,103	688	-302	-11,201	8,268	1,977
<b>Total capital departmental AME</b>	<b>44,447</b>	<b>3,764</b>	<b>2,525</b>	<b>3,589</b>	<b>-6,117</b>	<b>17,225</b>	<b>15,342</b>
<i>Capital other AME</i>							
Locally financed expenditure	5,416	5,318	15,849	6,374	10,761	6,241	6,465
Public corporations' own-financed capital expenditure	8,191	9,302	6,958	7,081	8,197	7,519	7,594
Accounting adjustments <sup>(4)</sup>	-46,669	-8,764	-17,000	-38,089	-6,763	-23,856	-23,515
<b>Total capital other AME</b>	<b>-33,062</b>	<b>5,856</b>	<b>5,807</b>	<b>-24,635</b>	<b>12,195</b>	<b>-10,096</b>	<b>-9,455</b>
<b>Total capital AME</b>	<b>11,385</b>	<b>9,621</b>	<b>8,333</b>	<b>-21,045</b>	<b>6,078</b>	<b>7,129</b>	<b>5,887</b>
<b>Public sector gross investment <sup>(5) (6)</sup></b>	<b>68,392</b>	<b>59,437</b>	<b>50,671</b>	<b>17,916</b>	<b>48,099</b>	<b>52,100</b>	<b>51,900</b>
<i>less public sector depreciation</i>	19,999	20,784	21,625	22,528	23,359	24,250	25,085
<b>Public sector net investment <sup>(5) (6)</sup></b>	<b>48,393</b>	<b>38,653</b>	<b>29,046</b>	<b>-4,612</b>	<b>24,740</b>	<b>27,900</b>	<b>26,800</b>
<b>TOTAL MANAGED EXPENDITURE <sup>(5) (6)</sup></b>	<b>673,402</b>	<b>694,705</b>	<b>694,705</b>	<b>674,156</b>	<b>714,256</b>	<b>732,000</b>	<b>743,400</b>

Source: PESA, 2014,  
HM Treasury, Cm 2908

# Audit

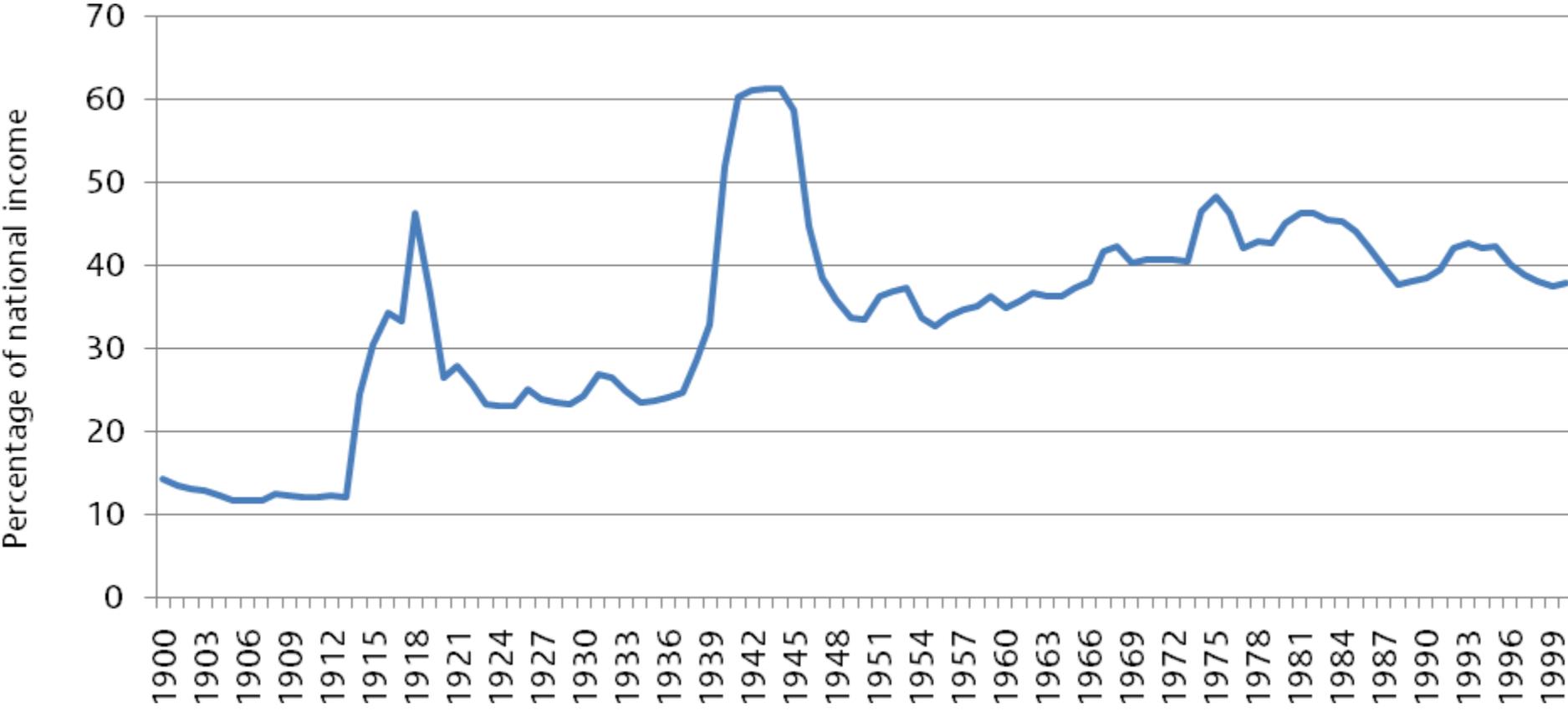
External audit function established in 1866

Exchequer and Audit Department

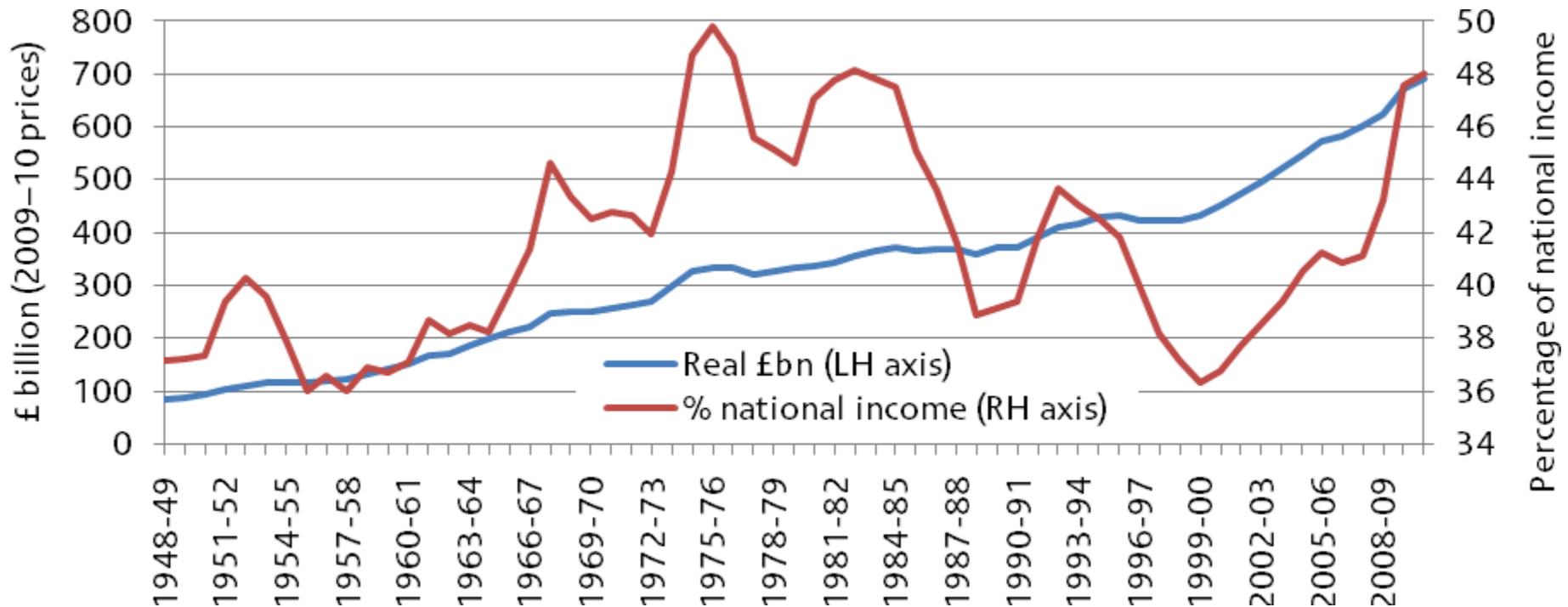
Today: National Audit Office, headed by  
Comptroller & Auditor General

- C&AG is an officer of Parliament

# General government expenditure since 1900 (IFS)

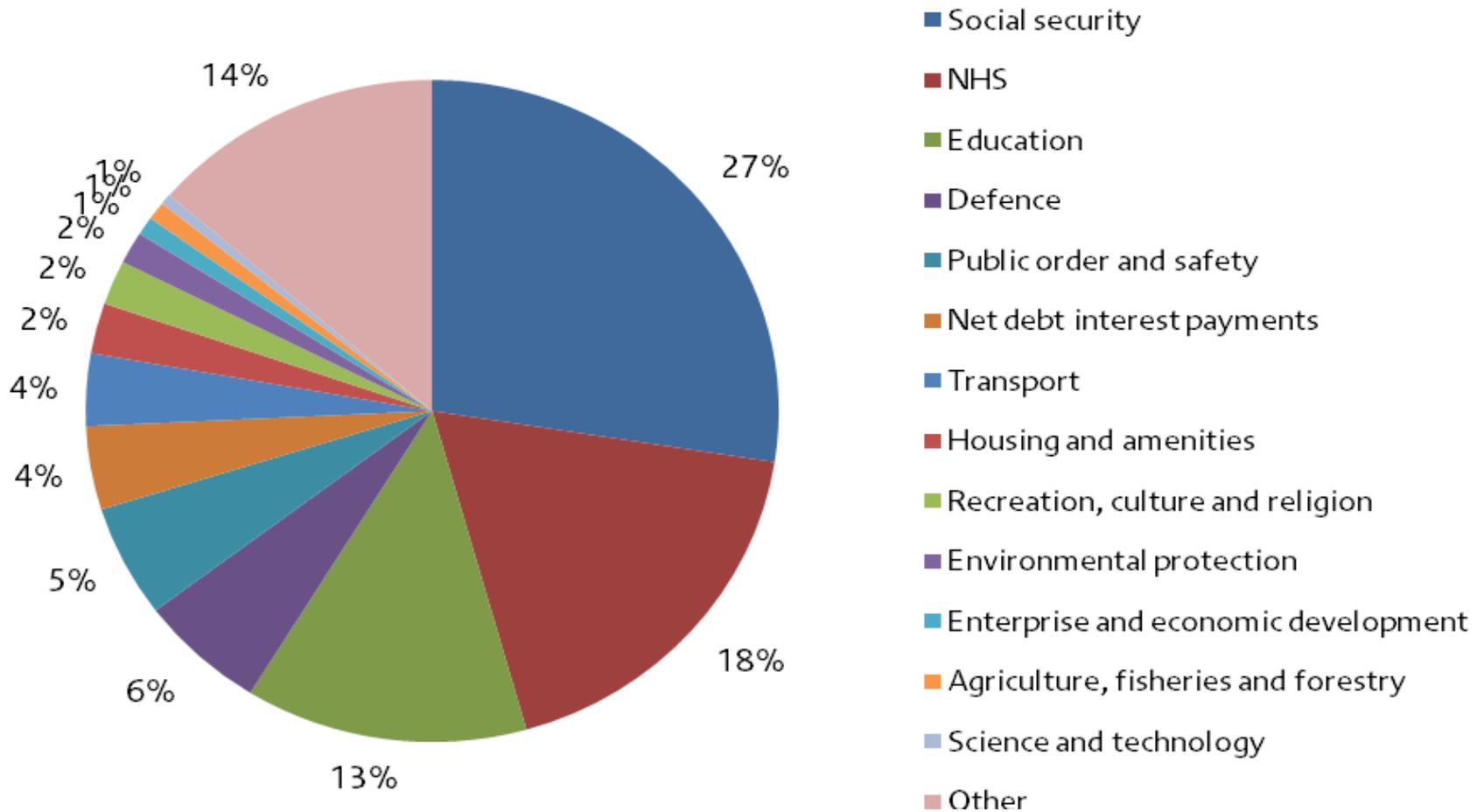


# UK public expenditure - growth since late 1940s (IFS)

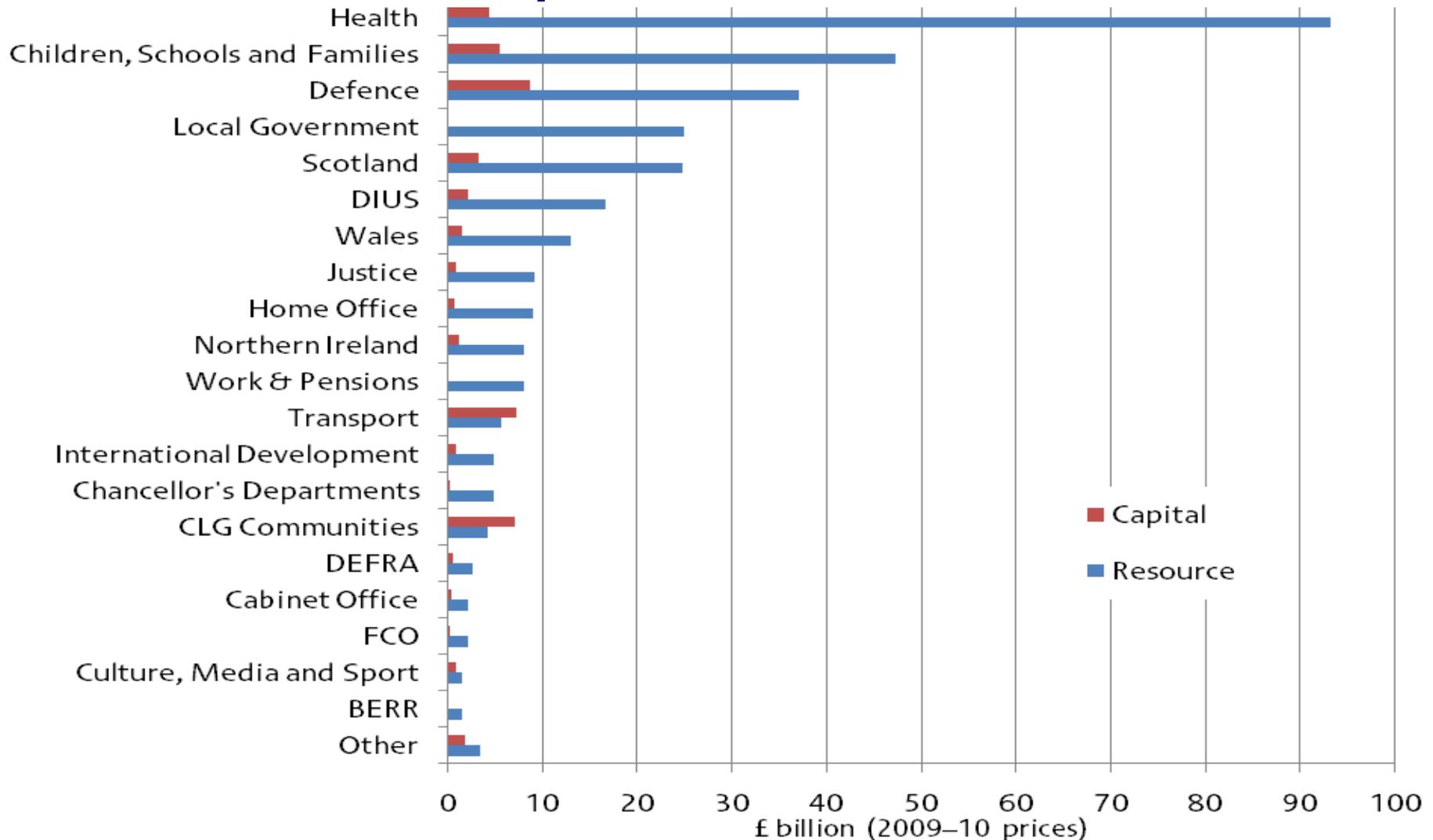


# UK public expenditure – by service

(IFS)



# UK public expenditure – by department (IFS)



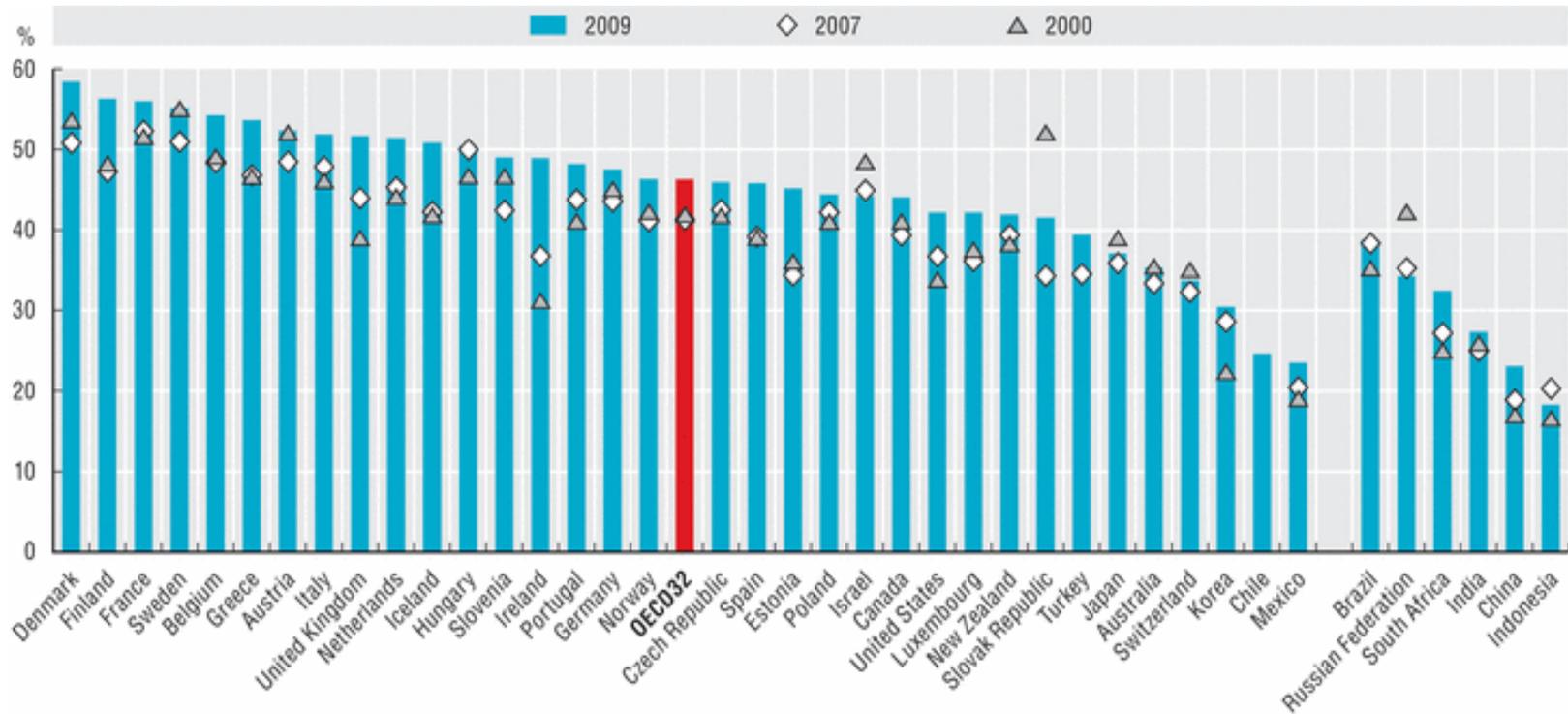
# Public expenditure as a share of GDP

(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 2014-15

	£bn
Income tax	167
National Insurance	110
VAT	111
Corporation tax	41
Council tax	28
Fuel duties	27
Other	164
<b>TOTAL REVENUE</b>	<b>648</b>

# UK public expenditure in 2014-15 (HMT)

**Table 1.12 Total Managed Expenditure by departmental group and other expenditure, 2009-10 to 2015-16**

	National Statistics						£ million	
	2009-10 outturn	2010-11 outturn	2011-12 outturn	2012-13 outturn	2013-14 outturn	2014-15 plans	2015-16 plans	
<b>Total Managed Expenditure by departmental group</b>								
Education <sup>(1)</sup>	67,120	47,046	66,958	64,966	65,849	68,602	68,954	
NHS (Health) <sup>(1)</sup>	114,649	89,450	122,426	124,101	127,929	137,069	136,416	
Personal Social Services (Health) <sup>(1)</sup>	1,362	1,471	-	-	-	-	-	
Transport <sup>(2)</sup>	15,049	12,975	13,208	12,672	13,133	20,728	13,879	
CLG Communities	13,717	10,990	5,538	4,341	6,205	8,911	6,284	
CLG Local Government	27,348	25,442	26,113	23,329	27,605	24,899	22,994	
Business, Innovation and Skills	25,966	22,448	21,672	22,721	21,819	26,736	26,850	
Home Office	10,947	13,948	13,458	12,901	12,695	12,801	12,003	
Justice	10,117	9,499	8,887	9,416	7,556	7,390	6,874	
Law Officers' Departments	725	654	618	598	574	558	526	
Defence <sup>(3)</sup>	44,634	36,477	45,185	41,584	40,735	44,512	42,460	
Foreign and Commonwealth Office	2,308	2,287	2,228	2,114	2,183	1,791	1,286	
International Development	6,918	7,770	7,917	7,943	10,134	10,279	11,185	
Energy and Climate Change <sup>(4)</sup>	3,444	8,327	6,286	8,526	7,846	33,005	4,239	
Environment, Food and Rural Affairs	2,880	2,305	2,318	2,361	2,142	2,306	2,142	
Culture, Media and Sport	6,911	7,139	7,098	7,358	5,960	7,252	6,458	
Work and Pensions	155,506	160,522	166,904	173,155	170,595	175,469	178,207	
Scotland	30,896	31,701	30,786	30,855	31,375	32,864	33,147	
Wales	15,499	15,395	14,934	15,003	15,324	15,604	15,456	
Northern Ireland	18,230	14,372	18,543	18,541	18,625	19,715	20,159	
Chancellor's Departments <sup>(5)</sup>	55,777	29,885	23,441	23,836	40,256	43,395	48,548	
Cabinet Office <sup>(6)</sup>	9,897	-5,009	11,187	11,881	12,117	13,381	12,658	
Small and Independent Bodies	1,305	1,288	1,501	1,317	1,406	1,996	1,578	
<b>Total departmental expenditure <sup>(10)</sup></b>	<b>641,206</b>	<b>546,381</b>	<b>617,206</b>	<b>619,518</b>	<b>642,064</b>	<b>709,300</b>	<b>672,300</b>	
Central government gross debt interest	30,479	45,165	48,375	47,549	47,384	52,073	59,119	
Locally financed expenditure	31,213	28,287	37,953	30,265	30,224	31,113	32,699	
Public sector depreciation	19,999	20,784	21,625	22,528	23,359	24,250	25,085	
Net expenditure transfers to the EU	6,419	8,414	7,702	9,131	9,716	8,881	8,899	
Public corporations' own-financed capital expenditure	8,191	9,302	6,958	7,081	8,197	7,519	7,594	
Accounting adjustments	-64,105	36,372	-45,114	-61,916	-46,688	-98,828	-64,359	
Adjustment for Devolved Administration borrowing	-	-	-	-	-	-	300	
Spending commitments not yet in budgets	-	-	-	-	-	0	1,300	
Reserve	-	-	-	-	-	3,400	3,000	
Special Reserve	-	-	-	-	-	900	1,100	
OBR allowance for shortfall	-	-	-	-	-	-2,500	-3,000	
Adjustment for Budget Exchange <sup>(7)</sup>	-	-	-	-	-	-4,100	-700	
<b>Total other expenditure <sup>(8)</sup></b>	<b>32,196</b>	<b>148,324</b>	<b>77,499</b>	<b>54,638</b>	<b>72,192</b>	<b>22,700</b>	<b>71,100</b>	
<b>TOTAL MANAGED EXPENDITURE <sup>(9)</sup></b>	<b>673,402</b>	<b>694,705</b>	<b>694,705</b>	<b>674,156</b>	<b>714,256</b>	<b>732,000</b>	<b>743,400</b>	

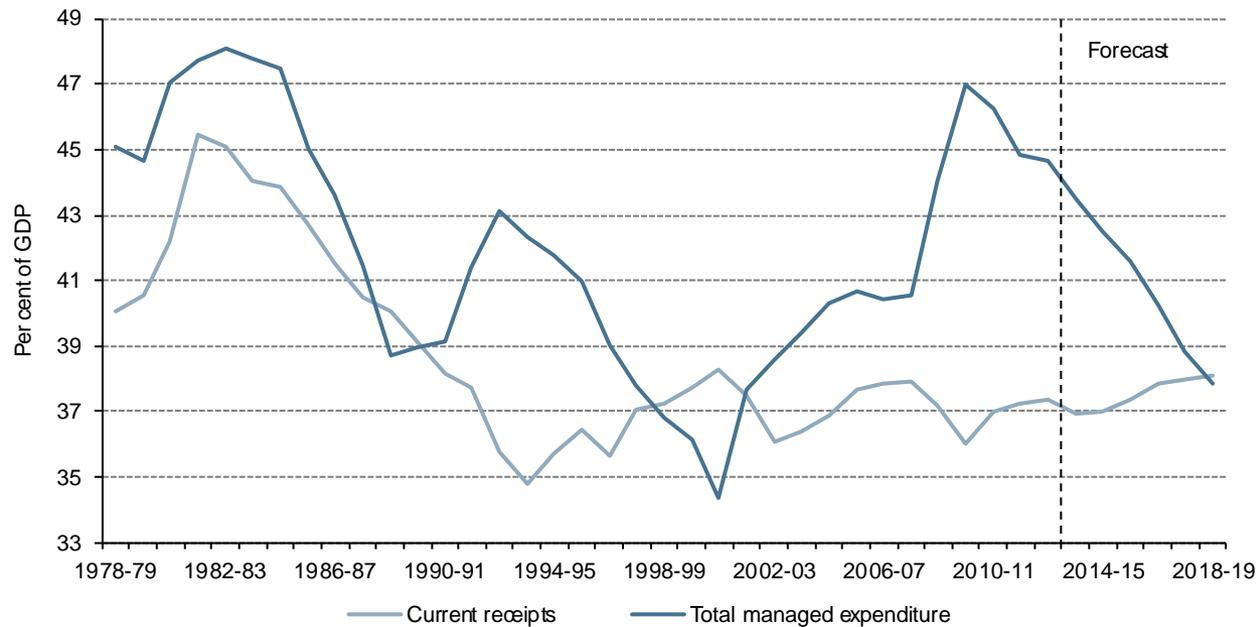
# Deficit

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

£732bn - £648bn (planned)

2013-14 deficit: c£84bn

# Taxation and public expenditure as % of GDP

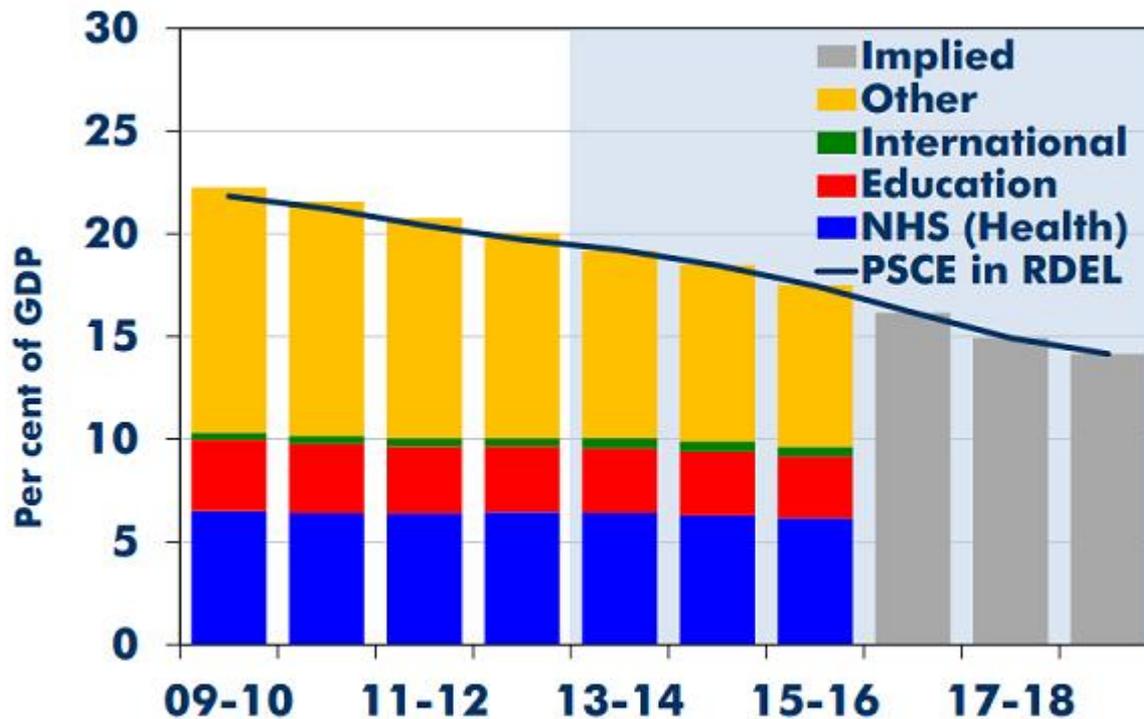


Source: ONS, OBR Excludes Royal Mail and APF transfers.

Source: Office for Budget Responsibility, *Economic and fiscal outlook Charts and Tables*, March 2014, Chart 1.1

# Differential squeeze on public spending

## Public services/admin squeeze



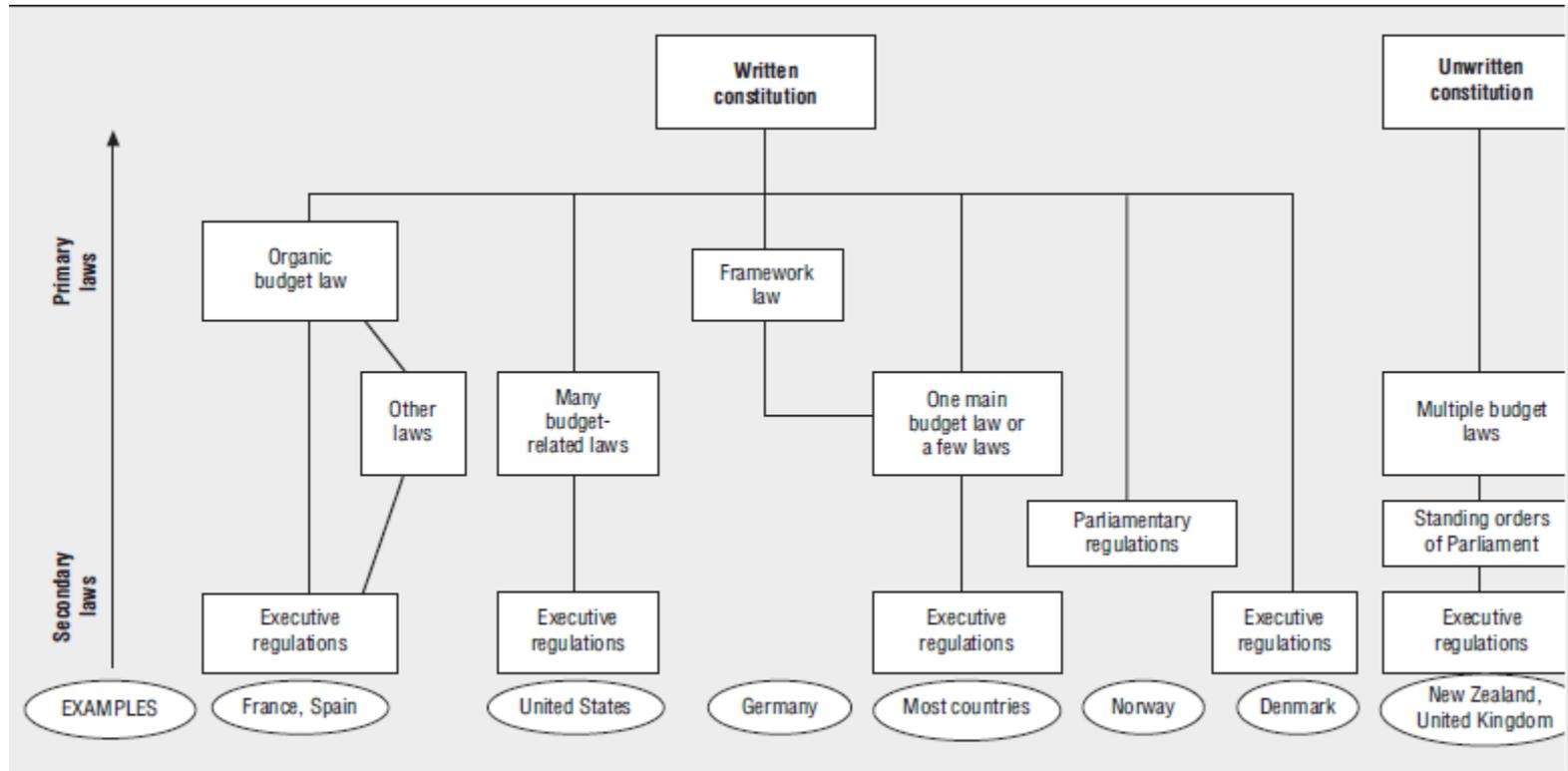
# Traditional analysis of the Treasury and public finance processes

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)



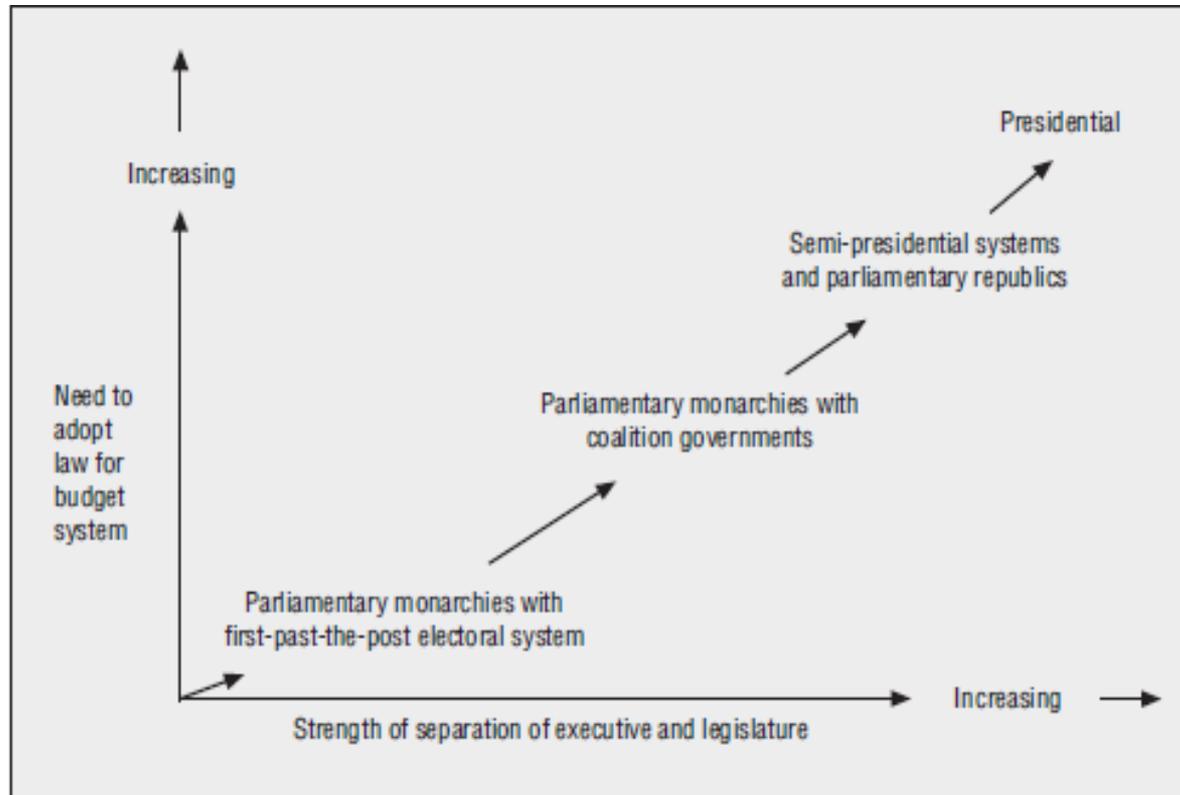
# Differences in budgetary powers of executive and legislature: UK and US

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	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

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# Academic 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”

# Public expenditure and taxation in the UK

Tony Travers

Department of Government