

Introductory Module to Economics of Ageing

The Budget Cycle

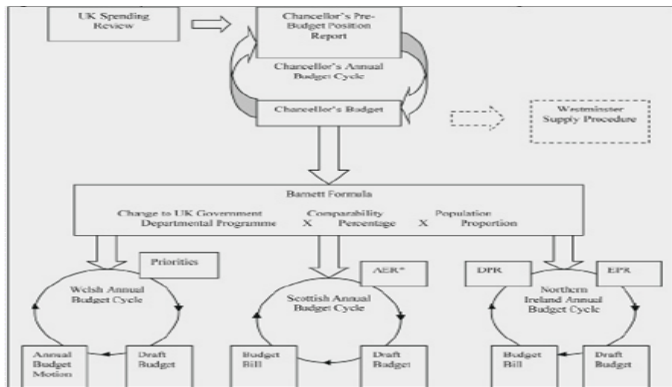
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Outline

- 1 Introduction
- 2 Stages
- 3 The Barnett Formula

The Cycle in one snapshot



Source: Northern Ireland Assembly, Research Paper 28/08/08

UK Budget Cycle - Four Main Stages

- **Planning stage.** The UK Government plans its finances in the medium term via the spending review process
- **Budget stage.** The annual process via which the Government assesses the state of the economy and plans how it will raise revenue in the coming year
- **Estimates or Supply stage.** The process by which Parliament approves resources and cash for government departments for the coming year
- **Reporting stage.** The process through which government departments' performance is reported to Parliament

UK Budget Cycle - Planning Stage

- **Spending plans.** Each plan details total planned expenditure for the next three financial years, expressed as departmental expenditure limits (DEL). Departments also have annually managed expenditure (AME), which covers less predictable or controllable expenditure, (e.g. social security payments).
- **Public Service Agreements (PSAs).** PSAs present departmental objectives. They are three-year agreements, negotiated between government departments and HM Treasury, indicating what is to be obtained for the department's expenditure. Each PSA sets out a department's high-level aims, priority objectives and key performance targets.

UK Budget Cycle - Planning Stage

Spending reviews:

- set three-year spending plans
- promote a medium-term perspective on financial planning
- emphasise the link between policy objectives and budgets

UK Budget Cycle - Budget Stage

- **Pre-budget Report.** It sets out forecasts for the economy and the public finances, and explains how the Government views its policies in helping to deliver its long-term goals.
- **Budget Documents.**
 - **Economic and Fiscal Strategy Report (EFSR).** This report describes the features of the national economy in a global context and reports on a range of economic and fiscal measures
 - **Financial Statement and Budget Report (FSBR).** This summarises all the measures and decisions announced since the last Budget and illustrates how these changes might influence government revenues and spending during the Budget period.
- **Finance Bill.** The main difference with respect to most Bills, is that the House of Lords cannot amend it or reject it.

UK Budget Cycle - Estimates Stage

The estimates (or supply) cycle is the process by which resources and cash provision to government departments for the coming financial year are requested by the Government and authorised by Parliament.

- **Supply Estimates.** The supply estimates are the means by which government departments seek parliamentary authority for expenditure and for the drawing down of finance from the Consolidated Fund.
 - *The Consolidated Fund is the UK Government's main bank account. Most of central government's expenditure is financed from this fund and most taxes and other receipts are paid into it.*

UK Budget Cycle - Reporting Stage

Government departments produce departmental reports (in Spring) and performance reports (in Autumn).

- Departmental reports provide detail on what the department does and how it is performing against its commitments (including the efficiency programme).
- Autumn performance reports provide an update.
- Reports include:
 - Performance against public service agreements (PSA) targets
 - Provisional outturn for spending for the previous financial year and actual spending for the four years prior to that
 - Forecast expenditure for up to the next three financial years

Total Managed Expenditure

Total Managed Expenditure

Departmental Expenditure Limit + Annually Managed Expenditure

Departmental Expenditure Limit

Departmental Expenditure Limit (DEL) is normally set over three years as part of the UK Government's spending review process. Most of the DEL is undifferentiated (i.e. unhypothecated) and allows the devolved administration full discretion over its spending priorities (i.e. the assigned budget items).

- The assigned element of DEL is known as the 'block grant'.
- Devolved administrations have complete discretion regarding the allocation of the block across departments and programmes, but no discretion over total level of assigned DEL.
- Changes to these items are determined through the Barnett formula.
- Some elements of DEL are ring-fenced (i.e. non-assigned budget) and can be used only for specified purposes.

Annually Managed Expenditure

Annually Managed Expenditure (AME) covers items whose provision cannot be reasonably subject to firm multi-year limits (such as social security benefits) and thus is reviewed annually.

NI Budget - Four Main Stages

- Departmental Position Report (DPR).
- Executive's Position Report (EPR).
- Draft Budget and Programme for Government.
- Legislative Requirements.

NI Budget - Departmental Position Report (DPR)

Each Department issues a DPR in April

- It provides details of performance and progress towards delivering the priorities.
- It also gives an assessment on the future departmental requirements.

NI Budget - Executive's Position Report (EPR)

Issued in June by DFP and OFMDFM

- It sets out the key issues affecting public services that should influence the Programme for Government and budget for the coming financial year.

NI Budget - Draft Budget and PfG.

Issued by the NI Executive in September.

- It sets out programmes, priorities, PSAs, and the associated outline spending plans for the coming year.

NI Budget - Legislative Requirements.

- Budget Bill No.1 incorporating the spring supplementary estimates and the vote on account is introduced in the Assembly in February. Royal Assent follows by 31 March
- The Budget Bill No.2 and main estimates are introduced in the Assembly during June/early July. Royal Assent follows in July.

NI Budget - Timeline

	Stage one
March/April	Departments produce DPRs NIA Committees consider, consult and feedback to departments Departments submit DPRs to DFP
	Stage two
June	EPR issued NIA Committees consider and consult Budget Bill N. 2
August	NIA submits responses to DFP
	Stage three
September	Draft budget and Programme for Government issued NIA Committees consider and consult
October	Draft Budget debate in the NIA
November	NIA report on Draft Budget
	Stage four
December	Revised Budget, debate and approval
February	Budget Bill N. 1

The Barnett formula

- No other countries operate a similar mechanism for funding devolved administrations.
- It plays no part in allocating public spending to England or between English regions.
- The formula determines changes to the assigned budgets of the devolved administrations.
- It does not change the inherited levels of spending for each devolved administration.
- It only concerns the Departmental Expenditure Limits (DEL)

The Barnett formula - cont'd

- The formula is based upon relative population proportions and not upon assessment of need.
- A 'comparability percentage' is also applied - the extent to which the relevant UK departmental programme that is receiving an increased or decreased level of funding is comparable with the services delivered by each devolved administration.
- A special arrangement applies to Northern Ireland, whereby changes to Northern Ireland's budget are abated (i.e. reduced) by 2.5% (because the NI Executive doesn't require provision to meet VAT expenditure -unlike UK Departments- since any VAT paid is refunded by HM Revenue and Customs).

The Barnett formula - cont'd

The formula is:

$$\text{Net change to NI Block} = \text{Change to UK programme} \times \text{Comparability percentage} \times \text{Population proportion} \times 0.975$$

The Barnett formula - cont'd

Comparabilities vary by Programme and Devolved administration

Programme	2007-08 (£'000s)	Scotland	Wales	NI
NHS Unified Budget & Central Allocations	78,776,165	100%	100%	100%
Charity Commission	31,642	100%	0%	100%
British Transport Police	10,021	100%	0%	0%
National Non-Domestic Rate Payments	18,500,000	0%	100%	0%
Child Support Agency	404,795	0%	0%	100%
Medical Research Council	562,842	0%	0%	0%

The Barnett formula - cont'd

Population proportions built in the formula:

Scotland	10.08 %
Wales	5.84 %
Northern Ireland	3.43 %

The Barnett formula - cont'd

Net change to NI Block = Change to UK programme X Comparability percentage X Population proportion X 0.975

Worked examples for Northern Ireland

- Change in Child Support Agency Budget Allocation +£1,000
Change to NI Block = +£1,000 X 100 % X 3.43 % X 0.975 = +£33.4
- Change in Medical Research Council Budget Allocation +£1,000
Change to NI Block = +£1,000 X 0 % X 3.43 % X 0.975 = +£0

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