

Budget Module Self-Test

Unit 3: The Budget Process

1. Why do budget cycles overlap?

Overlapping cycles is a normal feature of budgeting. As the unit states “while one budget is being drafted, another budget may be awaiting legislative approval, yet another might be in the process of being implemented, and a fourth one that has already been implemented might be subject to audit and evaluation. This means that the legislature concurrently has to deal with several different budgets at different stages in their process”. Whilst budget cycles may overlap, it is important to ensure the timely nature of evaluating previous budget cycles: the passage of time is often useful for governments!

In one parliamentary year, the UK Parliament will discuss aspects of a range of financial years including:

- Possibly spending plans for the next three years (in the Spending Review process);
- Taxation measures for the forthcoming financial year;
- Expenditure in the current financial year; or previous year (excess votes); or next year (vote on account);
- Performance of departments in the last financial year or current year (Committee Office Scrutiny Unit, 2007).

Note: the UK Government’s financial year runs from April to March, but the parliamentary year runs from November to November. Therefore the parliamentary year covers the estimates or supply process for two financial years.

The necessity of overlapping budgeting can cause capacity problems within legislatures and the effectiveness of each legislature will normally vary according to the stage of the budgetary cycle. For example, the UK House of Commons is thought to be far more effective in *ex post* scrutiny (the oversight of past expenditure) than *ex ante* scrutiny (the scrutiny and authorisation of proposed government expenditure and taxation).

2. Who plays a role in the budget process in your country?

In your answers, you should consider the input and influence of a variety of actors, including:

- The Executive
 - President/PM
 - Finance Ministry
 - Other Ministers
- The Legislature
 - Backbench Members (govt and opposition)
 - Committees (Budgetary/Financial Committees/Sectoral Committees/Audit Committees)

- Budget Offices and parliamentary staff
- Officers of Parliament
- Second Chambers
- Civil Service
- Civil Society/Participatory budgeting
- The Media
- International Organisations
- Supreme Audit Institutions such as the Auditor General (in the UK the Comptroller and Auditor General is an Officer of the House of Commons)

Draw a timeline of the budget process in your country. In what way does it differ from the generalized version discussed in Unit 3?

The budget process in the UK is fairly complex – the Liaison Committee has described the financial system as incoherently organised and incomprehensible - although the generalized version discussed in Unit 3 is reflected.

The two tables below show the parliamentary financial cycle for taxation and expenditure.

The UK parliamentary financial cycle: taxation¹

Period	Details	Location	Legislation
November	Pre-Budget Report	House of Commons Chamber	
Late March	Chancellor presents the Budget and presents the Financial Statement and Budget Report	House of Commons Chamber	Resolutions (under Provisional Collection of Taxes Act 1968) giving immediate approval to tax changes
Post-budget Day	4-day debate on the Budget	House of Commons Chamber	
April	Finance Bill to implement the Budget introduced	House of Commons Chamber – 1 day report on second reading	Finance Bill

¹ Adapted from M. Rush (2005), *Parliament Today*, Manchester University Press, p209, Table 9.2.

April-July	Remaining stages of Finance Bill in Commons	Committee stage split between floor of House and Committee	Finance Bill
July	Finance Bill in Lords	A sub-committee of the Economic Affairs Committee considers the Bill and issues a report.	Finance Bill

The Parliamentary Financial Cycle: Expenditure²

The Estimates	Purpose	Introduced/Authorised	Legislation
Winter Supplementary	To cover additional expenditure in current financial year	November/December <i>Not later than 6 February</i>	Consolidated Fund No. 1 Bill
Votes on Account	To cover expenditure after end of financial year but before Main Estimates approved	November <i>Not later than 6 February</i>	Consolidated Fund No. 1 Bill
Excess Votes	Additional expenditure not anticipated in previous year's estimates	February <i>Not later than 18 March</i>	Consolidated Fund No. 2 Bill
Spring Supplementary	Additional expenditure required for the current financial year	February/March <i>Not later than 18 March</i>	Consolidated Fund No. 2 Bill

² M. Rush *op.cit.* p.205.

Defence Votes A	Expenditure for the armed forces' personnel for the next financial year	February <i>Not later than 18 March</i>	Appropriations Bill (Consolidated Fund No. 3 Bill)
Main Estimates	Expenditure for the next financial year	March/April <i>Not later than 5 August</i>	Appropriations Bill (Consolidated Fund No. 3 Bill)
Summer Supplementary	Additional expenditure for the next financial year	April/May <i>Not later than 5 August</i>	Appropriations Bill (Consolidated Fund No. 3 Bill)

3. Is an MTEF part of the budget system in your country? If so, is it effective?

Medium-Term Expenditure Frameworks (MTEF) will be discussed in the Week 2 discussion forum. The MTEF concept supports strategic prioritization and sustainable fiscal planning and its purpose is to indicate the size of the financial resources needed during the medium term in order to carry out existing policy. It should integrate policy, planning and budgeting within a medium term perspective.

The UK's MTEF covers 59% of public spending (compared to, for example, 100% in Uganda and Australia and 36% and 31% in Finland and France respectively). It covers 25 departments over a period of 3 years (two years fixed and one rolling) and it is revised every two years (IMF 2008).

MTEFs are less effective if you can't estimate expenditures and revenues accurately. The UK Government introduced Spending Reviews in 1998. These are separate from the Estimates system (they contain figures compiled on a different basis) and set budgets for Government Departments for three years. They are not submitted to Parliament for approval; indeed the Spending Review is principally a process of negotiation between the Treasury and individual departments. This has been heavily criticized as inadequate as the Spending Review largely determines the expenditure requested in the Supply Estimates.

"Parliament approves the Estimates, but Estimates reflect decisions already made on budgets in the Spending Reviews. These Reviews are the real decision-making process, but they hardly receive any parliament scrutiny. Furthermore, little of the information explaining Departments' expenditure proposals relates to the Estimates, which are the least informative of the documents ... Had such a system been deliberately designed, it could fairly be assumed that it had been set up with the Specific purpose of making it impossible to hold the government and Departments to account." **House of Commons Liaison Committee, April 2008**