

Fiscal Studies (1993) vol. 14, no. 1, pp. 78–88

The UK Moves from March to December Budgets

ANDREW DILNOT* and MARK ROBSON†

I. INTRODUCTION

Barring any very unexpected developments, next month's Budget Speech by the Chancellor of the Exchequer will be the last such speech to occur in March for the foreseeable future (and perhaps for ever) in the UK. As part of last year's budget package, the Government published a White Paper on budgetary reform (HMSO, 1992) which announced that in future, Budget Speeches would be made in December of each year rather than in March as at present. However, the tax year will continue to begin in April, so that the lead time between the announcement of tax proposals in the Budget and the coming into force of most of them will be extended from about three weeks to about 16.

In this article we examine the White Paper proposals, and explore some of their likely effects on fiscal policy and practice.

II. THE WHITE PAPER

The White Paper proposed that, with effect from 1993, a December budget statement by the Chancellor would combine the current November statement, principally concerned with government spending but also dealing with National Insurance measures, with the March budget statement which concentrates on the government's revenue-raising proposals.

The annual December statement will cover tax proposals for the year beginning in the following April and spending proposals for the next three years (again, April to March), with publication of the Financial Statement and Budget Report (the "Red Book") at the same time. The Red Book will therefore in future

* Director, Institute for Fiscal Studies.

† Senior Manager, Specialist Tax Services, KPMG Peat Marwick.

include information currently appearing in November with the Autumn Statement, and, according to the White Paper, will consist of

- a summary of the main tax and spending changes for the financial year ahead;
- departmental spending plans for the next three years;
- details of the main tax and National Insurance measures and their consequences for government revenues;
- an update of the government's medium-term financial strategy; and
- a short-term economic forecast.

The Finance Bill would then be published in January, instead of April as at present, with plenty of time for debate before receiving Royal Assent in May, shortly after the beginning of the new financial year instead of up to four months later as now.

The White Paper invited consultation on two matters, namely:

- the effect on employers of advancing changes to the Pay-As-You-Earn codings of their employees; and
- changes to the cycle of work of the relevant parliamentary committees.

Responses to the first of these should be entirely straightforward, and unambiguously welcoming. At present, the Chancellor announces in March the changes to personal income tax allowances and rates to take effect from 6 April. Because of the short time interval between the Budget and the start of the tax year, changes to PAYE codes normally take effect from late May. However, before the Budget, employers will have been notified of the new codes to be applied to particular employees for the coming year, on the basis that personal allowances remain unchanged in cash terms from the previous year. Since the Taxes Act legislation provides¹ (in default of any budget changes) for indexation of personal allowances by reference to the annual change in the Retail Price Index for the previous December, the assumption of no cash increase in personal allowances is perverse. In consequence employers have to adjust codings for their employees twice: once at the beginning of April to reflect changes in personal circumstances, as instructed by the tax office, but not the budget proposals which by this point in time are already known; and a second time in late May, reflecting the budget increases to personal allowances. Under the new system, only one set of changes would be needed, as instructions from tax offices could be sent out well after the December Budget Speech. However, the month used as the bench-mark for indexation would have to be earlier than December, and to be consistent with the other changes would be September.

The second question raised in the White Paper — the effect of the changes on the work of parliamentary committees — is dealt with in detail in the article by

¹ Section 257C, Income and Corporation Taxes Act 1988.

Gammie (1992) in this issue. Of course, the Finance Bill Standing Committee will have to start its deliberations three months earlier, and there will be lesser changes to the work of the Treasury and Civil Service Select Committee and the Public Accounts Committee.

The most striking feature of the White Paper is that it contains no consideration whatsoever of the economic effects of the proposed changes, or alterations in political activity both within and outside government. These matters are therefore of primary concern in the following sections.

The White Paper did, however, detail what the Government perceives to be the advantages and disadvantages of the change. On the positive side were claimed

- better decision-taking by Ministers, because decisions on government spending and revenue-raising will have to be taken simultaneously;
- improved presentation, because those decisions will be presented side by side, in a single document;
- more informed parliamentary and public debate, both because of that improved presentation and because there will be more time before the tax proposals take effect; and
- benefits to taxpayers and employers (in relation to the PAYE system) in coping with changes to the tax system, i.e. they will have more time to make adjustments before the beginning of the tax year.

The disadvantages were stated to be

- the slight delay in presenting departmental spending plans, by postponing them by one month from the present November Autumn Statement to the December Budget; and
- the need to put forward tax proposals long in advance of the beginning of the tax year in April, thereby losing flexibility.

III. HISTORY REVISITED

The separation of parliamentary decision-taking into the two sides of the public finances has been a feature of the UK system since Stuart times. Historically, decisions on ‘supply’ — providing the Crown with resources to fight wars, above all else — have preceded decisions on “ways and means’ — how to meet the cost incurred. Separate parliamentary mechanisms have always been in place for income and expenditure, although the order has been reversed from that customary in the private sector. Sir Leo Pliatzky (of whom more below) wrote a book following his retirement as a senior Treasury official, entitled *Getting and Spending*: a title whose order betrays orthodox Treasury wishful thinking. In practice, the spending has always been committed before the getting, and of course decisions on spending are much more popular and therefore much easier to make, for Ministers and officials alike. If governments

are unable or unwilling to raise sufficient revenue in taxes and charges to meet current spending commitments, the balance must be financed by debt, in the form of what we now know as the public sector borrowing requirement.

Historically, there has also been periodic discussion of the desirability of bringing the decisions on spending and getting together. In recent times, the public debate can be traced to a 1977 speech of Sir Geoffrey Howe, when he was Shadow Chancellor under the last Labour Government. Addressing a meeting of the Addington Society, an invited group of tax practitioners, academics and policy-makers centred on the London School of Economics, he complained:

The budget is shrouded in secrecy until the Chancellor unveils his master plan. He presents it as a fiscal *fait accompli*: receptive to neither the benefit nor the opportunity of prior examination or consultative comment ... the Treasury plays the part of a sort of economic Mount Sinai.

His proposed solution to this objectionable state of affairs was for the Budget Speech to take place much earlier, the Chancellor and government keeping an open mind in the course of wide-scale debate on its tentative proposals, in good time for a final decision reflecting that debate prior to the new tax year.

Faced with such enthusiasm for public participation in the Budget, the Institute for Fiscal Studies commissioned a report from a specially constituted committee under the chairmanship of Sir William Armstrong, a recently retired Cabinet Secretary. The committee's report was delivered in 1980 after the return of the Conservative Government in 1979 and appointment of Sir Geoffrey Howe as Chancellor of the Exchequer.

The Armstrong Committee (1980) made recommendations on many matters concerned with public finances, including detailed proposals on planning of government expenditure which were dealt with by the Government shortly afterwards. However, the key recommendation for the present purpose was that the government should present a range of tax proposals to Parliament in December, with "ready reckoners" of tax yield and detailed costings of that range of schemes. The government would not make a firm decision until the following March, but would have three options in December:

- to opt for none of the proposed schemes — that is, to keep (at least publicly) a completely open mind on the combination of measures in the following April;
- to present one scheme as the preferred option, while acknowledging the need for possible revision in March; and
- to present several different sets of proposals (say, A, B and C) one of which would definitely be chosen but only following debate in which the government would genuinely have an open mind.

In 1982 the Treasury and Civil Service Committee was sufficiently interested in the Armstrong Committee proposals to dedicate a sitting to interviewing the authors, with the Chancellor and his officials responding (House of Commons,

1982). Sir Geoffrey had clearly changed his mind somewhat, for four disadvantages to Armstrong were argued as reasons for maintaining the status quo as against December Budgets:

- a change was pointless, since the Treasury already received a host of pre-Budget submissions by way of public debate, which it could take into account in framing the March Budget, and Parliament had plenty of time to debate the Finance Bill;
- tax options in a December Budget would be “built of sand”: the Chancellor could not “responsibly” close out his tax options more than three months before the tax year began;
- there would be great administrative difficulty for Ministers and Treasury officials in preparing both spending and tax decisions simultaneously each autumn; and
- forestalling effects, as taxpayers altered their behaviour between December and April, would severely affect the Exchequer.

In giving evidence to the Committee, Sir Leo Pliatzky pointed out that what was proposed by Armstrong was surely, in terms of its constitutional feasibility, much more radical than might at first appear: for “the proposals would entail not merely reform but a revolution in relationships within the Cabinet and between the Executive and Parliament’, because there are no collective cabinet decisions on tax matters. Adoption of the proposals “would entail conceding more to Parliament than has so far been conceded to Cabinet’ (quoted in House of Commons (1982, p. xii)).

The right to propose both supply and ways-and-means measures in Parliament is the exclusive prerogative of the Crown: that is, the government as executive and, in practice, the Chancellor of the Exchequer in consultation with the Prime Minister. Parliament cannot decide to increase any public expenditure “Vote’ (head of spending) or propose any tax increases. So any notion that MPs would be able to propose and debate specific measures involving additional spending, coupled with specific tax measures to finance them, would be wholly mistaken. Parliament does, in theory, have the power to vote down specific proposals, but in practical terms it would be very difficult for it to do so piecemeal. Because of the way in which the Autumn Statement is presented, there is little opportunity for detailed relevant debate, and the package is considered very much as a whole. Of course, agreement has already been reached (no matter how reluctantly) between each of the spending departments and the Treasury by this point, so that at the level of the Cabinet there is at least an uneasy consensus.

The position of the budget tax measures is quite different. These are regarded as exclusively the preserve of the Treasury, without any prior discussion in Cabinet or its committees. During the course of his budget purdah, for about two months before the date of the Budget itself, the Chancellor refrains from making any public comment which might reveal the likely tax measures to feature in his

March Budget. The first indication given to the other members of the Cabinet (apart from the Chief Secretary to the Treasury and the Prime Minister, who are already in on the act) is customarily on the morning of Budget Day itself, after all the documents detailing the budget proposals have returned from the printers.

IV. THE STRUCTURE OF FUTURE BUDGETS AND CHANGES TO THE POLITICAL CYCLE

None of this is proposed to change under the new system. Of course, the overall budget stance will have to be decided much earlier than at present, but in principle that is facilitated by the new system of determining public expenditure, announced after the White Paper in July 1992. The New Control Total for aggregate spending, excluding a few items over which the government has no direct control such as unemployment benefit and income support from the current Autumn Statement planning totals, will be set earlier in the year by the Treasury. Instead of the customary summer and autumn bilateral negotiations between the Treasury and each spending department, the allocation of total spending will be determined between departments and ultimately agreed by the Cabinet.

The Treasury will therefore be able to plan its tax and borrowing proposals around the New Control Total, which should account for about 85 per cent of total expenditure and will be set on a rolling basis for the years ahead. However, this is hardly a radical change in context.

One might suppose that the fact that tax decisions are to be aligned with those on social security contributions might encourage marginal hypothecation: that is, the raising of additional revenues to be allocated to a specific item of expenditure. A recent example is provided by the pledge of the Liberal Democrats in the 1992 general election campaign to raise the basic rate of income tax by one percentage point to finance increased spending on education.

The only respect in which revenues are currently hypothecated is through the social security system, whereby National Insurance contributions pass into the National Insurance Fund, after deducting a proportion for expenditure on the National Health Service, and are then applied to meet the cost of contributory benefits. However (as discussed in Skinner and Robson (1992)), even in this case the link between revenue and spending is highly tenuous. All other revenues pass directly into the Consolidated Fund.

The Treasury would certainly be vehemently opposed to further hypothecation, for several reasons including loss of overall flexibility and the risk that individuals would attempt to withhold some part of tax due on the grounds that it was financing expenditure of which they disapproved or from which they did not directly benefit. It is therefore certainly not an object of the new proposals that they should provide an opportunity to hypothecate taxes. On the contrary, it seems likely that the principal object is simply to put pressure on

total public expenditure by removing the historic time lag between spending and tax decisions. It is thought that “better decision-taking”, being one of the White Paper’s stated benefits of the new regime, is code for “*more responsible* decision-taking” or lower total spending.

There will be important changes to the political budgetary cycle, which are perhaps not all immediately obvious. At present, the list of ‘budget starters’ begins life much earlier than is commonly realised. Because of pressure on parliamentary time, a large number of measures are always squeezed out of each Finance Bill, many at the last moment before Budget Day or even before publication of the Bill in April. Most will join the list of “starters” for the following Budget immediately, together with those measures that are required annually in any event, and the process is well developed by the time the Finance Bill receives Royal Assent, so as to become the Finance Act, in late July or the very beginning of August.

The budget starters list increases in length throughout the year, as more proposals are developed (see Beighton (1987) for a brief official account of this process). Officials as well as Ministers take their well-earned holidays in August and September and there is a flurry of activity on the tax front on return, prior to the important landmark in the calendar of the political conferences. Up until this point, Treasury Ministers will have been preoccupied with spending negotiations and decisions, and very little attention will have been given to important tax decisions. However, once the spending cycle is completed with the Autumn Statement, these can benefit from full attention, and late November and early December is a popular time for ministerial statements to the House of Commons that particular tax measures are to be included in the following year’s Finance Bill, backdated to the date of the announcement. The parliamentary Christmas recess follows while officials responsible for tax policy and drafting legislation are at their busiest, followed by the Chancellor’s budget purdah with key economic decisions affecting the budget measures left to February or the very beginning of March. The only real deadline is provided by the need to print documents such as the Red Book to be available for Budget Day itself.

Under the new system, the cycle looks quite different. The White Paper proposed to amend the Provisional Collection of Taxes Act, which, as its name suggests, enables taxes to be collected on a provisional basis before the enabling legislation has been through all its stages culminating with Royal Assent. At present, the time limit expires each year on 5 August, and it was proposed to make this three months earlier, in line with the advance in the budget date, so that only the first month of each new tax year starting on 6 April would be covered instead of the first *four* months. While this seems reasonable at first sight, as Gammie (1992) in this issue and the Special Committee of Tax Law Consultative Bodies (1992) point out, because of the change to the parliamentary cycle it appears that there would be much less time for a January Finance Bill to be scrutinised in Standing Committee than at present. This may require some

compromise, so that Royal Assent would be needed not by the beginning of May but, say, one or two months later to allow for the more informed debate for which the Government hopes. The period immediately following Royal Assent would remain the most opportune time for Ministers and officials to take their holidays, because the next Finance Bill will need to be being assembled in earnest in July, during the long parliamentary recess, but which is also the period in which external lobbying needs to take place in earnest.

Presumably the party conference will provide the Chancellor's last big opportunity to announce changes to tax policy before his period of *purdah*, if that is still to be a feature of the new process, and his Mansion House speech at the beginning of November will have to be moved or be uncontroversial and uninformative. The Budget Speech itself will have to be rather longer, including all the Autumn Statement material on spending which will come out a month later, and a detailed explanation of any National Insurance changes. It is certainly the case that in the preceding months, all Treasury Ministers and their officials will have been extremely busy, juggling with both sides of the equation simultaneously. However, apart from disruption within the calendar year, the job of policy officials within the Inland Revenue and Customs and Excise should not become more difficult; cynics might suggest that their professional lives could be markedly easier if their counterparts at the Treasury have other preoccupations while the Finance Bill is being assembled, so that highly technical proposals receive less detailed pre-publication scrutiny by non-experts than at present.

Whether this new cycle will settle down easily will not really be known until 1996, because the transitional arrangements in the current year will certainly cause great difficulties in terms of the burden of work and teething troubles for the 1994–95 tax year. The Government has already announced that the two 1993 Budgets and Finance Bills will be regarded as a single package, but once this luxury of two bites at the policy cherry in one year is no longer available, it remains to be seen whether such a long time lag between December announcement and April commencement for most measures will be workable. In the next two sections we examine the sources of the most likely economic difficulties.

V. FORESTALLING ISSUES

One of the most common objections to earlier publication of proposals for changes to the tax system is that such early publication would lead to increased forestalling; earlier notice of a tax change would make it easier for individuals and companies to adjust their behaviour so as to maximise their gains from the change.

There is no question that such forestalling can and does take place. Recent years have seen many notable examples of forestalling. In the period

immediately before the 1984 Budget, and even on the evening of the Budget, an enormous amount of life assurance was sold on the basis of the rumoured and subsequently announced abolition of Life Assurance Premium Relief (LAPR). In the March 1988 Budget, the then Chancellor Nigel Lawson announced that from August 1988 the 30,000 mortgage interest relief ceiling would apply to properties rather than to individuals, leading to a dramatic additional stimulus to the housing market during an already hectic period. And in the 1991 Budget, when the standard rate of VAT was raised from 15 per cent to 17 1/2 per cent with effect from the beginning of April, to pay for reduction in the Community Charge, there was a surge of consumer spending in the remaining days of March, followed by a lull in April.

There can be little doubt that the problem of forestalling will become more serious with a December Budget, although it is important to note that even with a March Budget the government does announce some tax changes taking immediate effect, so as to minimise these problems. Excise duty changes are typically announced to have immediate effect, and some direct tax changes (of which the abolition of LAPR is a good example) are also announced with almost immediate effect. The White Paper states that

the Government will be able to decide, as now, whether measures should have immediate effect, or take effect from some other date. Income tax rates and allowances, which are set for the whole year, would take effect as now from the start of the tax year, 6 April. In other cases, changes might take immediate effect, for example, where there is a substantial risk of forestalling. This would be for the government to decide each year, in the light of circumstances at the time.

It seems likely that changes to excise duties will continue to be announced with immediate effect, although the Chancellor of the day may find the duty of announcing increases in the price of alcohol and tobacco in the weeks before Christmas an uncongenial one. Other measures seem less likely to be introduced to take immediate effect, and we can therefore expect some increase in forestalling activity. But other countries run their tax systems quite adequately on this basis, and the gain in time for discussion before implementation seems likely to be worth the cost in increased forestalling.

VI. FORECASTING ISSUES

The main general economic issue raised by the proposal relates to the problem which may be caused by having to set budgets earlier, with less complete information on the state of the public sector finances for the year ahead and on the likely performance of the economy.

There are many variables that matter when forecasting the economy, but one way of assessing the significance of this problem is to look at the errors in estimating the public sector borrowing requirement (PSBR) at various points in

advance of the end of the relevant year. The size of the PSBR will be forecast incorrectly if the general performance of the economy is forecast incorrectly, since this will flow through into errors in the forecasts of tax revenues and public spending.

Table 1 shows, for each year from 1982–83 to 1991–92, the forecasts of the PSBR made prior to knowledge of the final outcome. The first column gives the forecast for the year starting 13 months before the Budget. Thus the 10.0 figure in the top left-hand corner of the table is the forecast of the PSBR in 1982–83 made at the time of the March 1981 Budget. The second column gives the forecast made in the IFS ‘Green Budget’ in January for the fiscal year due to start in April, the third column the Treasury estimate in the Financial Statement and Budget Report at budget time for the year just starting, the fourth column the Treasury estimate made in the Autumn Statement halfway through the relevant year, the fifth column the estimate made in January in the IFS Green Budget for the year three-quarters complete, the sixth column the estimated out-turn given in the FSBR at budget time, and the final column the actual out-turn. The final row in the table shows the average absolute error for each column.

TABLE 1
Errors from past PSBR forecasts

	<i>FSBR</i> (1)	<i>IFS</i> (2)	<i>FSBR</i> (3)	<i>AS</i> (4)	<i>IFS</i> (5)	<i>FSBR</i> (6)	<i>Out-turn</i>
Lag (months)	-13	-3	-1	+6	+9	+11	
1982-83	10.0	9.1	9.5	9.0	7.3	7.5	8.9
1983-84	8.5	7.9	8.2	10.0	9.4	10.0	9.8
1984-85	8.0	8.0	7.2	8.5	9.6	10.5	10.2
1985-86	7.0	8.3	7.0	8.0	8.0	7.0	5.8
1986-87	7.5	5.8	7.0	7.0	4.9	4.1	3.6
1987-88	7.0	6.0	3.9	1.0	-1.0	-3.1	-3.4
1988-89	4.0	-5.2	-3.2	-10.0	-12.4	-13.9	-14.5
1989-90	0.0	-17.1	-13.8	-13.0	-10.3	-7.1	-7.9
1990-91	-10.0	-10.4	-6.9	-3.0	-1.0	-0.8	-0.3
1991-92	-3.0	4.0	7.9	10.5	11.8	13.8	13.9
Average absolute error	7.3	5.7	4.7	2.8	1.6	0.6	

There is a clear decline in the size of average errors as the time until the end of the forecasting period is reduced. The most important figure for economic policy-making at present is the estimate at budget time of the likely PSBR for the year ahead. The average error on this forecast over the 10-year period in the table is 4.7 billion. By moving the Budget to December, the Government will be

reducing the amount of information to roughly that available to IFS when the Green Budget is undertaken. We might therefore expect at most an increase in the average size of the forecasting error on the PSBR from around 4.7 billion to around 5.7 billion. Given the uncertainty implicit in the current estimates, this increase in the expected size of the error does not seem too worrying.

Two caveats are necessary to this relatively relaxed view of forecasting errors. First, the volatile economy of the late 1980s and early 1990s has produced larger errors in forecasting the PSBR, and a larger gap between the IFS Green Budget figure and the budget-time forecast. This has typically reflected rapid change in expectations about economic performance. Second, unforeseen changes of this magnitude in the PSBR would be of much greater concern to a government which was targeting a particular level of the PSBR than they are to the present Government, which is happy to allow the automatic fiscal stabilisers to work.

Although the PSBR is only one of the pieces of information used by government in the budget-making process, it is one of the central elements, and its behaviour reflects that of the real economy. There will undoubtedly be some loss of accuracy in forecasts of government finances and the state of the economy as a result of moving to a December Budget, but these problems may seem relatively small.

VII. CONCLUSION

On the face of the matter, the limited nature of the White Paper proposals is rather disappointing. The change in the timetable is not of itself particularly exciting, but it does provide an opportunity for real reforms if the government wishes, by allowing sufficient time for much wider debate on tax proposals. Because there will be no change to the basic parliamentary mechanism for reviewing tax proposals in a single Finance Bill which deals with basic matters as well as highly technical material, the supposed advantages of the new system may turn out to be largely superficial. The new procedures are certainly likely to increase the *de facto* power of the Treasury to control total spending, but the economic disadvantages appear to have been played down. In particular, it is far from clear that the new system will be readily compatible with different government macroeconomic policies.

REFERENCES

- Armstrong Committee (1980), *Budgetary Reform in the UK*, Report of a Committee under the Chairmanship of Lord Armstrong of Sanderstead, Oxford: Oxford University Press for the Institute for Fiscal Studies.
- Beighton, L. J. H. (1987), 'Tax policy and management: the role of the Inland Revenue', *Fiscal Studies*, vol. 8, no. 1, pp. 1–16.

Budgetary Reform

- Gammie, M. J. (1992), 'Budgetary reform: the impact of a December Budget on the Finance Bill and the development of tax legislation', *Fiscal Studies*, vol. 14, no. 1, pp. x–y.
- HMSO (1992), *Budgetary Reform*, White Paper, Cm 1867, London: HMSO.
- House of Commons (1982), *Budgetary Reform*, Sixth Report from the Treasury and Civil Service Committee, Session 1981–82, HC 137, London: HMSO.
- Skinner, D. and Robson, M. H. (1992), 'National Insurance contributions: anomalies and reforms', *Fiscal Studies*, vol. 13, no. 3, pp. 112–25.
- Special Committee of Tax Law Consultative Bodies (1992), 'Budgetary reform', memorandum, (a response to the White Paper), September, available from the Law Society, London.