The Case for a Spending and Tax Committee

1. The Chair of the Procedure Committee opened my oral evidence session on 10 May 2016 with the following question:

   … I will just say this: thank you for your evidence. It was concise and extremely interesting. To take some edited highlights, you talk about the “vast information advantage possessed by the Executive”; systematic leaking of information before most official budgetary announcements, which distracts from the process of scrutiny; gaming accounting and fiscal rules for political advantage; “the degeneration of formal Parliamentary financial procedures into mechanical processes that are largely treated as irrelevant”; and a Treasury Committee with an “over-stretched remit” that therefore does not focus solely on issues of taxation and expenditure. Now, can you tell us what you really think? (Walker, 2016, Question 57).

What I attempted to communicate in that evidence session was that the feeble condition of *ex-ante* scrutiny is not accidental. Given the United Kingdom’s historical record of single-party government, Executive dominance suits the Government of the day and also the Opposition that expects to enjoy the same Executive privileges in future. In my view, it is not convincing to argue that the United Kingdom’s mature tradition of *ex-post* scrutiny, conducted via the National Audit Office and the Public Accounts Committee, adequately compensates for these *ex-ante* deficiencies. There might now be a window of opportunity for the House of Commons to strengthen its role, in the context of economic and constitutional uncertainty surrounding Brexit and after two of the last three Westminster elections having not produced single-party majorities.

2. I emphasise that I support the Crown initiative in matters of public finance:

   … I am a very strong believer in the Crown initiative. It is for the Crown to demand Supply, and it is for Parliament to grant Supply. In terms of controlling fiscal aggregates, it is very important that that relationship is maintained. If the House does not like what the Government propose, the House has the option to deny Supply. The Government either come back with other proposals or the Government fall (Heald, 2016, Question 58).

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1 Professor of Public Sector Accounting at the Adam Smith Business School, University of Glasgow. From 1989-2010, I was specialist adviser on public expenditure and government accounting to the Treasury Committee, and from 2002-2008 specialist adviser to the Public Accounts Commission. Sole responsibility for the views expressed rests with myself.

2 Anyone who doubts that the present arrangements bring benefits to certain actors should read the Government’s response (Procedure Committee, 2018a) to the Procedure Committee’s (2017) report. Although the UK exhibits an extreme version, legislative fiscal control contains an element of myth in most countries (Wehner, 2010).
I accept the von Hagen and Harden (1994) argument that Ministries of Finance with strategic control over totals are essential for sound public financial management, but also believe that an active role for the Legislature can encourage fiscal transparency and make explicit the complex fiscal trade-offs that governments must make. The mechanisms for *ex-ante* involvement of the Legislature should guard against the pork barrel to which congressional systems are vulnerable (Heald, 2013).

3. Some momentum for Westminster financial procedure reform may be building up, albeit on slow burn. A Hansard Society report in 2006 was scathing about the condition of *ex-ante* fiscal scrutiny (Brazier and Ram, 2006), since when there have been a number of Commons Committee inquiries. In September 2010, the Chancellor of the Exchequer appointed two Coalition backbenchers as “financial advisors to HM Treasury”. Both Sir Edward Leigh MP and Dr John Pugh MP resigned in March 2011 after the former had become Chairman of The Public Accounts Commission. The Leigh and Pugh Report (2011) on ways to improve parliamentary scrutiny of government expenditure (p. 3) was then commissioned by the Chancellor of the Exchequer. Their proposal of a Budget Committee would replicate the role of the Public Accounts Committee, “examining economy and efficiency, rather than policy decisions” (p. 4) in relation to *ex-ante* scrutiny. This concept of the Budget Committee therefore diverges from the policy-oriented proposal of this memorandum.

4. While more attention being paid by the House of Commons to the *ex-ante* scrutiny of spending proposals would be a welcome development, the establishment of a Budget Committee with only a spending remit risks further ossifying the existing fragmentation of parliamentary consideration of expenditure and revenue.

5. The remainder of this memorandum is structured to directly answer the questions posed in the Procedure Committee’s (2018b) call for written evidence. These are sequenced within the headings provided in that call.

**THE REQUIREMENT FOR A BUDGET COMMITTEE**

Q1. Whether a dedicated budget committee to examine Government spending plans for economy, effectiveness and efficiency is desirable
6. If what is ‘on offer’ is an expenditure-focused Budget Committee, then I support its creation. However, this would miss what I regard as the main target and could lead to a confusion of roles with the *ex-post* Public Accounts Committee. The expenditure and revenues sides of the budget should be considered together. The Prime Minister indicated in her 2018 Conservative Party Conference speech (BBC, 2018) that she wished to put “an end to austerity”, provoking media and political discussion about exactly what this means. Hood et al. (2014) considered various definitions of austerity, emphasising that attention must be paid to both the expenditure and revenue sides. The fiscal aftermath of the 2008 global financial crisis has brought an unprecedentedly long period of fiscal squeeze, historically episodes tending to be sharper yet much shorter (Hood and Himaz, 2017). The UK economy is much smaller in 2018 than it would otherwise have been, so that curtailment of public and private consumption has been a fiscal necessity. The International Monetary Fund (2018) has recently highlighted the dramatic deterioration of the UK public sector balance sheet.3

7. The crucial fiscal issues since 2010 have been the balance between expenditure cuts and tax increases, and the extent to which the driving objective was to reduce the long-term public expenditure/GDP ratio, rather than just to eliminate the fiscal deficit. Maddox (2018) highlights the fiscal challenges now facing the United Kingdom, brought together in the Office for Budget Responsibility’s long-term fiscal projections on a no policy-change basis:

   Our projection of public sector net debt falls from its peak of around 86 per cent of GDP in 2017-18 to around 80 per cent of GDP in 2021-22, before rising to 283 per cent of GDP after 50 years (Office for Budget Responsibility, 2018, para 3.111).

   There is room for argument about what level of the public sector net debt ratio is tolerable, but the clear message from the Office for Budget Responsibility is that the present trajectory of UK public finances is unsustainable, even without considering the risk of further financial sector shocks. This is not just a question about fiscal decisions but about UK economic performance and the future path of GDP.

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3 “In the 17 countries for which full [Public Sector Balance Sheet] time series data have been compiled … net worth declined by … 25 percentage points of GDP [during the postcrisis decade] … This average marks a wide dispersion, with net worth declining by as much as 49 percentage points of GDP in the United Kingdom, while increasing by 167 percentage points of GDP in Norway, much of this because of strong valuation gains from its equity holdings” (International Monetary Fund, 2018, p. 8).
8. Parliament has no mechanism for addressing these challenges, which require to be discussed in the round. The Armstrong Committee Report (1980), commissioned by the Institute for Fiscal Studies, proposed a ‘unified budget’ but that only lasted from 1993 to 1996. The Institute for Fiscal Affairs’ Green Budget began publication in 1982 and has partially filled the information gap. Without bringing tax and spending together, there is an inherent political bias against revenue-generating measures and a customary bias for spending more. The United Kingdom ought to choose between fewer public services and the same level of taxation, or broadly the same public services with considerably higher taxation. More likely, the United Kingdom will drift into the degradation of public services and an even worse taxation system than that diagnosed by the Mirrlees Committee (2011) because it persists in the myth that it can have low taxation and high quality public services.

9. In February 2014, when giving evidence to the Political and Constitutional Reform Committee, I proposed:

… the setting up in the next Parliament of a ‘Spending and Tax Committee’, carving this out of the present remit of the Treasury Committee. Although one might argue that the period since 2008 has been exceptional, a Committee with the wide remit of the Treasury Committee cannot be sufficiently and continuously involved with spending and tax (Heald, 2014, para 15d).

In the context of that inquiry into the implications of fixed-term parliaments, I also proposed an ‘End of Parliament Fiscal Report’ on the New Zealand model.

Q2. What would be the potential outcomes for the House and for the Government of detailed scrutiny of multi-annual Spending Review and annual Estimates plans

10. Accessibility and understandability are significant problems for all users of government financial data (Heald, 2015). The outcome to be sought is a fundamental change in the approach of the House of Commons to fiscal business. The obstacles are that Governments prefer not to have the Legislature seriously involved, and that Members enjoy the political theatre of Budget Day, few devoting the time and effort to master the complexities of the public finances. There is also a cognitive problem in relation to what seem like ‘big numbers’, often diverting attention from what is genuinely large in a public finances context and what can be influenced. My experience as specialist adviser to Commons Committees made me more aware of the intense demands on Members’ time
and the fact that there are usually few political rewards for such engagement. The key to greater parliamentary engagement is to ensure that mastering fiscal information might lead to substantive effects in terms of more accountable and effective decisions. Nothing more discourages engagement than awareness that efforts are almost certainly going to be unproductive.

Q3. **What the scope of a budget committee’s activities should be, and what it should be expected to report on**

11. If the remit is going to be expenditure-only, then the main focus should be on the Spending Review system, which sets public expenditure aggregates for a number of years ahead. In technical accounting terms, the UK system is one of the most sophisticated in the world and has attracted international attention and imitation. On the political level, it has reinforced the exclusion of Parliament, one example being how the 1998, 2000, 2002 and 2004 Spending Reviews were all published in July, Treasury ministers knowing full well that this would prevent the Treasury Committee and departmental select committees from mounting meaningful inquiries. A pattern of a Spending Review every two or three years can be disrupted by the timing of Westminster elections and unprecedented developments such as Brexit. Nevertheless, for the House of Commons to play a meaningful role in future Spending Reviews, there must be a firm convention that the timing of Spending Reviews is no longer a decision solely for the Government but that there should be prior discussions with the House of Commons. On that basis, the work programme of the Budget Committee could include:

a) Preparation of a ‘Public Expenditure Challenges’ report not less than six months before the publication date of the Spending Review, in light of trends in revenues, expenditure, assets and liabilities, as identified in the Whole of Government Account and the Fiscal Sustainability Report

b) Holding a fast-track inquiry immediately after the publication of the Spending Review

c) At the beginning of a new Parliament, review the ‘End of Parliament Fiscal Report’, which it is proposed would have been published by the out-going Government not less than three months before the general election

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4 It is acknowledged that such a document is much easier to produce when general elections follow a predetermined
12. What the UK Government and the House of Commons should recognise is the effect the timing of Westminster fiscal events, particularly but not exclusively Spending Reviews, has for the public finances of the Devolved Administrations in Scotland, Wales and Northern Ireland. The admired Scottish Parliament budgetary process, established in 1999, is now severely compressed by changes in UK timings (Budget Process Review Group, 2017). Timing changes have been driven by Westminster considerations, without sufficient attention being paid to the implications for the system of devolved public finance in which tax-raising is assuming a more significant role.

13. The Estimates cycle is the mechanism for translating decisions taken in Spending Reviews into the Executive action that is formally authorised by the House of Commons. I am sceptical about the benefits to be derived from ‘detailed scrutiny’. The onus should be on the Treasury to explain significant deviations from the Spending Review in relation to those items that require Supply approval. My view is that the ability of the House of Commons to refuse Supply is a fundamental element in the processes of democratic accountability. However, that would only be done for macro-political reasons and reforms to Estimates processes should not create space there for pork barrel. In terms of scrutinising public expenditure priorities, plans and developments, the Estimates are the wrong point for parliamentary intervention.

THE OPERATION OF A BUDGET COMMITTEE

Q4. How such a committee ought to discharge its responsibilities

14. It would function on the standard model of a Westminster select committee: for example, announcing inquiries, calling for evidence, interviewing witnesses, reporting to the House of Commons and publishing its reports, and making available Government responses, at which the cycle repeats itself. What would make it different from most other Committees would be an uneven workload, much greater around Spending Review years.

Q5. The composition of a committee and its relationship with existing departmental select committees

15. There should not be overlapping membership with select committees responsible for large blocks of public spending, but it would be useful if the composition included Members timing, as was intended when the Fixed-term Parliaments Act 2011 was enacted.
with past experience of such committees. The Budget Committee’s focus should be on the level, composition and trends in public expenditure as a whole, whereas departmental committees would concentrate on spending by the departmental groupings that they shadow. There is an expectation that departmental select committees would usually conclude that spending in their area needs to be increased; the Budget Committee should reflect on trade-offs between competing demands within the context of expenditure-generating demographic trends over a much longer time horizon than a single Spending Review.

Q6. The scope for innovative methods of operation, e.g. functioning partly as a general committee to facilitate detailed debates on selected estimates

16. I have no comment to make, other than to re-emphasise that the Estimates are the wrong target. If this activity is seen as essential, then Estimates should be taken on a rotational basis, rather than superficial attention across the board.

RELATIONS WITH EXISTING MECHANISMS

Q7. How a budget committee could operate alongside departmental select committees

17. As noted under Q5, their roles would be differentiated.

Q8. How a budget committee could operate alongside the Public Accounts Committee and the work of the National Audit Office

18. The United Kingdom Parliament is recognised internationally as having a mature system of ex-post financial scrutiny, with audits under the responsibility of the Comptroller and Auditor General, and National Audit Office reports being followed up by the Public Accounts Committee. In my view, this does not compensate for the inadequate ex-ante scrutiny which is the subject matter of this memorandum.

19. There are constraints on what a public auditor should do, being barred from direct comment on whatever is packaged as ‘policy’. I have cautioned that a public auditor stepping over certain lines, for example becoming an improvement agency for the Executive, runs the risk of alienating internal and external stakeholders and thereby facilitating Executive push-back (Heald, 2018). The 2010 announcement of the abolition of the Audit Commission is a stark confirmation of these risks to public audit (Timmins and Gash, 2014). Although the National Audit Office (and its devolved counterparts) can
do valuable background work on public expenditure trends, it cannot and should not engage in debating political choices about the size and composition of the fiscal state. Similar constraints apply to the Office for Budget Responsibility. The failure of the House of Commons to fulfil its roles may tempt crossing of these lines.

20. The division of responsibilities between the Budget Committee and the Public Accounts Committee is the distinction between *ex post* (clearly within the remit of the latter) and *ex ante* (where discussion of future political choices is the responsibility of the former, though the latter may have played a role in data-gathering and exposure of fragilities). There are parallel developments to this Inquiry in relation to government financial reporting, and the relationship between proposals has to be carefully considered (Public Administration and Constitutional Affairs Committee, 2017, 2018).

21. One of the downsides of fiscal scrutiny being predominantly *ex post* is that it inevitably focuses on failures and deficiencies, thereby feeding a media agenda that governments waste resources. Audit reports that say how well a government department or public body is doing sink without media trace. In turn, this encourages a public perception that resource challenges can be avoided solely through better management and efficiency gains.

**SUPPORT FOR A BUDGET COMMITTEE**

**Q9. What resources would be required to provide effective support for a committee of this nature**

22. On this point I defer to the Clerks of the House of Commons, who have extensive experience of resourcing Committees, and to those staff who currently manage the Scrutiny Unit.

**Q10. The desirability of appointing a Parliamentary Budget Officer and establishing an office to support the work of the committee**

23. The OECD runs a Network of Parliamentary Budget Officials and Independent Fiscal Institutions which held its 10th Annual Meeting in Seoul on 3-4 July 2018, thereby bringing together country experiences. One of the advantages of establishing a Parliamentary Budget Officer would be to enhance the profile of such work, both nationally and internationally. However, there is the danger that operational space might
become crowded and technical expertise too scattered; the remit would have to be
differentiated from that of the Office for Budget Responsibility. For the reasons discussed
under Q6 (i.e. this is forward-looking and unavoidably politically contentious), staffing
support should not come from the National Audit Office, though there might be some
secondment of individuals from the UK’s audit offices and the devolved parliamentary
research bodies.

Q11. The use a dedicated committee could make of Government annual reporting
and accounting documentation, under the Clear Line of Sight initiative

24. Government financial reporting would provide one of the information sources relevant to
the work of the Budget Committee. However, I repeat the point made at Q8 that ex-post
scrutiny would remain the responsibility of the Public Accounts Committee supported by
the National Audit Office.

CONCLUDING COMMENT

25. I have structured my memorandum to address the Committee’s questions. However, I
conclude by returning to the opening point that what is required is a ‘Spending and Tax’
Committee (looking at both sides of the public finances), not just a Budget Committee
(looking at the spending side). Moreover, the proposed name would cause public
confusion given association with the Chancellor of the Exchequer’s opportunity to pull
rabbits out of hats after weeks of ‘planting’ and media speculation.

26. There are two issues that should influence the Procedure Committee’s decision-making.
First, UK public expenditure has been on a damaging rollercoaster between famine
(1990s and 2010s) and feast (2000s). Second, the message from the Office for Budget
Responsibility (2018) is that the United Kingdom’s public finances are on an
unsustainable path, requiring action on both the expenditure and revenue sides.

Glasgow, 2 November 2018

References
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