Supplementary written evidence submitted by Professor David Heald1 (CBC 19)

RESPONSE TO THE COMMITTEE’S FOLLOW-UP QUESTIONS

Q1: You have previously argued for a Spending and Tax Committee that would look “explicitly and continuously” at the relationship between expenditure and revenue. Does that vary from the sort of Budget Committee seen in legislatures worldwide? If so, how, and why is it a better solution?

My knowledge of how other Parliaments operate is derivative, particularly of the policy work of the OECD and the academic writings of Dr Joachim Wehner. The first part of this question could be directed to them.

Over a reasonable time period, the public finances should balance, otherwise the net public debt ratio is likely to increase. If that happens, governments will lack the fiscal space to respond to crises such as that in 2008 and which might reoccur. Moreover, long-term fiscal projections demonstrate clearly that UK public finances are not sustainable on present policies over the longer term, largely due to demographic and cost pressures. Unless Parliament has a mechanism for joint consideration of the spending and tax sides, it will remain marginal to the big decisions. It is a standard result that fiscal adjustment is easier if it starts early, rather than waiting for the crisis.

The UK is on a roller coaster of public spending feast (2000s) and famine (1990s and 2010s). During the feast there are insufficient real resources to effectively use all the additional money, while periods of extended famine do severe damage to core services and undermine the role of democratic local government. Parliament should have a role in articulating choices and building political consensus about spending and tax: the illusion that spending can rise and taxes be cut is likely to lead to misjudged crisis responses and long-term degradation of public services.

Q2: We are grateful for your explanation of why you do not think Estimates are the most appropriate flashpoint for Parliamentary scrutiny. What level of scrutiny should any new Committee be applying to them?

1 Professor of Public Sector Accounting at the Adam Smith Business School, University of Glasgow; specialist adviser on public expenditure and government accounting to the Treasury Committee (1989-2010); and member of the Financial Reporting Advisory Board to HM Treasury (2004-09). Sole responsibility for the contents of this memorandum rests with the author.
I have explained in earlier memoranda to this and other Committees why Estimates should be published and voted before the beginning of the financial year. International organisations such as the IMF and OECD do not conceal their astonishment at the UK practice of voting Estimates in July, over three months after the beginning of the financial year. Members of Parliament reasonably expect their efforts to either improve public services or bring them publicity and prestige; they will limit their engagement with highly complex documents that constitute *fait accompli*. It is clear from longstanding Treasury attitudes, and from evidence given to this Committee, that the Treasury will resist advancing the timetable on ‘value for money’ grounds. This reflects the fact that the Treasury does not value scrutiny and does not recognise its legitimacy-generating benefits. Minimising the running costs of the Treasury should not be cover for avoiding parliamentary and public scrutiny. Professed commitments to fiscal transparency should be shown to have substance.

In the absence of change to the Estimates timetable, I would limit the amount of time the Budget Committee spends on Estimates. I would establish a rolling programme over, say, five years whereby departmental Estimates receive priority attention on a rotational basis. If there can be reasonable stability in the membership of the Budget Committee, then the Members’ enhanced knowledge of public spending technicalities will be valuable whenever there is a Spending Review. I have argued that Parliament should be formally consulted on the timetable for Spending Reviews.

**Q3:** How could a new Budget Committee best interact with departmental committees so as to improve the overall level and quality of scrutiny?

The weakness of *ex ante* scrutiny is not accidental: it suits the Government and also the Opposition which looks forward to enjoying the same Executive supremacy. The growing assertiveness of Parliament, in the context of governments with small or no majorities, provides a window of opportunity for procedural change that could be embedded before the likely return of majority governments. A turf war between Committees would surrender that opportunity: a negotiated division of roles should be achievable.
The House of Commons has been experimenting with joint-Committee inquiries and this approach could be adopted by the Budget Committee, particularly when undertaking the rotational consideration of Estimates. The Budget Committee could work jointly with relevant committees in looking at spending departments with large Annually Managed Expenditure. An obvious example is the counter-cyclical nature of some benefit spending and how the Department of Work and Pensions is affected by demographic pressures. Another area for joint working would involve committees whose department has large capital spending programmes.

One approach would be for the Budget Committee, in collaboration with the Scrutiny Unit, to devise a set of core tasks that each departmental committee should undertake every year. The ‘core tasks’ approach would allow the Budget Committee to set themes for exploration across the whole of government, possible examples being income generation, asset disposal, or administrative versus programme spending. This would allow the Budget Committee to choose the focus of scrutiny at a particular Estimates/Spending Review cycle, while conferring discretion on departmental committees as to how they structure their own inquiries.

Q4: You once worked for Treasury Committee as a Specialist Advisor. Do you think, fundamentally, that their workload is too much for one Committee reasonably to bear?

Yes. The Treasury Committee exists in its present form because the Treasury combines the roles of Economics Ministry and Finance Ministry which are often separated in other countries. Particularly in times of economic turbulence, inquiries into macroeconomic, monetary and regulatory policy are more glamorous than routine but essential consideration of the detail of public spending and taxation. The Spending Review system, introduced in 1998, has proved resilient to changes of government and is regarded as international best practice. Yet it has further marginalised Parliament from where spending decisions are taken, initially by publishing in July before the summer recess. The Treasury Committee (and its predecessor Treasury and Civil Service Committee) had greater engagement with the earlier annual public expenditure White Papers.
Q5: Are there any circumstances in which you see a new Committee successful avoiding overlap with the Treasury Committee’s current remit?

The relevant part of the Treasury Committee’s own website states its role as:

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration and policy of HM Treasury, HM Revenue & Customs, and associated public bodies, including the Bank of England and the Financial Conduct Authority.

This refers solely to the Committee’s role shadowing its department, just like other departmentally-based select committees and not to responsibilities for the whole of public spending.

In terms of Spending Reviews, the Treasury Committee’s focus would be on the macro-fiscal judgement and on fiscal sustainability, while the Budget Committee would focus on the details of spending within the parameters set by the Government of the day. The Public Accounts Committee would continue to conduct ex post scrutiny.

Q6: If we were to recommend a new Committee, how would we know in 5 years’ time whether it had been successful? How could we evaluate it?

Judging the success of institutional change is always difficult, not least because so much else is changing. Five years might be too short a period, but the following could be monitored:

a) whether Estimates are voted before the beginning of the financial year
b) whether Parliament has had engagement in the Spending Reviews since the Budget Committee was established
c) whether the Treasury treats parliamentary scrutiny with more respect and understands its potential contribution to legitimacy and value-for-money
d) whether the Budget Committee, supported by departmental committees, have communicated to other Members, the media and citizens the difficult choices that are required on the level and composition of spending and tax
e) whether the members of the Budget Committee, and of departmental committees more generally, have acquired the skills to analyse Spending Review and Estimates documentation, so that they can challenge ministers and officials and communicate with the public
f) whether the House of Commons provides staffing support on the public finances, through the Scrutiny Unit or a newly-created Parliamentary Budget Office, comparable to that available to parliamentarians in comparator countries

g) whether there is more media coverage of the substance and process of *ex ante* scrutiny and the spending choices that it reveals, rather than mostly negative stories generated by *ex post* scrutiny.