

## Written evidence submitted by Professor David Heald<sup>[1]</sup> (EST 03)

### REFORMING SUPPLY

1. The opportunity is welcomed to submit written evidence to the Procedure Committee's Inquiry on the Supply procedure. This memorandum draws on evidence (Heald, 2014) submitted in February 2014 to the Political and Constitutional Reform Committee's Inquiry (2014) into the implications of Fixed-term Parliaments, and on earlier academic work on Parliamentary financial procedures (Heald and McLeod, 2002).
2. The United Kingdom takes eighth place on the *Open Budget Index 2015* (International Budget Partnership, 2015), somewhat lower than it has been but still near the top of a league table of 102 countries. However, there are certain pathological features of the UK public finance system that are relevant to the Committee's remit. Good technical processes are marred by abusive political practices, creating distrust in official numbers.
3. The crux of the matter is that the United Kingdom scores well in terms of its formal institutions and practices but the benefits are eroded by informal practices that reinforce Executive dominance (Heald, 2003, 2012). These have included:
  - a) the vast information advantage possessed by the Executive
  - b) the well-established practice of leaking and planting media stories that precedes most Budget, Autumn Statement and Spending Review announcements, which function as distracters
  - c) the gaming of rules, such as treating Private Finance Initiative projects as off-balance sheet; arbitraging boundaries between general government and the public sector and between the public and private sectors; and the redefining of the length of the economic cycle in order to satisfy a fiscal rule
  - d) the degeneration of formal Parliamentary financial procedures into mechanical processes that are largely treated as irrelevant
  - e) the over-stretched remit of the Treasury Committee, with the result that it does not function as a 'Spending and Tax Committee' with an exclusive focus on spending and tax.
4. The possibility of the Opposition enjoying in their turn the advantages of such Executive dominance has contributed to the lack of pressure for reform. Indeed, my academic research and experiences as specialist adviser convinced me that the House of Commons' financial procedures are unreformable because (i) the present system benefits the Executive, and (ii) for good reasons and bad, Members of Parliament have little inclination to become involved. Diagnoses of what is wrong are not novel, as illustrated by the Hansard Society's *Fiscal Maze* (Brazier and Ram, 2006).
5. There are two developments that might offer some hope for reform:
  - a) The devolution of powers to the Scottish Parliament, National Assembly for Wales and the Northern Ireland Assembly have implications for Westminster, particularly when expenditure devolution is accompanied by some tax devolution. To make this complex system work, alignment of budgetary timetables would smooth administrative processes and limit the opportunities for game-playing (Heald,

2016)

- b) A series of events, notably the 2012 Budget, the 2015 Autumn Statement and the 2016 Budget, has drawn attention to the consequences of ill-thought-out policy announcements and the damage to transparency and trust caused by manipulative leaking and planting. Successive Chancellors and the Treasury have enjoyed the attention and control that the decayed Parliamentary procedures have accorded them. However, the experience of what have been four ‘budget events’ [\[2\]](#) within 12 months might have changed the political calculus.
6. There is a strand of political science literature, associated with Jürgen von Hagen of the University of Bonn, which emphasises the importance for public expenditure control of having strong Finance Ministries (von Hagen and Harden, 1994, 1995). However, there is a contrary factor, namely the role of democratic legislatures in legitimating top-down decisions on public expenditure and taxation. Without countervailing power in Parliament, the centralised power enjoyed by UK Governments has dysfunctional consequences for the public sector and for the taxation system.
7. The fragility of Parliamentary scrutiny at key decision points leads to inadequate challenge (policy debate is closed down) and weakens legitimacy and trust in government. Moreover, the prospect of more effective challenge would afford Treasury officials some protection from over-confident Ministers. Parliament should seek to redefine its role in relation to public finances. At present, its public profile stems largely from the retrospective work of the Public Accounts Committee, in particular from exposures of alleged failure and incompetence.
8. My reading of the public financial management literature (Cangiano *et al.*, 2013; Allen *et al.*, 2013) confirms my support for a strong Finance Ministry. I approve of the multi-year Spending Review, while recognising that – as in 2013 – the number of years they cover may be affected by the electoral cycle. The Spending Review system brought benefits (eg clearer direction and less churning than under the previous annual White Papers), but the timing of publication (often in July) had the effect of further marginalising Parliament. With the summer recess imminent, the treatment by Parliamentary Committees tends to be perfunctory and the ‘newsworthiness’ has gone by the time Parliament returns in September (previously October). Although this cannot be proved, my own view is that this timing suited Executive processes and knowingly weakened Parliamentary scrutiny. Even when the Spending Review is published in November, Parliamentary scrutiny is muted.
9. It has to be understood that what is voted as Supply on an annual basis is largely the technical translation of that year’s Spending Review numbers into Estimates format. The Treasury deserves credit for establishing a ‘clear line of sight’ across Spending Review plans, Estimates and accounts, putting the United Kingdom far ahead of most countries. Nevertheless, there is an irreducible level of complexity (Heald, 2012), which acts as a barrier to engagement by Members of Parliament. Strong disincentives to engagement are that the key decisions have been taken earlier, the matter is technically complex, and such scrutiny efforts attract minimal media attention.
10. The above might be interpreted as an indication that the decay of Supply procedures is of no importance.

However, that would be a misinterpretation. In a Parliamentary system, a Government cannot survive if it is denied Supply and I believe that to be a fundamental constitutional safeguard. Because denying Supply has far-reaching implications and the United Kingdom has a tradition of governments that command a majority, the legitimisation process must derive from scrutiny that takes place before the formal procedures begin. My proposals are the following:

- a) A Draft Budget should be published in the Autumn, with procedures put in place to limit forestalling of proposed tax changes, with the Estimates being presented in sufficient time to allow an Appropriation Act to be enacted before the start of the financial year on 1 April
- b) Parliament should insist that Budget and Spending Review secrecy are maintained until announcements are made in the House of Commons. From outside, it would seem that the worst offender on premature disclosure is the Treasury itself, possibly via special advisers. These abusive practices severely damage fiscal transparency
- c) Parliament should establish a Spending and Tax Committee, alongside the Treasury Committee (whose wide remit contributes to inadequate scrutiny of Spending Reviews). This proposed Committee would be in a much better position to counter misleading presentation and financial engineering (such as placing activities 'off-balance sheet')

11. This memorandum proposes that the Procedure Committee place its present Inquiry in this wider context of dysfunctionality. The remit of this Inquiry and the call for public evidence raise specific points. I now address those on which I have expertise or contemporary knowledge:

- ***The opportunities for Members to examine and debate Estimates, and the use made of these opportunities:*** The Estimates represent the translation of multi-year Spending Review plans into authorised expenditure for one financial year. Therefore they are part of a larger system which is completed by the publication of audited accounts. Whereas much attention has been given to the rear end of this process (Public Accounts Committee hearings on the basis of work done by the National Audit Office), the front end (Spending Review) has been neglected. When Simplified Estimates were introduced in 1995-96 in advance of Resource Accounting and Budgeting, there were expectations that the new format would encourage greater Parliamentary interest
- ***The work of departmental select committees in examining departmental Estimates on behalf of the House:*** Delegation to departmental select committees of detailed scrutiny of Estimates, including Supplementary Estimates, is appropriate. Constructive probing requires both subject knowledge and capacity to understand what are quite technical documents
- ***Rules and conventions governing the formal consideration of Estimates:*** As stated above, a strong Finance Ministry is an essential part of a successful system of public financial management. Accordingly, it is vital that the Executive retains control of fiscal aggregates, both for spending and tax. Following the report of the Financial Issues Advisory Group (Scottish Office, 1998), established ahead of the creation of the Scottish Parliament in 1999, that Parliament cannot increase expenditure but can propose substitutions. A suggestion is that the Procedure Committee should examine the experiences of the three Devolved Parliaments and Assemblies, which have in part been shaped by their role as expenditure-focused bodies
- ***The timing of the House's consideration of Estimates:*** The Estimates should be passed before the beginning of the financial year to which they relate; the fact that this is not so is a historical relic that sits badly alongside UK accomplishments on other dimensions of public financial management<sup>[3]</sup>

- **The adequacy of present allocations of time for consideration of Estimates:** My understanding is that the long-standing problem is that Parliamentary time notionally allocated for consideration of the Estimates is diverted to other uses that are seen as more pressing by those with decision-making power. This situation is likely to persist unless the Estimates are perceived to have political, not just technical, significance and that the efforts devoted to their scrutiny can influence outcomes and attract media attention

12. None of the above would be easy to achieve. In constitutional theory, the Parliament controls the Executive but, especially in majoritarian systems, the Executive often controls the Parliament through patronage and party discipline. ‘Parliamentary fiscal control’ is often characterised as myth (Wehner, 2010). Notwithstanding the constraints of which the Procedure Committee will be fully aware, it should be possible to do better in terms of democratic legitimation, without weakening fiscal control or encouraging pork-barrel politics.

Glasgow, 25 March 2016

## References

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[2] 18 March 2015 Budget; 8 July 2015 Budget; 25 November 2015 Autumn Statement and Spending Review; and 16 March 2016 Budget.

[3] For example, budgeting as well as financial reporting being done on an accruals basis; and Whole-of-Government Accounts.