

TREASURY COMMITTEE

RESOURCE ACCOUNTING

AND BUDGETING

MINUTES OF EVIDENCE

Tuesday 7 March 2000

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APPENDIX 4

Memorandum by Professor David Heald, Specialist Adviser to the Committee

THE FIRST STEPS TO RESOURCE-BASED SUPPLY

INTRODUCTION

1. The Treasury (1999) has sent to Parliament a mock-up of what the Home Office Estimates and Accounts for 1997-98 would have looked like had Resource Budgeting been in operation in that year. It is the Treasury's intention that, subject to Parliamentary approval, Supply Estimates will be voted for 2001-02 on a resource basis. Following the Comptroller and Auditor General's expressed view that this should be delayed until 2002-03 (Bourn, 1998), the Treasury has adopted a four "trigger points" strategy as a means of keeping alive the 2001-02 option.

2. Despite the technical complexity of these matters, there are two powerful reasons why the Departmental Select Committees should now engage in debate with their Departments concerning resource-based Estimates:

- (i) it is still sufficiently early in the process for the Treasury and Departments to respond constructively to the views of Committees; later in the process, they will predictably and truthfully argue that systems have "firmed up";
- (ii) *Erskine May* (Limon, McKay et al, 1997) explains that Parliament has a traditional and significant role in determining how Supply is voted; in contrast, the control of wider public expenditure definitions is jealously guarded by the Treasury, which frequently springs surprises, not only on Parliament, but also on Departments (eg the June 1998 revision of fiscal aggregates) (Treasury, 1998c).

3. In practice, Parliament gains its modest leverage over the public expenditure planning system by virtue of its ability to veto unwelcome changes to the Estimates. It will be remembered that, as a result of Parliamentary concerns about the loss of detail, Simplified Estimates were introduced in 1996-97, not in 1995-96 as the Treasury had intended.

THE HOME OFFICE MOCK-UP

4. The text of the Treasury memorandum of 11 January 1999 provides a helpful summary of context. However, the most important material to consider is the Main Estimate (which appears on pp 72-75). Concentrating upon Part II (p 73), the following should be noted about the Home Office mock-up:

- there are two Requests for Resources (RFR);
- within each RFR, the expenditure lines are first separated into items within Departmental Expenditure Limits (DEL), items within Annually Managed Expenditure (AME) and items outside Total Managed Expenditure (TME), and then separated within each between "Central government's own expenditure" and "Central government support for local authorities". (In the mock-up, not all of these six cases appear);
- looking at columns, the first three columns relate to categories of current expenditure, followed by current Appropriations in Aid; the fifth column is the Net Total, the aggregate of which is the voted element of the Resource Budget; the sixth column relates to capital; and the seventh column to non-operating Appropriations in Aid (eg asset disposals).

5. Parliament would have been asked to vote the following items, all of which have been shaded on the mock-up of the Vote:

- Net Total for RFR1.
- Appropriations in Aid for RFR1.
- Net Total for RFR2.
- Appropriations in Aid for RFR2.
- Non-operating Appropriations in Aid for the Vote.
- Net cash required for the Vote.

All the voted items are in resource terms, except for the last one, which imposes a cash envelope on the Vote. An important explanatory device is the boxed "Resource to Cash reconciliation" at the bottom of the page.

6. There will continue to be Supplementary Estimates and the Treasury memorandum provides examples of Summer, Winter and Spring Supplementaries. Supplementary Estimates will be required if:

- (i) more resource is needed on either of the RFR Net Totals;
- (ii) more Estimates cover is needed on either of the RFR Appropriations in Aid or on the Non-operating Appropriations in Aid; or
- (iii) more cash is required.

In page 76 of the Summer Supplementary Estimate, there is a helpful summary of the proposed changes. The column "Present provision" relates to the original Estimate. This summary is considerably less helpful for the Winter (p 80) and Spring (p 83) Supplementary Estimates; "Present provision" incorporates any previous changes and therefore does not reveal the cumulative change since the Main Estimate.

7. Appendix 3 (pp 86-89) provides three of the five Schedules from the Departmental Resource Account (DRA), together with only two of the Notes (8 and 9):

- Schedule 1 is the Summary of Resource Outturn.
- Schedule 2 is the Operating Cost Statement.
- Schedule 4 is the Cash Flow Statement.
- Note 8 is the Analysis of Net Resource Outturn and Net Operating Cost by Function;
- Note 9 is the Analysis of Capital Expenditure, Financial Investment and Associated Appropriations in Aid.

8. The materials in Appendix 3 draw attention to two points:

- (i) the Treasury has never intended that the Estimate should contain a forecast Balance Sheet (the actual Balance Sheet would be Schedule 3 of the DRA)¹⁵
- (ii) the only place in the DRA where Parliament can directly compare Total Provision (ie the amount voted in the Main Estimate and subsequent Supplementary Estimates) is at the level of RFR (see column 7 on p 87). Note 8 (p 89) only shows 1997-98 outturns at subhead level (denoted by the letters A-X for RFR1 and A-C for RFR2), without any provision-outturn comparison.

THE IMPLICATIONS OF THE NEW FISCAL AGGREGATES

9. Developments on the Estimates front have to be set in broader context. Over the years, the Estimates system has become marginalised and highly formal, understandably generating little Parliamentary interest. One of the potential benefits for Parliament of Resource Budgeting has been the possibility that the Estimates process might be revitalised. However, there are now grounds for concern that this will not happen:

- it now seems inevitable that the Government will bring forward a minimalist Bill, just sufficient to allow Supply to be voted on a resource basis (paras 58-61);
- the Treasury appears to have no intention of bringing about greater alignment between public expenditure definitions used in the Survey and those used in the Estimates,¹⁶ this means that supporting documents must handle this distinction as well as the resource/cash distinction;
- the ability of Parliament and outside observers to understand the overall public expenditure system has been damaged by repeated changes which both undermine external comprehension and destroy data comparability (Heald, 1995; Heald, 1998a; Heald, 1998b); not least, the reality of the situation is at odds with ministerial rhetoric about "transparency".

AN AGENDA FOR SELECT COMMITTEES

10. Although the tasks overlap to some extent, there would seem to be a division of labour between the central Committees (Procedure, Public Accounts and Treasury) and Departmental Select Committees.

11. The central Committees might concentrate on:

- (i) the substance of the proposed Resource Accounting and Budgeting (RAB) legislation (paras 58-61);
- (ii) the implications of the replacement of Departmental Reports by two publications: a forward-looking planning document (Departmental Plans) in the Spring (which will contain the relevant Estimates) and a backward-looking outturn document in the Autumn (which will contain the relevant DRAs) (Treasury, 1998a; 1998b);
- (iii) seeking clarification on how the Treasury intends to run a Resource Review, as the successor to the Public Expenditure Survey; not least, a revised version is required of the now outdated Diagram 5 of the 1995 White Paper (Treasury, 1995) which showed the relationship between the Resource Control Total (RCT) and Total Financing Requirement (TFR).
- (iv) achieving sufficient consistency across Departments so that a coherent picture of expenditure levels and priorities can be secured; there is clearly scope to build upon "core requirements", the public disclosure of which was a beneficial consequence of the earlier debates on Simplified Estimates.

¹⁵ A forecast balance sheet, which is not provided, underlies the forecast operating cost statement and forecast cash flow statement. Interestingly, the Financial Issues Advisory Group, which was established by the Scottish Office to make proposals for the financial procedures of the Scottish Parliament, strongly favours harmonisation of Survey and Estimates definitions (Scottish Office, 1999).

12. Departmental Committees might concentrate on:

- (i) asking their Departments to provide mock-ups of their 1997–98 Estimates, Supplementary Estimates and DRAs, a task which will be considerably easier for those Departments which, like the Home Office, were part of the Resource Budgeting “live test”;
- (ii) engaging in debate with their Departments as to the appropriate structure for RFRs and (lettered) subheads, including how the successor documents to Departmental Reports will provide further breakdowns of Estimates aggregates and reconciliation between Estimates figures and those used in the Resource Review;¹⁷
- (iii) considering the level of disaggregation at which Parliament should be regularly provided with budget-outturn comparisons;
- (iv) reviewing the output and performance information which will be provided to Parliament so that the full promise of RAB as much more than an accounting system is seen to be delivered; this is particularly important given the deluge of new financial initiatives, such as Departmental Investment Strategies and Public Service Agreements (Treasury, 1998d);
- (v) ensuring that Parliament will be provided with proper information both on technical aspects of financial system (eg capital charging across the departmental boundary) and on policy-relevant disclosure (eg PFI spend and outstanding liabilities).

13. Much of what is contained in the Treasury memorandum of 11 January 1999 is predictable, given what has been in the public domain for a considerable period. The task for Committees is to ensure that understandable summary data and relevant detail are readily accessible. However, it is notable that output and performance information (Schedule 5 of the DRA and the Output and Performance table), which strikes at the heart of Parliamentary concerns, is becoming detached from the financial mechanics. Parliament would be well advised not to give the Treasury assent to its proposals until the Treasury and Departments have satisfied Committees about the wider picture. Without detracting from the complexity of the material and the workload faced by Departments in the transition, it should not be forgotten just how much time has elapsed since the definitive White Paper proposals were published in July 1995. Proper sense can only be made of resource-based Estimates when there is greater clarity about control aggregates under Resource Budgeting.

28 February 1999 (minor corrections 6 August 1999)

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¹⁷ This will be needed because of continued under-mapping and over-mapping between (i) Supply expenditure in terms of resource and cash, and (ii) Resource Review expenditure in terms of resource and cash. Moreover, the Resource Review expenditure aggregate will also score certain “consents” (eg local authority credit approvals) which are neither cash nor resource.