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STEERING PUBLIC EXPENDITURE WITH DEFECTIVE MAPS

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Governments control public expenditure on definitions different from those of General Government Expenditure, the national accounts aggregate. After a prolonged period of relatively stable definitions for its public expenditure control aggregate, the UK government has recently revised this twice, substituting the New Planning Total for the Old Planning Total in 1990 and then moving in 1993 to the New Control Total. This article evaluates the justifications offered for these revisions and evaluates alternative explanations. The search for presentational gains and recourse to definitional change as an escape from problems feature prominently among the latter. Moreover, the fundamental ongoing changes in the form of public service delivery have major implications for the articulation of delivery agencies with public expenditure planning. There has been a marked loss of information and of transparency, notably with regard to forward information about function and economic category. Data continuity has been broken, and year-on-year changes to cash plans cannot be properly analysed. Transferring expenditure away from general government to where it is 'out of reach' in the expectation of efficiency gains further complicates monitoring. The channels of public accountability are blocked, in part by information overload and in part by information suppression. The existing arrangements, whether by accident or design, confer enormous discretion upon UK government through control of information flows.

I THE SUBSTANCE OF DEFINITIONAL CHANGE

Whereas UK public expenditure definitions remained comparatively stable from the IMF-loan induced redefinition of 1977 until 1990, the public expenditure documents produced in January 1993 at the end of the 1992 Public Expenditure Survey (PES) incorporated the second major redefinition in three years. This article evaluates offered justifications as well as alternative explanations for the redefinitions of 1990 and 1993, and relates these to changes in the structuring of public service delivery and accounting. It thereby focuses upon the informational infrastructure of the public expenditure planning and control process. As a necessary precursor, this section primarily concentrates on a technical exposition of both redefinitions, set within the framework of the interface between public expenditure planning and government accounting.

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The term 'public expenditure control aggregate', usually abbreviated to 'control aggregate', refers to the public expenditure total upon which the Treasury concentrates for purposes of expenditure planning and in-year control. The ultimate objective, conceived in terms of the macroeconomic national accounts aggregate of General Government Expenditure (GGE), is viewed as less directly controllable because it is subject to too many exogenous factors. Naturally, for any given control aggregate to be useful, successful targeting of it must confer sufficient leverage over GGE. Exactly what constitutes 'sufficient leverage' and which components of GGE should be excluded from the control aggregate are themselves matters for theoretical and empirical investigation.

Control of expenditure databases and of information flows permits UK government to shape the agenda of public debate about public expenditure and its affordability. During the 1970s, neo-Marxist writers such as James O'Connor (1973) and Claus Offe (collected together in Offe 1984) wrote extensively about the fiscal crisis of the capitalist state which they believed would lead to the collapse of capitalism. Paradoxically, theories of the fiscal crisis of the state in the 1990s are a central component of the New Right case for the dismantling of the welfare state. Investigation as to whether this new fiscal crisis, derived from ageing populations, embedded structural unemployment and resistance to taxation, necessitates deep surgery is hindered by defective mapping of the public expenditure past and future.

Alternative formulations of the control aggregate

The predominant mode of exposition in this section is diagrammatic and tabular, rather than providing in the text a discussion of every individual item.[1] Taking planning figures for 1993–94 to 1995–96, table 1 shows the relationships between:

(a) the Old Planning Total (OPT) of the period 1977 to 1989;
(b) the New Planning Total (NPT) of the period 1990 to 1992; and
(c) the new Control Total (NCT) introduced in 1993.

The results of the 1992 PES are thereby presented on the bases of three different control aggregates.

The coverage of these three control aggregates can be briefly summarized as follows:

> **OPT** consisted of central government expenditure, local authority expenditure, the external financing of nationalized industries and of some public corporations, the capital expenditure of certain public corporations, the reserve and privatization proceeds.
>
> **NPT** consisted of central government's own expenditure, the financing of public corporations and of trading funds, central government support for local authorities, financing requirements of nationalized industries, the reserve and privatization proceeds.
>
> **NCT** consists of central government's own expenditure (excluding cyclical social security), the financing requirements of public corporations and

trading funds, central government support for local authorities, Local Authority Self-Financed Expenditure (LASFE), financing requirements of nationalized industries and the reserve.

Figure 1 provides schematic representation of the composition of all three control aggregates. The control aggregate appears midway down each 'stem', with identical items being horizontally aligned across stems and differences in treatment indicated by disalignment. Towards the bottom of each stem appears GGE, with the deduction of privatization proceeds (i.e. the subtraction of a negative number) being indicated by an ellipse rather than a rectangle. The bottom entry for each stem is GGE excluding privatization proceeds, the public expenditure aggregate which is used in the UK Treasury's measure of the GGE/GDP ratio. It should be noted that the graphical representation of OPT and NPT has been influenced by knowledge of later definitional changes, particularly in the separate identification and disaggregation of social security expenditure. Three items in figure 1 and table 1 require specific commentary:

Central government support for local authorities
The 1990 redefinition excluded local authority expenditure net of debt interest from the planning total whilst bringing central government support for local authorities within it. Certain items (revenue support grants, specific grants, community charge grant, transitional relief, other current grants and capital grants) involve the transfer of cash from central government to local authorities. Others, however, are different. First, non-domestic rates were regarded until 1990 as a local tax, with tax base equalization taking effect through the operation of the rate support grant. The introduction of the uniform non-domestic rate was accompanied by a reclassification of these revenues as transfers from central government to local authorities. Although still collected by local authorities, they are now regarded as central government resources which are hypothecated: central government sets the rate, local authorities collect as agents, and central government allocates by formula to local authorities. Second, the approved amounts of borrowing by local authorities for capital purposes (England and Wales) or of capital expenditure (Scotland) involve no transfer of resources, being required consents relating to transactions which local authorities will themselves have to finance.

Local Authority Self-Financed Expenditure
LASFE is that part (16 per cent in 1993–94) of local authority expenditure which is not financed by central government support for local authorities. It is difficult to predict, partly because not all the components of local authority expenditure are under the full policy control of central government and partly because LASFE is the difference between two massive aggregates (local authority expenditure including debt interest and central government support for local authorities). All local authority expenditure other than debt interest fell within OPT. LASFE was excluded from NPT but has been brought back within NCT. To include, albeit separately, central government support for local authorities and LASFE in NCT must definitionally lead to the same total as including local authority

TABLE 1 Results of the 1992 Public Expenditure Survey on three control aggregates (£ million)

	1993–94		
	Old Planning Total	*New Planning Total*	*New Control Total*
Central government's own expenditure (excluding social security)	105,100	105,100	105,100
Social security - cyclical	15,500	15,500	
- non-cyclical	59,600	59,600	59,600
Financial requirements of public corporations and trading funds		1,572	1,572
CENTRAL GOVERNMENT EXPENDITURE	180,200	181,772	166,272
LOCAL AUTHORITY EXPENDITURE (excluding debt interest on stylized assumption)	64,200		
National Non-Domestic Rate payments		13,215	13,215
Revenue Support Grants		22,310	22,310
Current specific grants within Aggregate External Finance		5,233	5,233
Aggregate External Finance and Transitional Arrangements		40,758	40,758
Current specific grants outside Aggregate External Finance		11,750	11,750
Capital grants		1,751	1,751
Credit approvals and capital allocations		4,152	4,152
CENTRAL GOVERNMENT SUPPORT TO LOCAL AUTHORITIES		58,411	58,411
LASFE			11,100
Financing requirements of public corporations	1,572		
Financing requirements of nationalized industries	3,880	3,883	3,883
Privatization proceeds	(5,500)	(5,500)	
Reserve	4,000	4,000	4,000
CONTROL AGGREGATE	248,352	242,566	243,666
CONTROL AGGREGATE SPECIFIC ADJUSTMENTS:			
LASFE		11,100	
Cyclical social security			15,500
Local authority debt interest (stylized assumption)	5,300		
Central government debt interest	20,000	20,000	20,000
Privatization proceeds			(5,500)
ACCOUNTING ADJUSTMENTS	7,500	7,500	7,500
GENERAL GOVERNMENT EXPENDITURE	281,152	281,166	281,166
Privatization proceeds	(5,500)	(5,500)	(5,500)
GENERAL GOVERNMENT EXPENDITURE (excluding privatization proceeds)	286,652	286,666	286,666

Note: Because the Treasury never publishes local authority debt interest for plan years, the and 1995–96

1994–95			*1995–96*		
Old Planning Total	*New Planning Total*	*New Control Total*	*Old Planning Total*	*New Planning Total*	*New Control Total*
108,950	108,950	108,950	110,330	110,330	110,330
16,500	16,500		17,000	17,000	
61,100	61,100	61,100	64,500	64,500	64,500
	1,560	1,560		1,592	1,592
186,550	188,110	171,610	191,830	193,422	176,422
67,200			69,400		
	37,897	37,897		39,822	39,822
	5,368	5,368		5,343	5,343
	43,265	43,265		45,165	45,165
	12,450	12,450		12,950	12,950
	1,555	1,555		1,565	1,565
	4,236	4,236		4,189	4,189
	61,506	61,506		63,869	63,869
		11,000			10,800
1,560			1,592		
1,910	1,909	1,909	1,694	1,694	1,694
(5,500)	(5,500)		(1,000)	(1,000)	
7,000	7,000	7,000	10,000	10,000	10,000
258,720	253,025	253,025	273,516	267,985	262,785
	11,000			10,800	
		16,500			17,000
5,300			5,300		
24,500	24,500	24,500	27,500	27,500	27,500
		(5,500)			(1,000)
8,500	8,500	8,500	9,000	9,000	9,000
297,020	297,025	297,025	315,316	315,285	315,285
(5,500)	(5,500)	(5,500)	(1,000)	(1,000)	(1,000)
302,520	302,525	302,525	316,316	316,285	316,285

1992–93 estimated outturn has been adopted as a stylized assumption for 1993–94, 1994–95

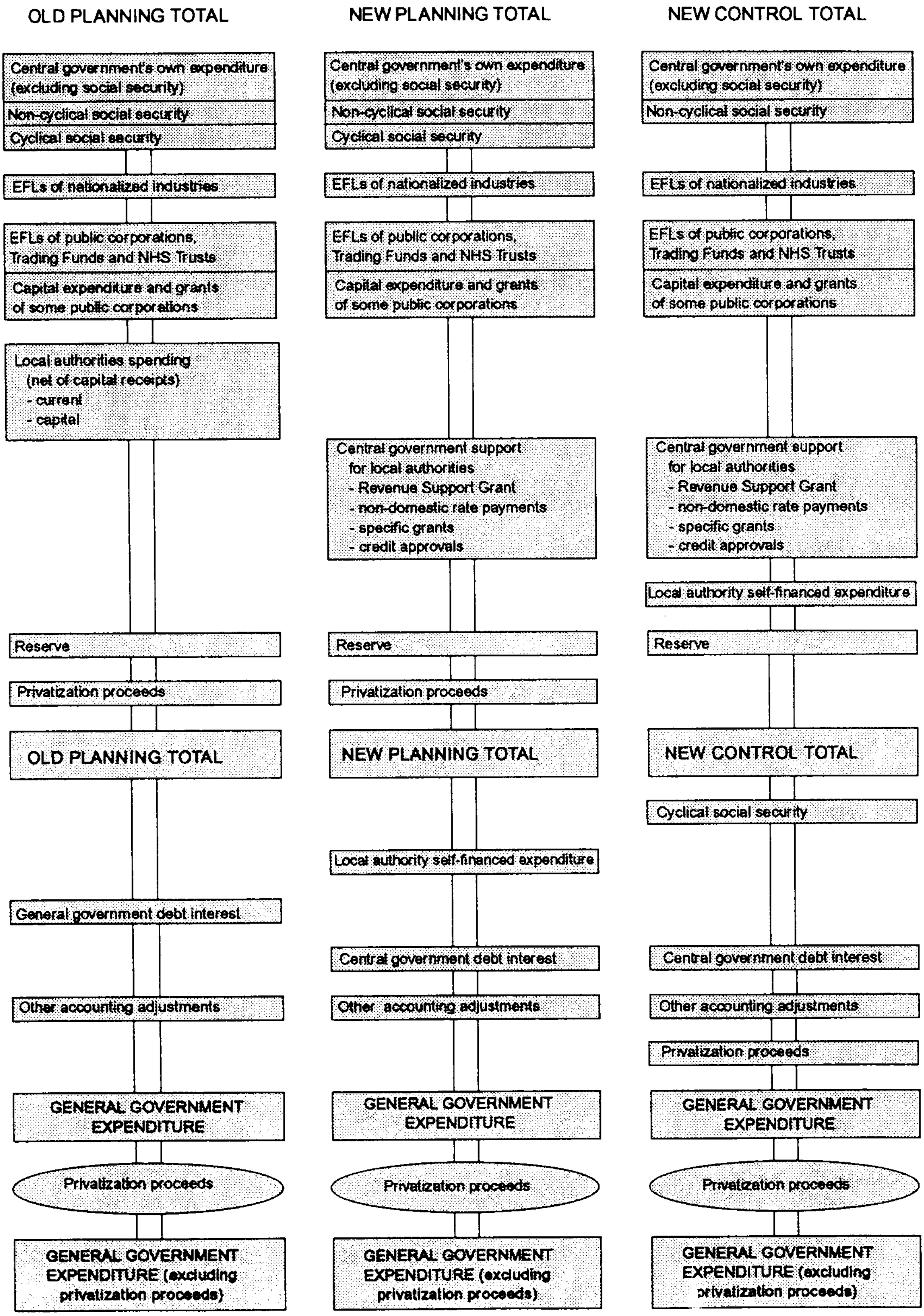

FIGURE 1 *Relationships between three public expenditure control aggregates*

expenditure as a single item; the difference stems from the fact that OPT did not include debt interest. However, keeping LASFE 'off programmes' seriously impairs the transparency of the planning process because it conceals functional and economic category composition.

Cyclical social security
NCT excludes cyclical social security, defined as unemployment benefit and income support for those of working age. This exclusion should be interpreted in part as a statement that, unlike in 1980 and 1981, the government would not resist the operation of automatic stabilizers and in part as a reflection of concern that recession-induced expenditure should not exert an upward ratchet effect on public expenditure, the onset of recovery releasing resources for other programmes. There are chronic measurement problems concerning which expenditure increases are cyclical and which are not: this explains the decision to define cyclical social security in terms of particular benefits. The Chief Secretary to the Treasury estimated that two-thirds of the cyclical elements of public expenditure have been excluded from NCT (Portillo 1992, Q. 322), without providing supporting calculations. Other items will be influenced by the cycle: for example, nationalized industry External Financing Limits (EFLs), some health expenditure (notably foregone charges on family practitioner services), and local authority expenditure net of fees and charges.

From control aggregate to GGE
Tracking all the adjustments required to convert a PES control aggregate to the national accounts basis of GGE is an intricate task. Fortunately, a few adjustments account for most of the value. It is useful to force a distinction between those adjustments arising from the choice of control aggregate and those which arise from the different accounting and measurement bases of PES and the national accounts. This distinction is not always unproblematic but it certainly focuses discussion in a constructive way. Having defined a particular control aggregate, a number of adjustments are required to reach GGE.

Figure 2A provides a schematic representation of the reconciliation from NCT to GGE. Three control aggregate specific adjustments are necessary: the inclusion of cyclical social security; the inclusion of privatization proceeds (which, because they are treated as negative expenditure, reduce the total); and the inclusion of central government debt interest. The accounting and measurement bases' adjustments are all positive except for the deduction of public corporations' market and overseas borrowing and of local authority debt interest to central government, a transaction within general government. For purposes of comparison, figures 2B and 2C show the reconciliations between, respectively, NPT and OPT with GGE had they been used as the control aggregate in 1993–94.

Yearly rolling-on of control aggregate
Because of limited data availability, table 1 could only be compiled on the basis of 1992 PES 'measurements' and is therefore not comparable to the 'measurements' in use in the earlier periods when OPT and NPT were actually in opera-

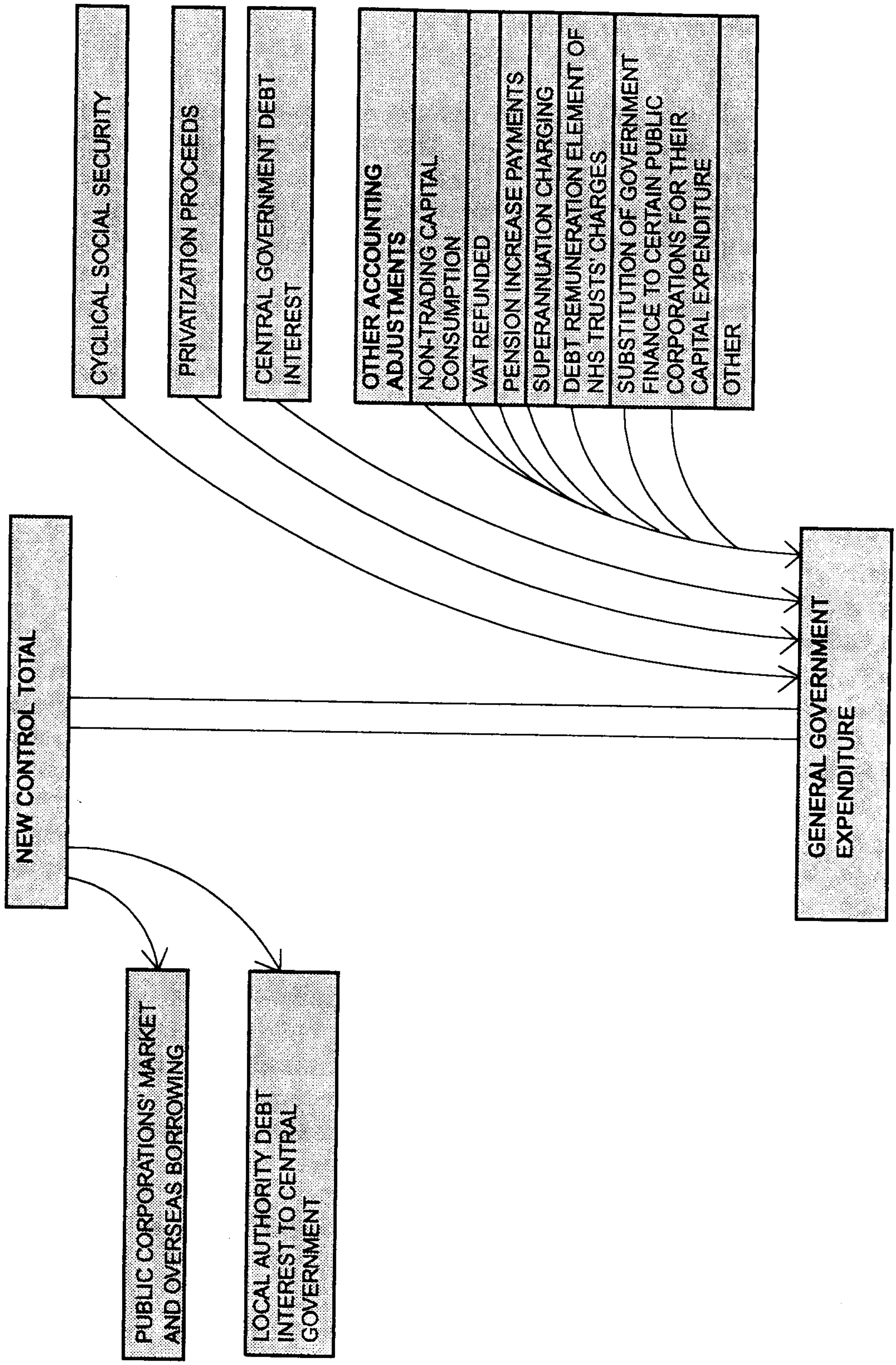

FIGURE 2A *Analysis of reconciliation between New Control Total and General Government Expenditure*

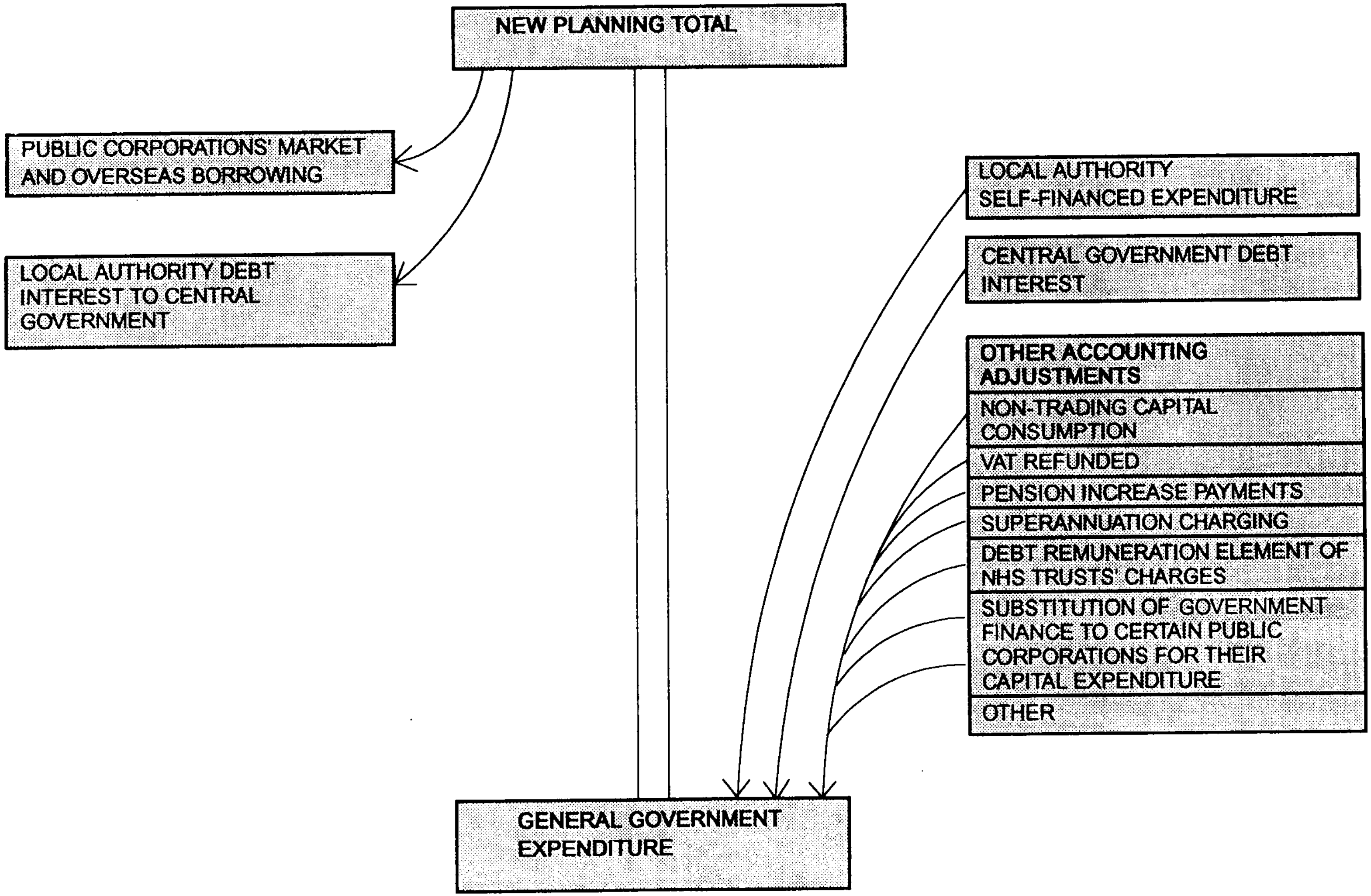

FIGURE 2B *Analysis of reconciliation between New Planning Total and General Government Expenditure*

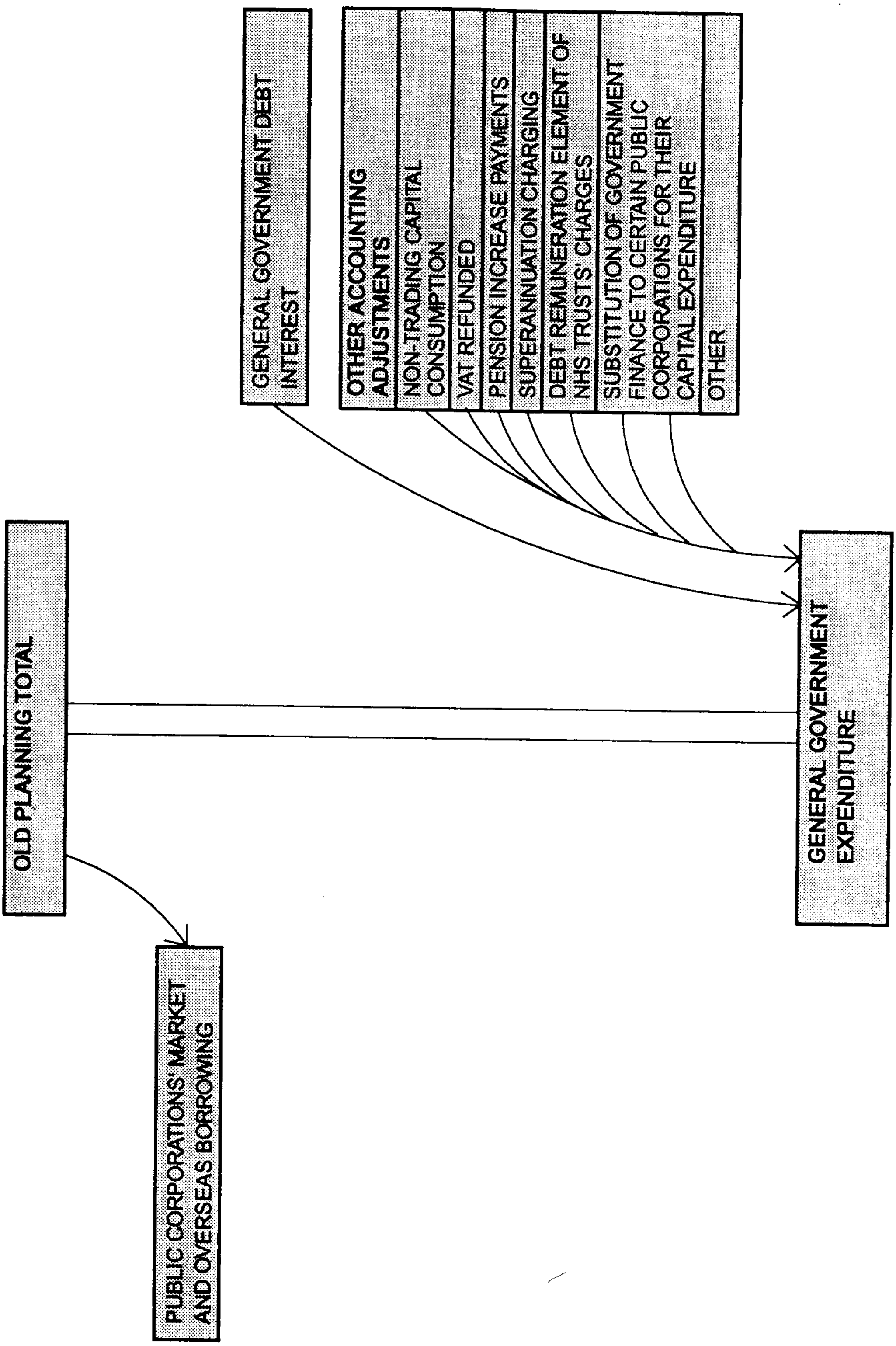

FIGURE 2C *Analysis of reconciliation between Old Planning Total and General Government Expenditure* tion as control aggregates. All that can be shown about the impact of measurement changes are data about the year-on-year effect at the date when the basis of measurement is redefined. Because the Treasury databases are driven by operational and not statistical requirements, it is rarely possible to reconstruct data on earlier measurement bases, certainly outside the current Survey period. The priorities of the Treasury expenditure divisions servicing the PES process are oriented towards bringing data for the six outturn years and three plan years on to current coverage and measurement bases. The cost of frequent definitional and measurement change is that steering must take place with defective maps. Understanding of the landscape is blurred by frequent recourse to new maps.

For 1993–94 planned expenditure, table 2 effects a reconciliation between the departmental plans contained in the *Statistical Supplement to the 1991 Autumn Statement* (Treasury 1992a) and those in the *Statistical Supplement to the 1992 Autumn Statement* (Treasury 1993a). Four types of adjustment are involved, two of which might reasonably be described as 'technical', the third and fourth being, respectively, 'estimating' and 'policy':

(1) technical adjustments due to *transfers of expenditure functions and of financing responsibilities* between government departments and thus between programmes;
(2) technical adjustments due to changes in the way public expenditure is measured, known to the Treasury as 'classification changes';
(3) revisions to earlier estimates of the cost of existing policies, usefully described as 'estimating changes'; and
(4) changes to expenditure plans due to changes in policy, usefully described as 'policy changes'.

The decomposition of year-on-year changes into these four categories constitutes the essential linkage between successive published public expenditure plans.

UK plans no longer draw the distinction between (3) and (4) which are grouped together as 'other changes'. The last published public expenditure plans to draw this distinction were those for 1973–74 to 1977–78, published in December 1973 (Treasury 1973). Estimating changes are the expenditure consequences of recostings of the policies incorporated in the preceding year's plans, due to, for example, revised population estimates or revised estimates of the take-up of social security benefits. Policy changes are the expenditure consequences of changes in policy since the preceding year's plans. There will always be an element of judgement at the margin of this distinction; moreover, only the Treasury and departments will have all the necessary data. Despite such measurement difficulties, the conceptual distinction between estimating changes and policy changes is fundamental to analysis of expenditure changes, even when cash planning denies this distinction from the perspective of control.

Using this framework for the analysis of expenditure changes, table 2 analyses the transition from the 1991 PES figures for 1993–94 to those of the 1992 PES, distinguishing two steps. First, technical adjustments relating to transfers are

TABLE 2 Departmental spending within the New Control Total in 1993–94, changes from

	Plans in statistical supplement to 1991 autumn statement	*Technical*	
		Transfers	
		Transfers of function and financing responsibility	*Changes in treatment of pension costs*
Defence	24,516		(430)
Foreign Office	1,187		30
Overseas Development	2,263		
Agriculture, Fisheries and Food	2,215		20
Trade & Industry	902	450	20
Energy	506	(510)	
Export Credits Guarantee Department	71		
Employment	3,879	(100)	50
Transport	6,591	(20)	20
DOE-Housing	7,929		
DOE-Environment	1,301	(80)	10
DOE-Property Services Agency	35		
DOE-Local government	32,504		
Home Office	6,406	(410)	140
Legal Departments	1,841	330	30
Education & Science	8,373	(8,370)	
Education		7,100	10
Arts and Libraries	600	(600)	
National Heritage		1,020	
Health	30,011		20
Social Security	76,107		220
Scotland	13,070		30
Wales	6,056		10
Northern Ireland	7,413		
Chancellor's departments	5,219	(20)	(1,530)
Cabinet Office, etc.	469	(470)	
Cabinet Office-Office of Public Service and Science		1,220	
Cabinet Office-other, etc.		470	
European Communities	2,570		
Total Departmental Spending	242,034	0	(1,350)
Local Government Self-Financed Expenditure (LASFE)	9,000		
Reserve	8,000		
New Control Total	259,034	0	(1,350)

Note: This table contains rounding errors.

previous plans (£ million)

adjustments		*Restated plans after technical adjustments*	*Other changes*			*Plans in statistical supplement to 1992 autumn statement*
Classification changes						
Other classification changes and transfers	*Cyclical social security*		*Estimating changes*	*Policy changes*	*Total*	
		24,090	n/a	n/a	(570)	23,523
		1,220	n/a	n/a		1,220
		2,270	n/a	n/a		2,267
		2,230	n/a	n/a	460	2,695
		1,370	n/a	n/a	1,220	2,595
			n/a	n/a		
		71	n/a	n/a	(110)	(35)
(250)		3,580	n/a	n/a	170	3,747
110		6,700	n/a	n/a	(270)	6,426
(10)		7,920	n/a	n/a	(40)	7,884
(20)		1,210	n/a	n/a	230	1,445
		30	n/a	n/a	80	117
(2,610)		29,890	n/a	n/a	(530)	29,361
(10)		6,130	n/a	n/a	(10)	6,119
10		2,200	n/a	n/a	380	2,589
			n/a	n/a		
2,120		9,230	n/a	n/a	300	9,523
			n/a	n/a		
		1,020	n/a	n/a	(30)	991
(260)		29,770	n/a	n/a	120	29,883
(340)	(11,900)	64,110	n/a	n/a	910	65,000
280		13,380	n/a	n/a	160	13,540
290		6,350	n/a	n/a	(30)	6,316
	(550)	6,860	n/a	n/a	60	6,919
(30)		3,630	n/a	n/a	(240)	3,396
			n/a	n/a		
			n/a	n/a		
40		1,260	n/a	n/a	(10)	1,255
		460	n/a	n/a	10	472
		2,570	n/a	n/a	(1,160)	1,407
(690)	(12,400)	227,650			1,120	228,700
						11,400
						4,000
(690)	(12,400)	227,650			1,120	243,800

made to the plans of the *Statistical Supplement to the 1991 Autumn Statement* (Treasury 1992a) in order to show what those plans would have been had they originally been presented on the definitions of the *Statistical Supplement to the 1992 Autumn Statement* (Treasury 1993a). Transfers of expenditure functions and financing responsibilities between departments necessarily sum to zero.[2] Technical adjustments relating to classification changes are decomposed into changes in the treatment of pension costs (a particular change that year); other classification changes and transfers; and cyclical social security. Taking account of all these technical adjustments (i.e. transfers plus classification changes), the plans of the *Statistical Supplement to the 1991 Autumn Statement* can be restated on the basis of the 1992 PES coverage, measurement and accounting bases. The net effect is to reduce plans from £242,034 million to £227,650 million. Second, in the absence of a published disaggregation into estimating changes and policy changes, all that can be shown are 'total other changes' (i.e. (3) plus (4)). Thus, the final column shows public expenditure plans as they appear in the *Statistical Supplement to the 1992 Autumn Statement*, NCT being shown as £228,700 million.

Conceptual bases and stylized assumptions

There are four dimensions to the specification of control aggregates: first, the *coverage* of that control aggregate; second, the *measurement of what constitutes public expenditure* for the purposes of that control aggregate; third, the *stylized assumptions* which are made about future expenditure on unemployment benefit and debt interest; and, fourth, the *accounting basis* of the organizations whose financing articulates with the control aggregate. Although conceptual lines between these are not always perfectly drawn, and data for purposes of disaggregation are not always in the public domain, these distinctions provide a useful analytical structure.

First, issues of coverage are clearly vital. Whereas international definitions impose certain limits on Treasury and Central Statistical Office discretion over the definition of GGE, PES definitions are entirely a matter for the Treasury. An important conceptual point is that these control aggregates are about permissions as well as about cash, as evidenced by the inclusion of local authority credit approvals/capital allocations in NPT and NCT. Such permissions translate into cash in GGE which scores the actual expenditures.

Second, within the context set by coverage decisions, the Treasury determines exactly how public expenditure will be measured for PES purposes. Examples of this discretion are the treatment of certain transactions relating to public sector pensions; there is no notional funding of the inflation-proofing component of teachers' and NHS pensions, and PES now scores accrued pensions rather than the much higher charge of actual pensions. Measurement issues often give rise to items within 'other accounting adjustments' in the transition between the control aggregate and GGE.

Third, the totals for the control aggregate in the three planning years contain certain figures which are best portrayed as stylized assumptions, definitively not being forecasts, estimates or plans. The two longstanding and notable cases are debt interest[3] and unemployment benefit expenditure. The practice of resorting to stylized assumptions for debt interest can readily be explained by two factors: the inherent difficulty in producing accurate forecasts of debt interest payments, and the Treasury's unwillingness to disclose to the markets its view of the future development of interest rates. The sensitivity with regard to unemployment benefit expenditure is primarily political rather than financial. The adoption of stylized assumptions affords to the Treasury a mechanism for either overstating the forecast control aggregate (thus leaving space for a favourable fiscal adjustment in later years) or for understating it (to hide the scale of future problems).

Fourth, with regard to accounting bases, Rutherford (1983) conceptualized the architecture and topography of accounting systems within the public sector, stressing both the principles of event recognition and the fund structure within government. The timing of recognition of revenue transactions generates the accounting bases of cash, liquidity, commitments and current accruals, whilst extension to capital transactions adds the financing and full capital accruals bases. The extent to which government finances are organized into earmarked funds reduces the fungibility of public money. Public sector accounting reform can readily be characterized in terms of a strong move from cash accounting to full capital accruals accounting. Whatever their legal status, the money of the new delivery agencies cannot be regarded as part of the unified public purse. These developments have profound implications for public expenditure planning because the nature of accounting articulation between delivery organizations and PES fundamentally changes. Where the delivery organization remains within the public sector but outside general government (i.e. public corporations such as NHS Trusts), articulation with the control aggregate will usually be through government purchasing and external finance. Moreover, the capacity to implement, and the credibility of, full accruals accounting depend upon both output measurement (so that costs can be matched with outputs and hence periods) and capital valuation (so that capital maintenance can be monitored).

Instead of links with public expenditure planning being effected through cash accounting, annuality and integration within general government, they now operate through mechanisms such as payments for contracted services, grants and EFLs. Wherever practicable, delivery units move on to full accruals accounting. This process significantly changes the nature of the organizations disbursing or spending public money, and particularly the nature of their relationships to public expenditure. At the extreme, it is possible to envisage general government as a huge purchasing operation. Full accruals accounting replaces cash accounting and there is no consolidation within GGE of purchasing and service delivery. Where unspent monies previously had to be surrendered at year end, they can be kept in reserves,[4] and in many cases centralized treasury management ceases. Delivery agencies may hold substantial reserves and cash whilst the Treasury is running a large borrowing programme. The longstanding principle that governments should not tax citizens in advance of need may thus be breached.

II JUSTIFICATIONS FOR DEFINITIONAL CHANGE

The justifications which were advanced for the redefinitions of 1990 and 1993 are now stated, following which alternative explanations of definitional change are presented and the consequences evaluated.

Justifications for the New Planning Total

The Treasury published a White Paper in July 1988 (Treasury 1988) which announced a redefinition of the planning total as from the 1990 Public Expenditure White Paper. The justifications offered for this redefinition, both in that document and in later evidence to the Treasury and Civil Service Committee (1989), have been analysed elsewhere (Heald 1991a, pp. 83–6). First, the Treasury official in charge of the PES process explicitly linked the adoption of the new planning total to the introduction of the community charge: 'It is really an argument about accountability and control. It is not an accident that the new planning total is being introduced at the same time as the local government finance system is being changed' (Lomax 1989, Q. 93). Before these changes, argued the Treasury, irresponsible local authorities, elected by a minority of ratepayers, had exploited non-domestic ratepayers and the majority of domestic ratepayers. The reformed local government financial system (principally, the community charge, the restriction on benefits to ensure that all taxpayers made a 20 per cent minimum payment, uniform non-domestic rate, and revenue support grant) would ensure that almost all marginal expenditure was paid for by taxpayer-electors. Therefore, central government could step back, leaving more discretion to local authorities which would be held accountable by their electorates for taxation decisions. That expenditure financed by local authorities themselves (LASFE) could safely be removed from the planning total. Second, the unreliability of local authority expenditure plans in earlier White Papers rendered them 'not worth having' in the view of the same Treasury official (Lomax 1989, Q. 94). The Permanent Secretary of a spending department observed:

> ... it was always, if I may say so, pretty unrealistic to plan in detail on what local authorities were going to do when these were decisions for local authorities on their own account, for which they were responsible, and they could diverge – and did diverge – widely from the expectations which were reflected in the Public Expenditure White Paper. There was always a huge difference (Bailey 1990, Q. 30).

Unlike the first reason which implicitly referred to total local authority expenditure, this second reason referred to the latter's functional and economic category composition. Third, it was stated that this definitional change would bring the United Kingdom into line with other countries (Treasury 1988, para. 8).

Justifications for the New Control Total

The 22 July 1992 Cabinet meeting on public expenditure endorsed a medium-term framework for public expenditure control which was designed to ensure that the government would meet its objective of reducing over time the share of public expenditure in national income (Treasury 1992c,d). The 1992 and subsequent spending rounds would adopt a new 'top-down approach', operating through annual ceilings on planned public expenditure and implemented on the basis of NCT. The Cabinet agreed cash ceilings for each of the three Survey years (1993–94, 1994–95 and 1995–96) and agreed that the 1994–95 and 1995–96 figures would not be reopened in later Surveys. The allocation of resources between departments would be determined by a Cabinet Sub-Committee chaired by the Chancellor of the Exchequer and advised by the Chief Secretary: final decisions would be taken by the full Cabinet.

The new system is portrayed as more transparent and easier to run. The 'top-down' approach would separate decisions on overall levels of spending from decisions on the allocation of that spending between programmes. It would deliver public spending levels consistent with what the economy can afford whilst ensuring that resources are devoted to priority areas and placing greater emphasis on value for money. The reformed system would provide an overarching, clearly articulated framework for planning expenditure. Together with the move towards a unified budget (Treasury 1992b), these changes were said to represent a further important reform and modernization of fiscal planning procedures.

III EXPLANATIONS OF DEFINITIONAL CHANGE

Naturally, it is easier to rehearse the justifications offered in support of particular definitional changes than it is to offer convincing proof of explanations, especially when these rest in part on 'unspoken reasons' (Hood 1994). The account offered here clearly relates to Thain and Wright's (1990) discussion of Treasury 'coping strategies' including modifications to the PES system over the period 1976–89. However, it is more difficult to detect in this later period (1988–94) whether coping strategies are pursued by Treasury ministers or by the Treasury itself, and whether they are purposefully chosen or simply reflect a drift symptomatic of deeper control failures.

Documents in the public domain (e.g. expenditure plans, ministerial speeches and evidence to Select Committees) are the public face of the PES process. The private face is unseen, and the relevant documents are governed by the 30-year rule. Paradoxically, so much and so little is known about the internal workings of PES: so much because of the extensive news coverage of battles within government which appears every year; so little because it is always difficult to evaluate whether such seeping out of information is the product of genuine conflicts within government or of news management. The tactic of softening up public opinion with horror stories about how bad things will be, so that the outcome will seem almost benign in comparison, is much remarked upon. Journalists, and to a lesser extent academics, writing about these matters themselves become part of the process. Notwithstanding these caveats, there are three broad explanations of definitional change which deserve consideration.

The search for presentational gains

Democratic politicians wishing to retain power by means of re-election can hardly remain unaware of how decisions on expenditure, taxation and deficits may affect that pursuit. Moreover, these variables affect the perceptions formed by financial markets as to government creditworthiness and currency stability. Accordingly, governments may choose definitions which present economic realities in lights which are convenient to political objectives: for example, minimizing reported financial deficits (to show financial rectitude) or magnifying reported financial deficits (to win consent for expenditure reductions). Whilst definitional discretion relative to the huge aggregates for expenditure and taxation may be quantitatively small, that discretion will loom much larger relative to government borrowing as the difference between the two. Surprisingly, financial markets seemed to accept UK PSBR figures during the 1980s at face value, when it ought to have been clear that ephemeral North Sea oil revenues and privatization proceeds more than exceeded the much trumpeted Public Sector Debt Repayment (i.e. negative PSBR). Over the period 1981 to 1991, the Treasury and Civil Service Committee (1984, 1988) repeatedly criticized the Treasury's treatment of privatization proceeds as negative expenditure rather than as a source of financing, but without impact. Unsurprisingly, the Committee commented that the Treasury's belated compliance with this recommendation in the 1992 PES owed more to the drying up of such proceeds than to conviction (Treasury and Civil Service Committee 1992, para. 128). Government in a media-dominated age is in part a machine for news management, keen to exploit 'good news' for short-term political advantage (e.g. pre-election repackaging and additional expenditure) and for longer-term agenda control. In extreme cases, as in the United Kingdom in 1991 and 1992, the tension between timescales can lead to system failure: tough rhetoric about fiscal rectitude was coupled with a grievous loss of cash control (Heald 1991b).

Particular definitional practices thus deliver political advantages. Over time, such presentational gains are likely to depreciate as outsiders become more expert at diagnosing biases. Definitional changes can offer new presentational gains, as it will take outsiders a considerable period to understand the full implications of these new changes. It is therefore possible to construct a theory of definitional change as a succession of sequences during which each definitional change confers presentational gains which are then gradually eroded. An added advantage for the government is that such a sequence will seriously compromise the statistical comparability of published data, thus making it extremely difficult for outsiders without access to official databases to track expenditure on a consistent basis. Whilst the definition of GGE remains unchanged, Central Statistical Office does not 'backwork' earlier years' GGE on the basis of current institutional structure, an important characteristic of PES.

There are two counter arguments which such a theory must confront. First, is this presentational game really worth the candle to the Treasury, given the immense amounts of unproductive effort definitional change involves? Moreover, definitional instability combined with the relatively frequent turnover of civil servants in charge of PES must both weaken institutional knowledge and memory and encourage changes as a means of making one's mark. It is misleading to think of the Treasury as an organization with mutually compatible objectives: the juxtaposition of its macroeconomic and public sector efficiency objectives has always proved troublesome, and government political strategy is central to the concerns of Treasury ministers. Second, a weaker analogue to the Efficient Markets Hypothesis for private sector financial information within the context of capital markets might be expected to operate for government financial information. Those governments whose budgetary information is deemed unreliable because of presentational devices might be expected to pay a premium for their borrowing compared with governments whose budgetary information is more transparent. Nevertheless, the revealed preference of UK government for repeated and persistent recourse to presentational devices suggests that they are perceived to be effective.

Definitional change as an escape from problems

There are circumstances when it appears easier to change systems rather than admit to the real nature of problems; the 1993 public expenditure redefinitions fall into this category. Much of the claimed advantage (Treasury 1992c,d; Portillo 1992) of NCT and the new 'top-down' approach is a reassertion of how the PES system was always supposed to operate. Virtue will be restored, and the control aggregate, once set for the three forward years of a Survey, will be held.

In 1989–90 and 1990–91, NPT was held at its planned levels, in the same way as OPT had been earlier in the 1980s (Heald 1991b). However, in 1991–92 and 1992–93, a combination of factors led to a blow-out of NPT: set at £192.3 billion in the 1989 Autumn Statement, the final outturn for 1991–92 was £203.4 billion; the comparable figures for 1992–93 were £203.4 billion and £226.5 billion. These blow-outs were attributable to the government's 1991 relief package for the community charge;[5] the impact of the unexpectedly severe recession on expenditure; and pre-election expenditure increases. It is extremely difficult to weigh the relative importance of these factors. One important manifestation of how control had been lost was the way in which the Treasury resorted to the presentational device of half-cycle comparisons. Instead of making comparisons to the equivalent stage in the previous cycle, comparisons were made to the latest document in that cycle.[6] Naturally, such a presentation diverted attention from the size of cumulative changes. Subsequently, Hibberd (1993) analysed the expenditure record of the Conservative government in terms of three phases: 1978–79 to 1982–83, when the average annual real terms expenditure growth was 2.3 per cent; 1982–83 to 1988–89 when it was 0.6 per cent; and 1988–89 to 1992–93 when it was 3.1 per cent. As a serving Treasury official, the author did not speculate about the political context but gave a clear view of the cyclical factors and of the longer term pressures for expenditure growth which were characteristic of the third phase.

Throughout the 1980s, the UK government concentrated upon the objective of public expenditure containment, designed to be achieved through efficiency improvements. Substantial success was recorded on the criterion of expenditure containment, though there are major disputes about whether service quality suffered. Initially, the government sought to reduce the level of public expenditure, though this was gradually modified into the objective of holding the rate of growth of public expenditure below the rate of growth of GDP. Such an approach sustained over time would lead to successive reductions in the public expenditure/GDP ratio.

The long period of economic growth in the mid- and late-1980s brought down sharply the GGE/GDP ratio. However, these reductions were dramatically reversed in the period 1989–90 to 1992–93. The government had frequently acclaimed the sharp fall in the GGE/GDP ratio as evidence of policy success; it now emphasizes that the cyclical peak in 1993–94 is below the last two cyclical peaks, a marked difference from earlier periods in which each cyclical peak was higher than its predecessor. There is substantial uncertainty as to the respective proportions of the 1993–94 PSBR which are cyclical and structural. The meaning which Treasury ministers now attach to the policy commitment of 'balancing the budget over the economic cycle' has changed markedly: from the sum of surpluses and deficits being zero over the cycle (David Mellor, Chief Secretary to the Treasury, in November 1991) (Mellor 1991, Q. 269) to the PSBR returning to zero at some point during the cycle (Michael Portillo, Chief Secretary to the Treasury, in November 1992) (Portillo 1992, Q. 295).

Tight control of public expenditure in the 1980s owed far more to clarity of ideological purpose and to strong political leadership than to systems. The expenditure blow-out was a reflection of the dissipation of both factors in the early 1990s. Accordingly, the 1993 redefinition and the procedural reforms of the 1992 PES constituted an attempt to restore expenditure control after the 1992 general election. The most convenient way of distancing the past, when there was ministerial continuity, was to emphasize systems change.

Reflection of substantive public sector reforms

The Treasury's justification for the exclusion of local authority expenditure from NPT in 1990 relied heavily upon the new constitutional relationship between central government and local authorities said to have been established by reforms of local government finance. Whilst that system was portrayed as having enforced greater accountability for local authority expenditure, an alternative view would be that, having thoroughly boxed in local authorities, central government could afford to make a superficial retreat. Exclusion of local authority expenditure from PES had been a longstanding call of some of the most vociferous critics of government policy towards local authorities (Jones and Stewart 1983), though these authors had envisaged an accompanying enhancement of local taxation powers. In the event, the political crisis which developed over the implementation of the community charge led to even stricter capping of local authority expenditure and tax rates; the exclusion of LASFE from the control aggregate only lasted until 1993. There remains something of a puzzle as to whether the Treasury in 1990 really believed that a new constitutional arrangement had been established, not least because GGE lost none of its paramount importance as the key public expenditure indicator.

With reference to the 1993 redefinition, the Treasury has not stressed the changing organizational shape of the public sector which would be expected to have profound repercussions for PES. Instead of 'governmental' budgetary organizations (mainly central government departments and a double tier of multifunctional local authorities) delivering services, far more service delivery is being delegated to 'non-governmental' quasi-public, quasi-private single-purpose organizations, themselves often 'fed' by single-purpose public agencies. What usually appears in PES are the activities of these funding agencies (purchasing budgets and enabling grants), with the delivery agencies 'off-budget'; the drawing of the general government boundary has major significance. Whether such a structure leads to competition-induced gains in efficiency and effectiveness (Secretaries of State for Health, Wales, Northern Ireland and Scotland 1989; Kemp 1990; Waldegrave 1993) or whether it leads to a democratic deficit (Stewart, Lewis and Longley 1992) is beyond the scope of this article. The issues at stake here are the impacts upon the information generated by PES and upon the Treasury's ability to exercise expenditure control.

Substantive reforms of the public sector are leading through time to significant changes in economic category composition. Instead of much NHS expenditure appearing on the health programmes under the pay and net capital expenditure on assets headings, the move to NHS Trust status for delivery units means that expenditure appears as other current expenditure on goods and services and as external finance. Similarly, the spread of formula-funding grant models will have similar effects, in areas such as training, higher and further education, and schools.

Whether such a structure leads to stronger or weaker Treasury control over public expenditure will depend crucially upon the access which public funding agencies and quasi-public, quasi-private delivery agencies enjoy to levers of political power. On the one hand, because these bodies are appointed by ministerial patronage and lack democratic legitimacy, they are unlikely to offer an effective political challenge to ministers. If they can be made to compete for funds, and with each other, central government can play ringmaster, perhaps also encouraging resource mobilization by delivery agencies through user charges. Budgets can later be trimmed, and the political flak kept at arm's length. On the other hand, supervision of large numbers of delivery units might overload central ministries/funding agencies and overstretch audit capability, whilst funding agencies and delivery units might become formidable lobbies for programme expenditure.

PES, though substantially modified from its Plowden Committee roots (Plowden 1961; Clarke 1978; Thain and Wright 1992a,b), still seeks to emphasize 'comprehensiveness' in its span and documentation, thus reflecting a structure established when government conceived of itself as producer rather than purchaser/enabler. Herein lies an unresolved tension.

IV CONSEQUENCES OF DEFINITIONAL CHANGE

Intentional consequences should follow the justifications and explanations which have already been examined, whilst unintentional consequences may raise entirely new issues.

Loss of information and transparency

There has been a loss of information from the public domain, and of transparency about public expenditure. This conclusion is robust, whether this outcome is interpreted as deliberate obfuscation (an abuse of executive power by a government continuously in office for a long period and expecting to remain there) or as unintended (cumulative definitional change surpasses the Treasury's information processing capacities).

The expenditure past is more obscure because the extent of definitional change (OPT→NPT→NCT) and of changes in accounting and measurement bases means that external monitoring of public expenditure on consistent definitions has been rendered impossible. Even when the content of measurement change is uncontroversial, the never-ending sequence of such changes has this effect. Just as important is the fact that, because of the pressure of work on key Treasury staff, attributable in part to the frequency of definitional changes, statistical requirements take a second place to operational requirements. The Treasury does not itself attempt to track backwards on a comprehensive basis and repeatedly refuses to answer written parliamentary questions seeking such data, citing 'disproportionate cost'. Moreover, despite the pace of change, there have been no recent systematic expositions by serving Treasury civil servants, comparable to Imber and Todd (1983), Stibbard (1985) or White and Chapman (1987). The glossary published in each Statistical Supplement to the Autumn Statement never compensated for the absence of a handbook on methodology (not published since 1972 (Treasury 1972)) or for the failure to update the 1979 guide to public sector financial information (Treasury and Central Statistical Office 1979).[7] Treasury resources would be more likely to be allocated to such tasks if there was more stability in definitions but, paradoxically, there would then be less urgency for such public documentation. There is an important distinction to draw between the technical material required to support the reader of the output of a particular year's PES (focusing upon what has been decided), and the more reflective material (focusing upon why particular definitional choices have been made, and the sensitivity of data to such choices) required by the technically accomplished observer of the overall PES process.

The expenditure future is more obscure because the 1990 redefinition of public expenditure involved a major loss of forward data on function and economic category. Whereas the 1993 redefinition brought LASFE back within the control aggregate, LASFE remains non-attributed to programmes. The realities of UK public expenditure control are that central government exerts massive, though not absolute, control over what local authorities do, a control which tightened inexorably during the 1980s. There is no reason to be concerned about perfect correspondence between the composition of Treasury expenditure plans for local authorities and the outturn pattern of expenditure. Forward Treasury plans would provide a framework for public expenditure priorities. Without them, many programmes, especially education, are quite meaningless in the absence of the corresponding local authority expenditure. Treasury appeals to what happens in other countries are wholly opportunistic: what matters is that the public face of UK expenditure planning should reflect the highly centralized structure of power and decision-making in the United Kingdom. Given the expenditure-switching powers of local authorities, there will obviously not be a perfect correspondence between such forward figures and outturn. Nevertheless, such data would provide an indication of the government's view as to the desirable evolution of public expenditure. By refusing to supply such data, the Treasury has slighted the usefulness of information which it had regularly published for about twenty-five years. Such data still exist for the year ahead for the purposes of revenue support grant settlements, though on local authority finance rather than PES definitions. Moreover, some of the criticism is disingenuous: there had previously been a tacit distinction between the composition of expenditure which the Treasury wished to encourage (published in white papers) and that which was its best estimate (which remained unpublished).

An important feature of PES has always been its capacity to analyse public expenditure along dimensions (by function, economic category and territory) different from those of departmental programmes. The expenditure aggregate analysed on these supplementary bases was OPT but the 1990 redefinition redirected attention away from the control aggregate towards GGE for analytical purposes. Coherent public debate about broad expenditure priorities requires forward functional analyses. Discussion on the changing shape of the public sector and on the impact of public expenditure upon the wider economy requires forward economic category analyses (Oxley and Martin 1991). The annual PES cycle needs to be supplemented by periodic ten-year forward looks: the Treasury has never divulged its own projections since the forward look of the 1984 Green Paper (Treasury 1984). If such a supplementary cycle were established, there would exist the arena for public debate about the continuing cost of existing and alternative policies whereas scenario exercises for particular programmes, such as for social security (Department of Social Security 1993), are likely to be widely interpreted either as softening-up exercises or as ploys within the current PES.

Repeated definitional change is not the only reason for the loss of information from the public domain and for reduced transparency. The early years of PES in the 1960s were ones of immense optimism about both the beneficial effects of public expenditure and the capacity of government to develop efficient planning and evaluation systems. The climate of the 1980s and 1990s is profoundly different, characterized by scepticism about benefits and by obvious strains in managerial systems. First, the original volume planning basis of PES was discredited both by its permissiveness in the face of the high inflation rates of the mid-1970s and because the Treasury could not quickly effect conversions from volume terms to cash (Godley 1976; Wright 1977). From 1982–83, cash planning supplanted the system of volume planning supported by in-year cash limits which had been established in 1976–77. Over the decade since 1982–83, the government has deliberately cultivated public confusion about the meaning of 'real terms', presenting cash expenditure converted to constant prices using the GDP deflator to generate 'after inflation' figures for well-regarded expenditures in ways designed to convince the public that, for example, the purchasing power of NHS expenditure has increased by this amount. Whereas the official expenditure documents are usually cautious, the associated press releases often blatantly dissemble. Consequently, one of the key insights of the Plowden Committee (1961), namely the importance of the Relative Price Effect, has been dissipated.

Second, programme evaluation has long been recognized as the core weakness in the UK system (Gray and Jenkins 1982). Quite apart from the undoubted technical difficulties confronting evaluation, the underlying obstacles are constitutional and political: Cabinets consisting of career politicians are unlikely to attack each others' spending programmes outside crisis situations; and party discipline and minimal resources limit the role of Select Committees in generating costed options of expenditure and revenue change. It is the separation of powers, together with generous resourcing, which enables the Congressional Budget Office (1993) to produce its annual *Reducing the Deficit: Spending and Revenue Options* which for 1993 included 239 costed policy options. In contrast, the UK debate about PSBR reduction is characterized by minimal hard information; over-the-top speculation by opposition parties; news stories planted by kite-flying ministers; and leaks of government documents and correspondence, some attributable to delivery agencies or dissident civil servants, but many leaked with ministerial authorization or connivance. Suppression of costed policy options greatly enhances the power of the executive, as opposition parties and outside observers must attempt to package their own proposals on the basis of data inferior to those of government, thus exposing themselves to the weapon of political ridicule.

'Out of reach' expenditure

In an important sense, the 1990 redefinition placed 'production' by local authorities outside PES, concentrating instead upon central government financing and permissions granting. The next stage has not been associated with the 1993 redefinition, being rather a revolutionary shift of structure coming on stream over a number of years. Direct service delivery by central government is being eliminated wherever possible. Together with the curtailing of the functional responsibilities of local authorities, this is leading either to service privatization or to a model structured around purchaser/provider and funding council/grant-recipient relationships. Whilst this process takes service provision out of PES, it may lead to there being many more points of contact between central government (especially if defined to include its purchasing and funding agencies) and delivery units. It is necessary to examine not only the direct funder-purchaser-provider relationships but also the capacity of such organizations to mobilize political resources, something which depends crucially upon the model of the political process judged to be appropriate. Recourse to more indirect mechanisms could lead to either stricter or laxer control of public expenditure.

V CONCLUSION

There are two relevant vantage points requiring consideration: that of those within the PES process, and that of those looking in from outside. The former emphasizes issues relating to the effective planning and management of public expenditure, whereas the latter extends the focus to wider issues about the mechanisms through which those who govern are held accountable to those who are governed within the context of a democratic political system (Stewart 1984). The language of accountability which pervades official statements about reformed public sector structures relates almost exclusively to the resource and commercial dimensions of managerial accountability within government. External accountability is characteristically portrayed as being to the 'consumers' of public services through market and quasi-market mechanisms, not to the elected representatives of citizens, or to defined communities (whether conceived of in terms of neighbourhoods, interest groups or policy communities). Public accountability through democratic forms is concentrated upon the accountability to Parliament of the central government which is the orchestrator of funding agencies and quasi-markets.

The fundamental difficulty confronting external accountability to the governed for public expenditure planning is the lack of an audience to whom account can be rendered. Stewart (1984) stressed that public accountability must have two components: the provision of an account, for which financial and other information constitutes the languages in which the account is rendered; and the holding to account, for which is required someone to be held to account and someone to do the holding. In reality, there is almost no audience for departmental reports (Taylor 1993), other than the Select Committee (which shadows that government department) and its specialist advisers. The influential proposal (Likierman and Vass 1984) for replacing the traditional Public Expenditure White Paper with departmental reports implicitly rested upon the assumption that there would be such an audience. Departmental reports receive only cursory attention even in broadsheet newspapers, a marked change from the extensive coverage which the annual Public Expenditure White Paper used to receive in the 1970s and early 1980s. The publication of outline figures in the Autumn Statement in each November undoubtedly debased the news value of White Papers and their successor departmental reports. The staggered publication of departmental reports over a period of about a fortnight has a drip-feed effect on news coverage, leading to limited factual reporting on the inside pages of the broadsheets. Ironically, leaks and speculation about the PES round are judged to be exciting and newsworthy by editors whilst the plans themselves are considered to be boring and containing little that is 'new'. Public expenditure coverage in the media has therefore been trivialized, reflecting both information overload (the documents are now less digestible) and the culture of official secrecy about policy options (leaks may indeed reveal more about real choices).

The technical solution to this dilemma is reasonably straightforward. A brutal rationalization of existing documentation is needed, a development which the unification from 1994–95 of the expenditure and revenue sides of the budget (Treasury 1992b; Treasury 1993b; Treasury and Civil Service Committee 1993) would facilitate. In practice, it would mean a merger of the public expenditure content of the Financial Statement and Budget Report (now published in November) and the Statistical Supplement to the Financial Statement and Budget Report (now published in the following February) into a single document which would look remarkably like an erstwhile Public Expenditure White Paper. The new Expenditure Document, published simultaneously with the Tax Document, would be carefully structured into a self-contained main planning document (designed for most readers) and technical appendices (for specialist readers), supported by an accompanying document of costed options covering both accepted and rejected ones. This technical solution is unlikely to be adopted, given the prevailing structure of political power within the United Kingdom. Governments will not willingly surrender such power and opposition parties would wish to secure that power for themselves. The channels of public accountability are blocked, in part by information overload and in part by information suppression. The existing arrangements, whether by accident or design, confer enormous discretion upon UK government through its control of information flows.

NOTES

1. A technical note, defining all terms and providing data sources, is available from the author.
2. Although the Treasury distinguishes in principle between transfers of expenditure functions and transfers of financing responsibilities, the PES database does not maintain separate data. The distinction relates to expenditures directly incurred by government and those which it finances at arm's length. Examples of each are cited in the 1992 Autumn Statement (Treasury 1992e). Transfers of function and of financing responsibility within central government will sum to zero, whilst transfers into/out of central government will lead to a non-zero total.
3. As a matter of 'conventional practice', the Treasury does not publish projections of interest rates; neither does it provide ready reckoners of the interest rate sensitivity of public debt (Portillo 1993).
4. The National Audit Office (1993) has complained of 'excessive' reserve holding by grant-maintained schools; what is excessive from the National Audit Office's perspective may be perfectly rational from the perspective of the delivery agency.
5. The £140 reduction in the gross level of community charge announced in the March 1991 Budget, financed by higher VAT, increased NPT by £3.7 billion in 1991–92 and by £5.0 billion in 1992–93, a substitution of central government support for LASFE which would leave GGE unchanged (Treasury 1991a, p. 61).
6. For example, from the 1991 Autumn Statement (Treasury 1991c) to the 1991–92 Financial Statement and Budget Report (Treasury 1991b), rather than to Autumn Statement 1990 (Treasury 1990). Changes are not normally made between an Autumn Statement and the subsequent Financial Statement and Budget Report.
7. The 'simplification and shortening', effected in February 1994 when the Statistical Supplement to the Autumn Statement became the *Statistical Supplement to the Financial Statement and Budget Report 1994–95* (Treasury 1994), resulted in the omission of this glossary.

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