HOUSE OF COMMONS

Procedure Committee

Oral evidence: Should there be a Commons Budget Committee?, HC 1482

Wednesday 12 December 2018

Ordered by the House of Commons to be published on 12 December 2018.

Watch the meeting

Members present: Mr Charles Walker (Chair); Bob Blackman; Bambos Charalambous; Nic Dakin; Sir David Evennett; Helen Goodman; Sir Edward Leigh; David Linden; Melanie Onn; Alison Thewliss.

Questions 1-14

Witnesses

I: Professor David Heald, Professor of Public Sector Accounting, Adam Smith Business School, University of Glasgow, and Dr Joachim Wehner, Associate Professor in Public Policy, London School of Economics and Political Science.

Written evidence from witnesses:

– Professor David Heald

– Dr Joachim Wehner

HOUSE OF COMMONS

Examination of witnesses

Witnesses: Professor David Heald and Dr Joachim Wehner.

Q1 **Chair:** Witnesses, I am afraid we might be interrupted by votes. We will come back after a vote if it is called in the next few minutes. May I ask a question straightaway to Professor Heald and then to Dr Wehner? Why do you think a Budget Committee would be such a good idea?

Professor Heald: Basically, because Parliament doesn't do its job in terms of ex-ante scrutiny. I was very struck by Lord Macpherson's submission, which uses the term "limited and superficial", as opposed to "feeble", which is the word I used. One of the things that this Parliament tends to think is that good ex-post scrutiny compensates for a lack of good ex-ante scrutiny, and I don't think that is true.

The UK has become really quite exceptional. I was involved as adviser to the Treasury Committee over the period of resource accounting and budgeting, and on a technical level the UK is excellent and comes out excellently on IMF and International Budget Partnership evaluations on the technical accounting and budgeting side. In terms of parliamentary involvement, the UK is quite exceptional.

What tends to happen is that the Treasury pours cold water on proposals for reform. The Chief Secretary's memorandum does that, and the reply that you got to the inquiry that I gave evidence to two years ago very much says the same—basically there isn't a problem. The rest of the world cannot understand why estimates are voted in July, three months into the financial year. The Treasury's response is, "Things couldn't possibly be done better." That is not true.

Dr Wehner: I have much the same to say. The UK is an extreme outlier when it comes to the role of the legislature in the Budget process. It is evident, especially on the expenditure side, that the institutions that are in place, and the process as it operates at the moment, actually sabotage parliamentary scrutiny of public spending. You have a reasonably sound scrutiny process on the revenue side; in fact, the reforms undertaken there are potentially a kind of model of what could happen in the timing of the process for the spending side, but you are lacking all the procedure and institutions to analyse and scrutinise public spending. There is a big gap.

Chair: Okay. Sir Edward, I know that you have been campaigning for a Budget Committee for many decades—well, it feels like that. Why don't you continue the questioning?

Q2 **Sir Edward Leigh:** My first question I think you have already answered, Professor—nice to see you again, by the way. The Treasury blows a raspberry at any proposal for reform in this area, presumably because it wants the work to be concentrated in the Treasury and does not want Parliament to take ownership of it or an interest in it.

Professor Heald: I must admit that I was not aware of the report you did with Dr John Pugh until relatively recently. Although there are aspects of that report that I do not agree with, it puts the right questions on the agenda. Where I tend to disagree with your report is that I think you are trying to have a replica ex-ante of what the Public Accounts Committee and the National Audit Office do ex-post. I do not think you can depoliticise expenditure planning in quite that way. In terms of diagnosing the problems, the report you did with Dr Pugh is exactly right. I do not know the circumstances in which the then Chancellor commissioned that report, but it stands as an argument that Parliament should do something about this. I hope that will be brought forward.

I have already made the point that I advised the Treasury Committee for a long time: one of its problems is that it has such a big remit and it tends to get distracted away from the core responsibility for spending, which a finance Committee in another Parliament would get involved in. The kinds of things we are talking about today are relatively technical and routine, and can appear boring and rather inaccessible, but they are something you have to persist with.

Given what has happened over the last 10 years—the global financial crisis and the fiscal crisis subsequently—it is very easy to see why the Treasury Committee gets diverted into monetary policy and financial regulation, but it does not do the job in relation to spending. There is a bet to be made: if the Treasury Committee were reformed and took that on, that would probably eliminate the need for a Budget Committee, but given that, in the 20 years of the spending review system, there has never been proper scrutiny of spending reviews, I prefer your proposal.

Q3 **Sir Edward Leigh:** One of the problems we have had when we have raised this matter in the past—that is Dr Pugh and I, and the Procedure Committee in the previous Parliament mentioned it—is that we have met opposition from the Treasury Committee. You advise them; given that they oversee the whole economy, what proportion of the time did they spend on estimates?

Professor Heald: I have not been involved since 2010 and would not know that. When we had an annual public expenditure White Paper before the spending review system in 1998, there was a relatively light-touch routine of dealing with annual public expenditure White Papers. The problem with the spending reviews is that the Labour Government tended to have them in July, with a consequence for parliamentary scrutiny that publishing something big in July inevitably entails. In my view, Parliament should not tolerate the Executive having sole control over the spending review timetable. There ought to be a serious discussion between Parliament and the Executive about when the spending reviews take place, so that one can plan scrutiny. One of the things I proposed is that when you know a spending review is coming, Parliament ought to be involved in a public expenditure prospects inquiry, and then run a fairly quick inquiry when it is done.

The UK has a big problem: it has got into a pattern of public expenditure feast and famine: famine in the 1990s, feast in the 2000s, famine in the 2010s. That is not a good way to run public expenditure. You only have to look at the Office for Budget Responsibility's "Fiscal sustainability report" to see quite alarming numbers—I think it is about a 283% net debt ratio projected forward to about 2050. Basically, the UK public sector is not fiscally sustainable on present tax and spending policy. That is exactly the kind of thing that Parliament should be thinking about.

Q4 **Sir Edward Leigh:** That leads me to my next question. You are right—when I was doing this work with Dr Pugh, we were limiting ourselves to just the ex-ante process and the estimates, partly because we didn't want to irritate the Treasury Committee too much. But you want a greater tax and spending Committee, which would have overall oversight of this process that you have just described. Tell us a bit more about that. Do you think that could work?

Professor Heald: One problem is that people do not want to put together the tax and spending sides. We can have very different views about the desirable size of public spending relative to the economy as a whole, but having public spending that is unsustainable in the medium term will clearly lead to future crises.

There is a history of this. The Armstrong Committee's report in 1980—the Committee was set up by the Institute for Fiscal Studies—actually argued for an integrated Budget that dealt with tax and spend. The unified Budget lasted for a short while and then went away. Psychologically, the UK has got to think in terms of what kind of public sector it wants and how it is actually going to pay for that public sector. Otherwise, you get a total desynchronisation of discussion about tax and spend.

In the present context, I would take whatever institutional reforms I can get. So, if it is just a Budget Committee and not the tax side as well, I would be delighted to see that progress, because, as you have already said yourself, there is always resistance from the Treasury.

Historically, what I have observed is that Governments actually like this. This is not just an accidental fault of the British system; Governments actually like it, and historically, Oppositions have liked it as well, because they might be the Government and have the same power.

The rather more febrile political climate, with less certainty that somebody will win the next election outright, might actually create an incentive for Parliament to do something about this. We are in the position where we might get useful incremental change; as I say, I think of getting a Budget Committee that starts taking ex-ante scrutiny seriously.

It comes back to my point about your previous report. The reply that this Committee got from the Treasury was that everything is too difficult. Now, it's too difficult for the United Kingdom, but it's not too difficult for any other member of the OECD to decide the budget and to determine the budget before the financial year starts.

Sir Edward Leigh: Tell us a bit more—perhaps both of you.

Chair: Let Dr Wehner come in.

Q5 **Sir Edward Leigh:** Yes. Dr Wehner, perhaps you might come in on that point. It is interesting what other countries do.

Dr Wehner: I very much support the idea that you need some arrangement to bring together the revenue and the spending sides of the Budget, for various other reasons. For example, tax expenditures are an example of something that is booked on the revenue side but that is functionally equivalent to spending. You just need a mechanism to bring together the two perspectives. Otherwise, we lose sight of that.

I slightly—not necessarily disagree—but where I would take a different line to David is that I don't think that putting it in one Committee is necessarily the only way to do it. Many other Parliaments have separate tax and expenditure Committees. The US Congress is not a very good example for the UK Parliament in some ways, because it is so different, but you have Finance and Ways and Means, for the revenue side, and you have Appropriations Committee for the spending side. On top of that, you have Budget Committees that originally were conceived to co-ordinate this process.

Germany, Sweden and many other countries have taxation Committees and spending Committees. They have different names. Sometimes, as in Sweden, it is called the Finance Committee; that does spending. In Germany, it is called the Budget Committee. So there are many examples out there where the two roles are separate.

Where the UK is a real outlier is in the decoupling of revenue and expenditure decisions. Before the reform of the taxation process around the Finance Bill and the move to a single fiscal event, you used to have the autumn statement and the spring statement, which gave different weight to each of the two components. One was more about spending, and the other was a bit more about revenues. Then it became very muddled under Osborne; it blended a little bit. Announcements were made about spending and revenue on both occasions. Now we have this move to a single fiscal event. The question I have is on why spending is not part of that.

If you had the estimates and the appropriations being considered alongside the Finance Bill, this need—you rightly identify it in your submission—to create a structure to do that through a Committee would be much less, because you could co-ordinate the two Committees at the outset. You could maybe even have a joint session, and then they go off, and the expenditure could be properly scrutinised. There are many gaps with spending reviews, with the consistency of estimates and appropriations with spending reviews, and with looking at whether in-year spend-out patterns are consistent with the estimates, which is not really happening in the UK. There are many, many gaps, so I see a role for a specialised spending Committee, but I completely agree that there needs to be more than the two sides. There needs to be something that brings revenue and expenditure together.

Q6 **Helen Goodman:** I was on the PAC when Edward was the Chair, and I was on the Treasury Select Committee. I was an official in the Treasury on the spending side. Just looking at the parliamentary aspect of this, I agree with what you say about the strengths and weaknesses of the PAC. The Treasury Select Committee looks quite carefully at the fiscal stance every year. It looks at the forecasts. At the moment, it looks at the OBR reports. That is really the moment where those two choices are brought together, and the Treasury Select Committee is doing it.

The gap that I think we have identified is about planning public spending and the fact that the estimates are a bit of a ritualistic part of Parliament, rather than an efficient part. If we think about these spending things that are not addressed properly, there are two ways of doing it. One is to say, "HS2 is a big project. Parliament has agreed to do it. Is it being done properly? How would you plan it?" That would be one approach. Another would be to look at more thematic things, like how much capital we want. Do you not think that we could have a Committee that did a mixture of those two sorts of question without pulling into the fiscal stance issue? I cannot see how the fiscal stance argument is anything other than a political argument at all times and in all places. I would like to hear from both of you, but Dr Wehner first.

Dr Wehner: I personally think that the macro-fiscal part of the debate is quite well taken care of by the Treasury Committee, and I would not argue to move that to a spending Committee. Where I think parliamentary scrutiny in the UK is really weak is when you start thinking about the quality of public spending. It starts with the nature of the estimates. The estimates are an almost unreadable set of documents. I have seen estimates from many countries, and many have much better estimates, that are done on a programme basis, where you connect policy with money in a very concrete way at a granular level. Here, you have the sub-heads and the estimates, but it does not tell you a policy story. You also need a timeline in the estimates. You need past spending information connected with the request for the upcoming year, with forward estimates—something which Australia, New Zealand and Canada are extremely good at. Those are the kinds of questions that are not being asked at the moment.

To some extent, the departmental Select Committees can do a little bit of that, but they are likely to miss these cross-cutting issues that you also talked about. For example, how is the economic classification split? These types of questions. How do different spending areas relate to one another? What are the trade-offs and tensions? If you squeeze here, something else might happen somewhere else—who thinks about that? If you just take a departmental perspective, those things fall through the cracks.

I agree with you in that I personally would not like to see the macro-fiscal debate removed from the Treasury Committee—I think that is a strong role. I would also not want that linkage to the OBR to be altered in any kind of way. But really drilling down into public spending and understanding the compositional questions, the trade-offs and tensions when you look across the estimates, I think is almost unexplored in the current set-up.

Professor Heald: I have nothing directly to add to that. However, the years I spent as specialist adviser to Commons Committees made me realise that Members have huge pressure on their time. If the effort that you put into something will have no reward politically, or no reward in terms of better public spending, people will not invest the time that is required to actually master a considerable amount of technical material. One reform that would make a really big difference would be—as with a normal parliamentary financial system—to have the estimates voted before the year starts. Talking about things between April and July, when the system is already running, demotivates discussion, in my view. Members, sensibly, require incentives to become involved.

Q7 **Helen Goodman:** There are two different issues here, which we do not want to jumble up. There is the approval mechanism and the scrutiny mechanism. I think the approval mechanism is bad and the scrutiny is non-existent.

Professor Heald: But one point I make in my memorandum—you will notice that I said it when I was here a couple of years ago—is that I don't think the estimates are really the right focus. I think the right focus is the spending review system. In Lord Macpherson's evidence there is an interesting point that better parliamentary scrutiny would actually make the Treasury improve its game and avoid some pretty slack costing of things. I thought that was a quite revealing comment from a former permanent secretary.

Q8 **Alison Thewliss:** There is one thing I found quite difficult to get my head around. You have the Budget and the announcements. It then goes to the Finance Bill Committee, which does not take evidence. Written evidence arrives at very short notice and it is difficult to get a real handle on the impact of a given policy and to measure it against the impact of policies that have already been in operation. We picked up issues around entrepreneur's relief and how effective it is, but there doesn't seem to be space for actually stopping and examining these things within the process. Would your notion of having a Budget Committee be able to tackle some of those kinds of issues and pick apart policies that are there just now, to examine how effective they are?

Professor Heald: One thing you gain from proper ex-ante scrutiny is that Parliament builds up knowledge over time. The right period of evaluation of a Budget Committee would be five or 10 years after it has been established. Provided that Parliament maintains a reasonably steady membership of that Committee, people would become much more expert, particularly, as I said, if you are talking about something that is going to happen in the future, rather than something that is in the administrative machine already, in which case whatever you do is not going to make any difference.

I think Parliament will become better informed and, as I said earlier, the UK has some very big decisions to make, because from both what the IMF has said in the "Fiscal Monitor" about the decline in the UK public sector balance sheet, and what is in the OBR documents, the UK has a serious long-term fiscal problem, and Parliament ought to be the focal point for debates about what should be done. One might take the view that you should reduce the offering the state gives to citizens, or one might take the view that citizens are going to have to be taxed more because of the demographic challenges we face, but Parliament does not really get involved in that kind of thing at all now. Two or three years in a spending review is quite short term anyway in the context of these kinds of challenges.

It is about creating a forum for Parliament to debate things, which goes back to what I said to Sir Edward a few minutes ago; I don't think you can depoliticise this in the way that you can depoliticise ex-post scrutiny. Parliament should be trying to show the House as a whole what the choices are, so you develop a legislative view of what the challenges are for public spending and for the Government.

Q9 **David Linden:** My first question is that clearly there is a bit of tension around Committees that feel they already have a remit; people are very protective of their turf. Are there any circumstances in which you could see a budgetary Committee having a successful overlap with the Treasury Committee?

Professor Heald: It depends how you do it. I don't think there is an overlap with the Public Accounts Committee, because the Public Accounts Committee is ex-post. There is something of a tendency in the UK to overstate how wonderful our ex-post scrutiny is, but certainly it is a mature system that generally stands up internationally. My point is that it does not compensate for the lack of ex-ante, so essentially the division would be: PAC is ex-post and depoliticised as much as possible; the Treasury Committee deals with the macro-fiscal side, monetary and regulation; and the Budget Committee deals with spending. Like you, I have read the submissions from other Chairs and I can see the turf fighting emerging over that.

Q10 **David Linden:** One final question to Dr Wehner: can you give us any examples of another Public Accounts Committee managing to feed in quite well with a budgetary Committee, or is that non-existent?

Dr Wehner: One of my favourite examples is not necessarily applicable in the UK. There are two ways of doing it. One is a formal arrangement that co-ordinates the two: Germany is a nice example, because the Public Accounts Committee is a sub-committee of the Budget Committee—but keep in mind that there are 40 members of the German Budget Committee, so it is very large. That means you have the same people scrutinising the Budget and scrutinising the accounts later on, and they can bring that directly back in when they vote the next Budget. They amend the Budget, so if they see something they do not like, your spending might get cut, for example. If they think you are wasting money somewhere, you get a few hundred million less here or there. That could be one way of doing it.

I think the Public Accounts Committee here works extremely well, and one rule of consulting is always, "If it works, don't touch it," but there might be other informal ways of co-ordinating the two. Overlapping membership is also something you see in other countries, or there might be ways of writing a formal mechanism, for example so that the Chair of the Public Accounts Committee and the Chair of the budget or estimates Committee exchange notes on what are the most important issues to track jointly in the future, or something like that. You can do it informally and you can do it formally, but I think it is important to keep the Public Accounts Committee very apart in its focus from an estimates or spending Committee.

For that reason also, I would be very cautious in terms of bringing the NAO into an advisory role in relation to the expenditure Committee. These are very different. They should focus on ex-ante in the one case and ex-post in the other, but the NAO should be kept away. There might be contacts at the margin, but it gets dangerous when the auditor also has a role in advising ex-ante, because then people can turn around and say, "Well, you told us to do x, y and z. We did it, it went wrong and now you come back with your audits and you blame us." So those are the kind of dangers.

Chair: We have covered quite a lot of ground. I don't want to come back after a vote, if possible, so we will do three quick rounds of questions from Sir David, then Bob and then Melanie.

Q11 **Sir David Evennett:** This is very interesting, but I am still concerned about overlapping. Unfortunately, the Select Committees are territorial and like to have control. If you put another one in, I fear there will be conflict over what they can look at and what they want to look at. That's the nature of the beast.

Secondly, more Committees means more colleagues giving more time and, frankly, colleagues are pretty stretched. If we come down from 650 Members of Parliament to 600, do you not think there might be a problem in getting people who are really interested, really knowledgeable and want to give their all? The great thing about the Treasury Committee and the PAC is that they have got top-flight Members of Parliament on them because they are really keen and involved, and they are prestigious ones. Do you think this Committee would do as well?

Professor Heald: One of the points I made at the beginning was that I would regard what we are talking about as one of the core parts of the Treasury Committee's activities. To some extent people don't necessarily say this directly, but one of the reasons why this idea has acquired momentum is because one observes that this doesn't happen. It is not that the Treasury Committee does not work extremely hard and that it doesn't tackle very important issues, but it is not the same as the kind of detailed budget scrutiny over the medium to long-term period that we are talking about. A different proposal would be to enlarge the Treasury Committee and get it to function through formal sub-committees. That would be an alternative model if you are concerned, for example, about the size of the House.

If you look at the OECD evidence to this Committee, one of the things that is striking is that the Canadians have got 27 people in their Parliamentary Budget Office, Australia has got 40 and the Scrutiny Unit of the House of Commons has got five people connected with this area. Those simple numbers indicate the lack of priority that is being given. So I think there are alternative models.

If it is just about having another Committee, the Treasury Committee could be enlarged. It could be written very clearly into its remit that it does this. But of course, the Treasury Committee over the last 10 years or so has been responding to a remarkably unstable fiscal, monetary and regulatory environment. Putting it crudely, there is more glamour in some of those activities than there is in the kind of things we are talking about today.

Q12 **Bob Blackman:** I have three quick questions. What powers do you think such a Committee should have?

Professor Heald: That is a question for Clerks in terms of working through the parliamentary procedures. I would want the Budget Committee to co-ordinate parliamentary ex-ante scrutiny. As I have indicated before, I don't think this is ever going to work that well until we start getting estimates voted before the financial year starts. I think that is the make or break point. If Parliament can persuade Governments that that should happen, it would be revolutionary in terms of the possibilities.

The crucial point, as I have argued before, is that I do not think estimates are really the correct target. That also comes out of the Institute for Government evidence, and Lord Macpherson's evidence. The way the UK system works—generally it has a very high reputation internationally in these terms—is through the spending reviews. That is where the decisions get taken. The decisions do not get taken on estimates. So one of the things the Committee could do is, knowing that there is going to be a spending review, is to build up to the spending review about what the public expenditure challenges are and then co-ordinate departmental Committee responses when they actually have the numbers.

Chair: Dr Wehner, can you answer that? I am afraid we shall probably be bringing the sitting to an end thereafter.

Q13 **Bob Blackman:** Can I just ask you, Dr Wehner, do you have an example of a country that in your view does it in the best way, that we could maybe look at?

Chair: In one minute!

Dr Wehner: I think Sweden is a very good example, because it has a very good division between a Tax Committee and a Finance Committee that does the composition of spending; but at the same time there is a role for the sectoral Committees, so these turf wars that have been referred to are well handled in that system. On top, it has got a very good medium-term framework.

Chair: We still have 30 seconds, Melanie, if you want to ask a quick question; then we will go with a quick answer.

Q14 **Melanie Onn:** David touched on it really. It was about the creation of a new Committee and the amount of time that it takes for MPs. Would the inclusion of a prescribed activity for the Select Committee take away the autonomy of the Committee's decision making as to which inquiries it decides to run?

Professor Heald: Scrutiny of public spending is such a central function of a democratic Parliament that I think there has to be central prescription across the board.

Dr Wehner: I think there are some things that just have to get done, and they are not being addressed in the current system.

Sir Edward Leigh: This is not a question, Chairman, but we haven't had time to ask about the Parliamentary Budget Office. You mentioned how few people there are in the Scrutiny Unit. Could you write to us about that? The strength of the NAO is that it has 400 people working for the Public Accounts Committee.

Chair: Can we send both witnesses supplementary questions, and would you mind answering by correspondence? We might get you back later for another session. Would that be all right?

Professor Heald: Fine. Thanks very much.