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NO

Prime Minister

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MCS 20/9

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LORD PRIVY SEAL

PROCEDURE (FINANCE) COMMITTEE

I have been considering the line the Government might take in commenting on the report which the Procedure Committee published in July this year, and I would be glad to know your views and those of other colleagues on what I propose.

2. The report arose partly out of the work on budgetary reform which the Treasury Committee undertook in the last Parliament. The Procedure Committee were invited to follow up a number of questions which had not been studied in detail by the Treasury and Civil Service Committee. The Procedure Committee interpreted their remit very widely. Their recommendations would, if adopted, severely reduce the Government's freedom of manoeuvre on public spending and financial management generally, as well as increasing the time of the House taken up by financial matters.

3. The Committee have not made it easy for the Government to reach an accommodation on this report. Some of their more radical proposals must be firmly rejected as unacceptably compromising the Government's legitimate responsibilities for planning national finances, and in some respects, as hopelessly impracticable. There are however some recommendations on which, if colleagues agree, we might be able to go some way to meet the Committee. I attach a note which discusses the recommendations in turn and sets out what I think may have to be our ultimate response. The broad guiding principle would be to try to meet legitimate demands of the House for additional information about the public finances if these can be provided at reasonable cost and without causing other problems (eg in the markets), while on matters of control resisting any major shift in the present constitutional balance of responsibilities between Government and Parliament.

4. I think we must resist the Committee's proposals:

(a) on Government borrowing, for some form of regular Parliamentary scrutiny of the monthly outturn for borrowing against forecast and of the means whereby the borrowing requirement has been financed; for Commons control of the Government's annual borrowing on its own Account (CGBR(O)); and for Parliamentary approval of NLF borrowing for reasons of monetary control;

(b) on public expenditure, for a Commons power to approve (and amend) nationalised industries' EFLs and provisional RSG Orders and to approve the definition of the expenditure planning total; for quarterly expenditure profiles and more frequent revisions to forecast annual outturns; and for Parliamentary control of long term capital expenditure projects;

(c) on Budgetary reform, for entirely new procedures for integrated Parliamentary control of taxation, borrowing and expenditure through a new style Finance Bill based on Resolutions covering all three; for radically re-modelled legislative processes; and for a considerably enhanced role in this for the TCSC and other Departmental Select Committees;

(d) for splitting the Finance Bill into two equal parts: a very limited Bill in the Spring confined, so far as possible, only to changes in tax rates, and a regular Autumn Bill dealing with all other changes (not only technical matters but also major Budgetary matters, except for new taxes); and

(e) for any new limitations on the size and use of the Contingencies Fund.

5. More positively, however, as I have said, I believe there is scope on some of their less radical recommendations for some constructive movement towards the Committee. In particular;

(a) whilst the Committee puts its first three recommendations under the overall heading of "control of borrowing" this is slightly misleading as the first recommendation is solely concerned with improved information and monitoring. We might go some way towards meeting this by offering them calendar monthly outturn figures for the PSBR (though not information about performance against forecast);

(b) on control of non-supply expenditure, we can build upon existing plans to increase information in the Public Expenditure White Paper on public corporations' transactions; point to the good sense of including overall nationalised industries' EFLs within the normal debates on the Autumn Statement and the PEWP; and, on local authorities, take credit for having accelerated announcement of the outlines of the RSG settlement;

(c) on Parliamentary consideration of public expenditure as a whole, whilst resisting the idea of prior approval of the planning total definition, we might give greater emphasis to definitional material within the PEWP; undertake to inform the TCSC before making fundamental changes in definition; and be ready to consider more useful in-year outturn data;

(d) on Budgetary reform, I am inclined to think that we do best to hold the Public Expenditure White Paper and publish it with the Budget documents. In itself this would be a gesture towards integration. It might help to reduce pressure for earlier publication if we were to accede to the Committee's proposal for a regular debate on the Autumn Statement around the turn of the year - though without the motions the Committee propose on EFLs and without the scope for an amendable Motion or any precise commitment to Government time. We presumably cannot oppose the Committee's recommendation that the House should express its view on the principle of integrated procedures (discussed on recommendation 12) recommended by the Committee. It should also be possible, whilst rejecting the proposal for an automatic split in the Finance Bill, to keep open the possibility of an occasional technical Autumn Bill broadly on the lines proposed in evidence by my predecessor; and to accept, in suitably qualified terms, that major new taxes may be introduced in separate legislation;

(e) on control of long term expenditure projects, we might continue to look for ways in which information presented to the House about large scale projects could be improved;

(f) on the Contingencies Fund, there may be room for some benign neglect, now that Mr Michael English is no longer in the House to support his own proposals; but it would be right to keep open the possibility of some clarifying legislation on the Contingencies Fund (though excluding change in the size of the Fund) if the House presses strongly for it; and

(g) finally, on the provision of financial information, it would be difficult for us to oppose the invitation to the TCSC and the PAC to enquire into the "format, structure and content of the financial information provided for the House and its Committees" in light of the FMI and the Committee's own recommendations.

6. I doubt if we need envisage collective discussion of all this, but I should be glad to know that you and our other colleagues are broadly content with my approach. I should also value your advice on how we should handle this Report. It is, I believe, common practice for Reports affecting the procedures of the House to be followed by some form of take note debate before the Government offers any firm response of its own. Once the House has expressed its views it might then be right for the Government to offer some form of written response, whether in the form of a Treasury minute or something less formal, possibly a letter to the Chairman of the Treasury Committee. If you felt this was the right approach to this particular Report we can consider the detailed handling at a later stage.

7. You will no doubt want to gauge the strength of interest in this Report when the House reassembles. I can see no advantage in encouraging an early debate but it seems as well to consider our general position in case pressure builds up more quickly.

It would be helpful therefore if I could have colleagues' reactions within the next month or so.

8. I am copying this minute and enclosure to the Prime Minister, Cabinet colleagues and to Sir Robert Armstrong.

NL

(N.L.)
19 September 1983

Commentary on the First Report from the Select Committee on Procedure (Finance), Session 1982-83

Recommendation 1

The monthly estimates of outturn for borrowing should formally be submitted to the Treasury and Civil Service Committee, together with the information currently given to Ministers showing the performance of the borrowing requirement against the forecast, and the means by which the requirement is financed. (Paragraph 41)

Response

Agree to provide monthly PSBR outturn figures but not monthly financing figures at this stage (they are not yet available). Reject proposal to show comparison of outturn against forecast.

Comment

We have for some time been gaining experience with monthly PSBR figures. It would anyway be sensible to begin to make them public in due course to reduce the present emphasis on the monthly CGBR, which shows only part of the picture.

Full details of the financing of the PSBR are only available quarterly. Monthly information (which relates to the financing of the CGBR) is assessed by banking rather than calendar months, for consistency with the money supply statistics. We can say that a move away from banking months is under consideration, but until a decision is taken, the most helpful figures we can provide are those already published.

Comparison of borrowing outturn with the forecast profile is one of a number of recommendations along these lines. All should be rejected on the grounds that to provide profiles through the year would create a further set of targets which would be given undue weight by commentators and by the markets.

Recommendation 2

Legislation should be introduce to provide a control by the House of Commons over the Government's annual borrowing requirement on its own account (the CGBR(O)). (Paragraph 44)

Response

Reject. If effective, this would be a serious erosion of the power of the executive. If ineffective, it would be a nuisance with no positive benefits for Parliament or the executive.

Comment

The House of Commons already has a full opportunity to debate the Government's proposed borrowing requirements, in the context of its total financial plans, at the time of the Budget, and again when the PSBR figures for the current year are reviewed in the Autumn Statement. But to introduce a formal Parliamentary control of borrowing, even the central government's own account borrowing, with limits that could not be exceeded without Parliamentary approval would be an unacceptable curtailment of the Government's freedom to manage its financial affairs.

Recommendation 3

Section 152 of the Finance Act 1982 (additional power of the Treasury to borrow) should be amended so as to provide that any use made of this power shall only be exercisable by an Order subject to Affirmative Resolution of the House of Commons). (Paragraph 47)

Response

Reject. The House of Commons legislated in the 1982 Finance Act to remove a technical obstacle to our funding policy. There is no need to amend that legislation.

Comment

The clause in the 1982 Finance Act gave the NLF the power to borrow for reasons of monetary control. This was not a new policy but it was in danger of encountering a technical obstacle. It was felt necessary to take clear legislative power to remove an arbitrary constraint on monetary management. Policy in this area will need to be explained again during the course of any debate.

Recommendation 4

The public expenditure White Paper should give a breakdown of the expenditure of the public corporations other than the nationalised industries along the lines of that given for the nationalised industries. (Paragraph 60)

Response

This is something which the Government might be able to accept in principle, subject to analysis of costs of collecting the information.

Comment

This is a recommendation designed to fill in a small gap in the statistics for a number of minor organisations (listed in Annex A). Departments concerned are being consulted at official level about this.

Recommendation 5

The External Financing Limits (EFLs) of the nationalised industries, which are published in November with the Autumn Statement, should be subject to approval in total by the House, on an amendable motion. (Paragraph 63).

Response

Reject.

Comment

For the House to take power to vary EFLs would encroach on a proper responsibility of the executive and would also be disruptive to the industries. It is already open to the House to express a view on the EFLs in the course of any debate on the Autumn Statement or the PEWP.

Recommendations 6 and 7

The Government should lay before the House, before the end of the summer recess, provisional rate support grant Reports or Orders, including a specification of the distribution formula. (Paragraph 72).

(a) There should be about 1½ days available for debate on the three provisional Rate Support Grant Orders, which should be on amendable take note motions.

(b) The final Orders should in general be given only 1½ hours each, as normal affirmative statutory instruments, with more or less extension of time being given in accordance of the degree of change (if any) from the provisional Orders. (Paragraph 74)

Response

Reject, though taking credit for the fact that the broad outlines of the settlement are now announced in the summer.

Comment

At present the House has the power to reject an RSG Order but not to amend it. The proposal would mean advancing the RSG timetable by 5 months and any piecemeal amendment of the Order would undermine the whole basis of the settlement.

Recommendation 8

The Treasury should put forward proposals to the Treasury and Civil Service Committee for defining the public expenditure planning total and these should be embodied in a report from that Committee to be approved by the House for inclusion in the subsequent public expenditure white paper. (Paragraph 84)

Response

Undertake to inform the Treasury Committee in advance about any major changes in the coverage of the planning total, but make it clear that the Government must retain the final responsibility for deciding the definition of public expenditure. Undertake to provide more material on definitions in the PEWP.

Comment

The recommendation presumably reflects some fear that the Government may make definitional changes in public expenditure to suit its own ends. This response should provide some reassurance and it will be up to the Treasury Committee to question changes if they wish. It reinforces past practice of informing the House before significant changes are made in definitions.

Recommendation 9

(a) With the Public Expenditure White Paper the Government should lay before the House a statement giving a quarterly profile for the planning total for the coming financial year, and that as soon as possible after the end of each of the first three quarters they should lay a statement of the outturn.

(b) The outturn statements should be referred to the Treasury and Civil Service Committee and, if they reveal serious divergence from the original plans and the Treasury and Civil Service Committee has so recommended, should be debated on a motion tabled by the Committee. (Paragraph 87)

Response

Reject the recommendation to provide profiles, but consider giving more and earlier information on outturns.

Comment

This recommendation is associated with recommendation 1. To provide in-year profiles of public expenditure would create a new set of targets against which to judge the Government's performance with consequent potential disturbance in the markets if not achieved. But it may be possible to provide more and earlier information on outturns.

Recommendation 10

(a) There should be a regular debate in January on a motion to take note of the Autumn Statement, following a Report on the Statement by the Treasury and Civil Service Committee, together with the motions to approve the External Financing Limits of the nationalised industries.

(b) The provisions of Standing Order No 35 (Calling of amendments at end of debate) should be extended to cover this debate. (Paragraph 99)

Response

Accept presumption that there should be a regular debate on the Autumn Statement around the turn of the year, but not tied down to a firm January date, or to provision of Government time or to any particular form of motion. Consistently with proposed response to recommendation 5 reject proposal for a motion to approve EFLs, whilst recognising that EFLs would be a proper subject for discussion in the Autumn Statement debate. The motion should not be amendable.

Comment

The TCSC in its report on Budgetary Reform recommended that the Government each autumn should publish, effectively, a Green Budget which should be debated and so influence the contents of the Budget proper in the Spring. We rejected this, but agreed to publish each year an Autumn Statement. The Procedure Committee do not argue further for a Green Budget. Instead they recommend that there should be an annual debate on the Autumn Statement in January following a report to the House by the TCSC. The debate should take place on an amendable take note motion and an amendment might reflect an alternative view put forward in the report by the TCSC.

The table below shows the timing of relevant autumn and winter economic debates. The recommendation would regularise the debate and, if seen as a substitute for the January debate, transfer it into Government time. Nevertheless in the suitably guarded form set out above the response may be acceptable as one to counterbalance the many which are not.

AUTUMN ECONOMIC DEBATES

YEAR	DATE OF AUTUMN STATEMENT	1ST DEBATE	DATE OF TCSC REPORT	2ND DEBATE
1980	24 November	27 November (Economic day of Debate on the Address .	15 December	15 January 1981- Opposition Motion on Economic and Monetarist Policies
1981	2 December	8 December (Government Motion on Economic Statement)	16 December	28 January 1982 Opposition Motion on Economic Policy
1982	8 November	10 November (Economic day of of Debate on the Address)	14 December	19 January 1983. Opposition Motion on the Economy

Recommendation 11.

(a) A Taxes Management Bill should normally be introduced early in each session of Parliament.

(b) The Finance Bill should, so far as possible, be confined to proposals for changes in rates of taxation.

(c) Proposals for new taxes should be introduced in separate legislation rather than in an annual Finance Bill. (Paragraphs 100-106)

Response

Reject (b). Agree that proposals for major new taxes should be introduced in separate legislation so far as circumstances permit. Accept that a separate Bill may from time to time be a useful vehicle for making technical and non-controversial tax changes which do not fit conveniently into main Finance Bills.

Comment

The rejection of (b) follows from the response to recommendation 12 (see below). It would in any case raise a number of practical and presentational difficulties which the Committee failed to answer.

On (a), the Committee made little progress in devising a practicable system for improving the detailed scrutiny of financial legislation and failed to follow through the detailed consequences of their proposal. They suggest that all tax changes other than changes in the rates of taxation should be in a separate Taxes Management Bill. But these other changes can be as important, politically and financially, as changes in rates. If they have to be in a separate Bill, the impact of the Budget would be reduced. And the practical result would be that, with two Bills, more Parliamentry time would have to be spent on budgetary matters.

The Committee rejected Geoffrey Howe's suggested alternative of experimenting with a modest and essentially non-controversial autumn bill to deal with strictly technical tax matters. It is not necessary to confront them on this but the option of an occasional, technical autumn tax bill which would have to compete with its place in the legislative programme is not one that we need to - or should -rule out at this stage.

It should be possible to agree to (c) in a qualified way. It has increasingly been the practice in recent years for a Government which wants to introduce a major new tax to do so in separate legislation. The form of words proposed above simply recognises that development.

Recommendation 12

The House should be asked to express a view on the principle of integrated procedures for considering expenditure and taxation. (Paragraph 126)

Response

Accept that it is right for the House to have an opportunity to express its view on the Committee's proposal for far reaching changes in procedure, but stand ready to argue against their own particular proposals for integrated procedures as quite impracticable. The House might instead be offered the opportunity to discuss the PEWP during the Budget debates. The PEWP itself could be published on Budget day, as in 1981 and 1982.

Comment

The Procedure Committee has not pressed for a Green Budget.

The present proposal in effect aims to give the House power over spending and taxation (and borrowing) after rather than before the Government has set out its own plans in the PEWP and the Budget. But this is a new line of approach in the context of the discussion of Budgetary Reform which began in the latter part of the 1970s.

The alternative procedure appears to work broadly as follows. The Budget would be as now in March and the Budget debates would follow. The House would then vote on comprehensive resolutions, covering rates of taxation (including unchanged tax rates), supply expenditure resolutions, and a resolution covering borrowing. A Finance Bill would be brought in which would contain expenditure clauses and taxation clauses, though the latter would only cover the main rates of tax, plus possibly a borrowing clause. After a formal Second Reading the Departmental Select Committees would examine the expenditure clauses and the TCSC would discuss the taxation clauses. The Departmental Committees would be able to amend expenditure totals downwards and to vary expenditure within the totals. The TCSC would be able, as Standing Committee may now, to vote to reduce particular taxes but not to increase them. There would be a Report Stage and Third Reading towards the end of July.

These alternative procedures would mean a radical change in the relative positions of the Government and the House.

Much of what the Committee recommend is however largely impractical in the form in which they recommend it. Under the proposed procedure the House would be making changes to expenditure which would not come into law until late July or early August for the year in question. The changes themselves might not affect spending authorities for some weeks after that. The result would be uncertainty for spending authorities while the Finance Bill was going through the House, and disruption and additional costs were expenditure to be changed substantially during the course of the Bill's passage.

For these reasons the Committee's detailed suggestions must be rejected.

One possibility that might be offered would be as in 1981 and 1982 to publish the PEWP at the time of the Budget, rather than in January or February. The TCSC in its report on Budgetary reform argued that to publish with the Budget meant an artificial delay since it could have been published earlier. The Government went along with this argument and the PEWP was published this year at the beginning of February. But the result was the nonsense of a debate on public spending only days before the Budget.

To offer the possibility of again publishing the White Paper with the Budget could be represented as consistent with the Procedure Committee's own approach though falling for good reason some way short of it: if acceptable this would avoid any repetition of this year's separate debate on public spending.

Recommendations 13, 14 and 15

13. No project falling within a definition to be agreed should be included in the July Supply guillotine if the appropriate Select Committee has reported its objections to the proposals by 8 July. (Paragraph 144)

14. The Treasury and Civil Service Committee should agree comprehensive definitions, after consultation with the other Select Committees and with the Treasury, of major items of long-term Government expenditure which are to be subject to special procedures in the House, and a Report embodying such definitions should be placed before the House for approval in sufficient time for the revised procedure to come into effect by the subsequent financial year. (Paragraph 146)

15. All projects subject to the definition approved by the House should be separately indicated and costed in their first and each subsequent appearance in the Estimates; when no expenditure is expected, but a firm commitment is to be made, a token amount of £10 should be shown. (Paragraph 152)

Response

Reject but continue to look for scope for giving clearer supporting information in the PEWP and/or Estimates.

Comment

There will be general sympathy with the objective of securing better management of long-term capital projects. However the Committee's proposals could provide new channels for pressure for such projects. Moreover:

(i) They would give Parliament the ability to veto individual projects (or, perhaps more likely, to delay their start until satisfied about them). This would be a notable shift in the present balance of power between Parliament and the executive. It would also mean that Parliament would become involved in what arguably should remain a managerial and executive function.

(ii) There would be risks of delay, and an inevitable increase in uncertainty and administrative cost.

(iii) In some cases there could be an international dimension (eg for joint projects) which could add to complication.

(iv) There are difficulties in controlling expenditure to more than one figure. Either the cash limit or the project plan would have to take precedence. We could not accept that it is cash limits which should take the burden of adjustment.

(v) Some of the major projects which have led to the Committes' concern (such as Chevaline) would almost certainly have to be excluded from the arrangements because of security considerations. For other really substantial projects the procedure is probably unnecessary. It is difficult to imagine that any government would embark on a project like the Thames Barrage without first embarking on a period of explanation and consultation which would Parliament the opportunity to make its views known then.

A good deal has already been done to increase the amount of information available.

Recommendation 16

(a). Legislation should be introduced to clarify the legality of expenditure from the Contingencies Fund.

(b) Such legislation should fix a limit to the Fund (as was the case until 1974), and this should be changeable only by Order requiring an affirmative vote of the House.

(c) The limit fixed should be upon total expenditure from the Fund during a financial year, and not upon the amount of issues from the Consolidated Fund unrepaid at any one time.

(d) The legislation should state clear conditions for expenditure from the Contingencies Fund and for the notification of the expenditure to the House. These should be discussed in detail with the Treasury and Civil Service Committee. (Paragraph 158)

Response

Reject (unless House expresses strong view, in which case consider (a) and (d) further).

Comment

This recommendation reflected strong pressure from Mr English, whose personal hobby-horse it has been.

Mr English's contention was that legal authority existed for payments into the Fund, but not for payments out. He obtained qualified support for this view from some of a number of lawyers consulted by the sub-committee of the Expenditure Committee.

This recommendation is ancilliary to the main areas covered by the report, and there may be little support for it in the new House. It would be unwise to volunteer acceptance of any part of it, although too firm rejection of (a) might be counter-productive.

Recommendation 17

The Treasury and Civil Service Committee and the Committee of Public Accounts should between them carry out a full enquiry into the format, structure and content of the financial information provided for the House and its Committees in the light of the outcome of the Financial Management Initiative and the implementation of our recommendations. (Paragraph 166)

Response

Concur. (It is for the TCSC and PAC to respond). Initiatives have already been taken by the Government to improve further the presentation of the Public Expenditure White Paper and the Supply Estimates, and we can welcome the growing interest which the House is showing in the presentation of such information.

Comment

This initiative has been identified in particular with Mr Garrett, who is no longer in the House. As the report acknowledges, improvements have been made recently in the provision of financial information, and more are promised shortly. The Committee quote the view of the previous Chief Secretary (paragraph 164) that the FMI would lead to further changes in presentation. The theme is repeated in the draft FMI White Paper. The former Chief Secretary wrote to Cabinet colleagues on 11 May this year outlining Treasury proposals for a steady evolutionary improvement in the presentation of information about public expenditure, concentrating first upon Part 2 of next year's public expenditure White Paper. A meeting has already been held with certain volunteer departments to consider the production of experimental volumes in parallel with their chapters of the 1984 White Paper. If successful, these experimental volumes could be shown to the departmental committees and to the PAC for comment.

LIST OF PUBLIC CORPORATIONS* (See Recommendation 4)

The Crown Agents
The Crown Agents Holding and Realisation Board
Commonwealth Development Corporation
British Technology Group
National Film Finance Corporation
The Pilotage Commission

Urban Development Corporations
The Audit Commission
Scottish Development Agency
Highlands and Islands Development Board

Welsh Development Agency
The Development Board for Rural Wales (other than new town activities)
Northern Ireland Electricity Services
Northern Ireland Transport Holding Company
Belfast Harbour Authority
Government Trading Funds (2):
  Royal Ordnance Factories
  Royal Mint
  Ordnance Survey
  Her Majesty's Stationery Office
  Property Services Agency Supplies

Covent Garden Market Authority
National Dock Labour Board
British Broadcasting Corporation (Home)
Independent Broadcasting Authority

Public Trusts Ports (other than Belfast Harbour Authority)
Housing Corporation
New Town Development Corporations and the Commission for the New Towns
The Development Board for Rural Wales (New Town Activities)
Bank of England
Scottish Special Housing Association
Northern Ireland Housing Executive

* As detailed in Table 5.1 Cmnd 8789 'The Government's Expenditure Plans 1983-84 to 1985-86'