



Political and Constitutional Reform Committee

Oral evidence: [Fixed-term Parliaments: the final year of a Parliament](#), HC 976

Thursday 13 February 2014

Ordered by the House of Commons to be published on 13 February 2014.

[Watch the meeting](#)

Members present: Mr Graham Allen (Chair); Tracey Crouch; Mark Durkan; Paul Flynn; Robert Neill; Mr Andrew Turner

Questions 92-147

Witness: **Julian Kelly**, Director, Public Spending, HM Treasury gave evidence.

Q92 Chair: Julian, how are you? I am so sorry not to have welcomed you outside. We ran over a little bit. Do forgive me. It is very nice to see you. Can I ask you where you sit in the Treasury? Who is your Permanent Secretary? Is that Sharon White?

Julian Kelly: My immediate boss is Sharon White.

Q93 Chair: Lovely. Welcome very much, Julian. I think you know what we are doing. We have started an inquiry on the impact of fixed-term Parliaments. I am halfway through a little tour of Permanent Secretaries. As I go down the list, people get more and more interested in what we are doing, not least because of the spending review that may happen relatively speedily after the general election but also, as Sir Jeremy Heywood said, because we have taken up the option of having a full fourth year, which is quite unusual historically. Instead of having a degree of paralysis around, “There might be an election; let’s not do too much long-term stuff,” there has been that full fourth year, which he commented on. Also, now that we know the next election will be 7 May 2015, there is the question of how to use the last full year, and there are the possibilities of going beyond the normal knockabout 28-day election campaign, having some serious thinking around policy and how that might happen, if indeed it is a good idea.

We are in the middle of that inquiry, Julian, so thank you for coming along from HM Treasury. Is there anything you would like to say to start us off, any broad thoughts?

Julian Kelly: No. Why don’t we just get into the particular areas that you would like to explore?

Q94 Tracey Crouch: Good morning. As the Chair said, we are looking into the effects of the Fixed-term Parliaments Act on Government. Could you tell us how, if at all, financial planning has changed this Parliament as a result of greater certainty about the length of the Parliament?

Julian Kelly: Probably the key thing has been when this Government came in they set a plan for the four full years of the Parliament and, broadly speaking, they have held to that plan. There have been adjustments here and there but broadly they have held to the plan that they set out. In my memory I can't remember us having done that. We have typically done a review for three years and then decided whether to do another one at some point in the Parliament. That has probably been the most striking feature.

Q95 Tracey Crouch: Do you think that that is the Government as a whole doing that, having that mind set, or do you think that the Fixed-term Parliaments Act made a difference to the planning?

Julian Kelly: The thing that definitely makes a difference—let's take the year 2014-15, to go to Mr Allen's comment at the start—is that you would have been going through a Parliament and you would not have known to some degree whether 2014-15 was—this probably is not quite the right expression—a real year or a false year. You know from the outset it is a real year, so if you are a finance director in a Department or a Permanent Secretary or a Secretary of State you know that you are planning to deliver in that year and the budget that has been given is going to be real. Therefore, you have to work out how you make the whole four years add up. Particularly in a time when we are consolidating public spending, to some degree the certainty and the stability helps. It helps having four-year capital plans because you can think how you are matching your investment in the short, medium and even now, with what we did last summer, the slightly longer term to help deliver what we want in terms of performance and Government priorities.

I suspect whenever you do a spending review, any Government that comes in needs to think what is the appropriate period given whatever it is they are going to try to achieve. In this particular instance, my personal view is that that has helped and it is borne out by the fact that the Government has broadly held to the plan that it set out for public spending.

Q96 Tracey Crouch: When this Committee did a report on the impact of the Fixed-term Parliaments Act, we called on Permanent Secretaries to discuss how fixed-term Parliaments would affect departmental spending. Are you aware of Departments considering that change or if in fact it is already happening?

Julian Kelly: I would almost go back to what I just said, which is that this is the first one we have had and we are probably in a particular set of circumstances so it is hard to know whether the pattern we have established in this one is necessarily going to hold for the future. But the thing I would say is that at the outset people knew, "We can definitely see the period of certainty for which we are planning".

Q97 Tracey Crouch: So it has created some kind of structure for you to work from?

Julian Kelly: Yes.

Tracey Crouch: And that is helpful?

Julian Kelly: I certainly don't think it has been unhelpful. It is even to the point that we know when the election is going to be and looking ahead to some degree, even within the Treasury, we can start to think, "What are we going to need in place by when?" I don't know what the Government of the day will ask us to be doing but we can start to think and in good time what are we going to at least need to make sure is in place in terms of information and evidence in order to help whatever the Government of the day is to make whatever decisions they will need to make at that time, and that is helpful.

Q98 Robert Neill: This is moving up from what you are doing to put things in place. I think your then Permanent Secretary talked in terms to the Treasury Select Committee about masterminding the next spending review. From a practical point of view, what does this involve? You are putting things in place. Some of us always thought Treasury had a parallel operation to every Government Department, effectively, where you have your little teams and you sit down there and work it out. What do you do to do that pre-planning you are talking about?

Julian Kelly: I wouldn't say we have a parallel operation. We clearly have teams who face off to Departments and there is a degree to which we can start to think internally, "What is the information we are going to need? What is the evidence we are going to need? How much of it do we have now? What are the gaps we think we have? What do we know about the state of knowledge within Departments? What do we not know about the state of knowledge within Departments?" We can begin to plan out and think not necessarily, "What is the answer?" because that is clearly going to be dependent on whoever the Government of the day are and we still have a duty to serve absolutely until the election the Government of this day, but we can start to make sure we have the right building blocks.

Q99 Robert Neill: These are discussions between officials, properly, rather than at ministerial level. Would you at this stage in the game, for example, coming up to the end of a Parliament, have a view as to where, say, my old Department at CLG would be going over the next five years?

Julian Kelly: Sorry, can you say that again?

Robert Neill: Have you already scoped out a view as to where you might think the Department for Communities and Local Government, for example, would be going over the next five years?

Julian Kelly: Not in terms of saying that we think the answer for a Department is to go from X to Y, because that is clearly going to be dependent upon the Government, their priorities and what their fiscal and economic objectives are at the time. But you can begin to scope out if nothing changes, what do we know is happening within the system, what pressures do we know there are, what do we know that we have already begun to do that might continue to yield savings into the future. People have put in place programmes now that will continue to have benefits down those years. We can begin to map out almost what the status quo looks like and we can think what are the sorts of questions to which we will need answers.

Q100 Robert Neill: That is the basic starting point, isn't it? You say, "Let's assume the status quo and project that forward as to where that may take us and what we think about that".

Julian Kelly: It gives you the chance to think about what is the baseline to which you are going to be operating and responding. It gives you a chance to think about where we know there are pressures within the system and at least have to think about what the answers are to those pressures. Where is the evidence on, to use what almost feels like a hackneyed phrase, what works and what does that tell us? You can begin to put those things.

Q101 Robert Neill: I get that. Going back to Tracey's point about this being the final year, in terms of that process, which I know you do annually, are you doing some things differently this year? You were hinting at the fact that it is now a fixed-term Parliament and it is a real year in the sense of planning, but is it a real year in terms of doing anything differently? Does it cause you to project

things forward in a different way, knowing that there will be an election and potentially there might be some changes?

Julian Kelly: The difference is the thing I said: you know when the election is going to be. Let's imagine last year. If you thought that on average parliamentary elections are roughly every four years, there is a degree to which we would have been going through last year thinking, at what point do we really start to make sure those building blocks are in place? There is always a risk that you have started something too early, so it definitely helps to know when that point is going to be and when we should at least begin to plan what those things are. This Government has a rhythm of fiscal events, so to some degree again that helps. You know when the forecasts are going to be. All of those things help.

Q102 Robert Neill: That leads me on to something that Lord O'Donnell said when he was talking to us last week, that ideally he would have liked a bit more time between the election and the spending review than we had last time. Given we have 2015, you know when the election is, what would be the sort of timeframe from a technician's point of view? Leaving aside the political issues, as an operator of the system what sort of timeframe would you want to be working towards between election and spending review? Should we then be having a five-year spending review, something like that?

Julian Kelly: I find that quite a hard question to answer because to some degree that is going to depend on quite what the Government of the day are going to want to do. We will have to set a budget for 2016-17. You need to do that in reasonable time because you need in particular to give an indication of what local authorities are going to get, a lot of those local services, and because of the way the legislative timetable works for the regulations that govern those things, you typically need to have set that by the end of December. Ideally you would know a bit before that. There will be some close-on imperatives to set out some things at least for one year reasonably quickly.

If the Treasury has done a reasonable job of working out what those building blocks are, there is always a trade-off between taking an inordinate amount of time and effort to work out the answer versus a reasonable amount of time and effort in order that you can give Departments, and indeed then services, a decent amount of time to know what they are planning and working to. There is always that trade-off between taking long amounts of time and at some point just saying, "We could take another four or five months, it is not going to materially change". There is an advantage to enabling Departments, "We know the number we are working to; now we can plan, we can really finalise the detail". That is the trade-off that you are working to.

Q103 Robert Neill: The final thing from me and it is a topical thing, why is it that every year it seems to get later and later for us to give the local government spending settlement? I can remember when I was a councillor I used to have an idea rather earlier than this and when I was a Minister it seemed to me it went back a week each year. Why? Given all that preplanning, shouldn't we be able to come up with figures for local authorities much earlier than we are?

Julian Kelly: We try to do it as quickly as we can. I suspect in the last couple of years to some degree it has been tied to the autumn statement and the timetable for that, so there is a bit of a trade-off there. But our aim has been to finalise it the calendar year before the beginning of the fiscal year and clearly DCLG are always keen to make sure they have the certainty so that they can do it as soon as possible.

Q104 Robert Neill: That is what I wondered. Do any of your civil servants, as well as CLG civil servants, talk to people in the local authority sector about what their budget cycle is and the timing?

Julian Kelly: Ultimately you tend to find you don't want multiple points of contact. Of course the Treasury talks to the Local Government Association and goes out and visits local authorities, but it is proper that the Government has one official informal route such that there is one clear message and no potential for confusion in communication, and that is the responsibility of the Department.

Q105 Chair: There are projections, not just that we are waiting for the figures that will be operative from 1 April or 6 April of this year. There are provisional numbers for, what is it, two or three future years?

Julian Kelly: For example, this year we have done the fix for 2014-15 and the indicative number for 2015-16. I think it was in this autumn statement—it might have been the budget or the spending round—that the Chief Secretary said he is looking at what the options might be in the future to set slightly longer term—

Q106 Chair: They are there or thereabouts. We won't land on those but it is giving people an indication of an increase or a decrease and a rough quantum on that?

Julian Kelly: Yes, and I suspect if it were to change it is changing at the margin rather than—

Q107 Robert Neill: Just going back on that, the other thing that interested me is you talked about five-year periods and beyond. Talking to any business chums of mine, they say a five-year plan is not really a plan anyway in terms of capital spend. Realistically, local authorities and other public bodies are borrowing 20-year or 30-year money. How do you build what any business person would regard as a long-term view into your programme?

Julian Kelly: In the spending round this last time, last summer, of course we announced capital plans not for everything within Government but where we thought there was a clear case, and particularly for major infrastructure, for setting a longer term plan. We have announced plans out to 2019, 2020, so we have taken a step to setting a longer term. The downside of fixing things over much longer periods is that events happen and you might well need to change them. The most recent example of that is 2008 and 2009. There is always a trade-off between for how long you fix things for and maintaining a reasonable degree of flexibility to adjust to circumstances, but in this case our view is, if we can, particularly for major infrastructure, for setting a longer-term plan.

Q108 Chair: Just one aside from me, Julian, which is that we are now in a sense joining the rest of the democratic family in having a fixed term. President Obama does not decide when the presidential election is going to be or Monsieur Hollande when the next French presidential election is going to be. Have we, as the Treasury, interacted and learnt lessons not only from friends abroad, but, for example, in the typical local authority? The leader of the council does not decide when the council elections are going to be. We are not exactly blind on this, are we? We have a lot of external examples. Have we contacted and been in touch with other governments and Treasury equivalents abroad?

Julian Kelly: My team and I are in contact with reasonable frequency with colleagues abroad, both European and non-European countries, on a whole variety of topics, in particular the different approaches we take to planning. Quite often we discuss the frequency and nature of the way in

which we run our planning cycles. It is interesting that many of them over time have said they have tried to learn from the UK system. The interesting thing is that the way the parliamentary system works in those countries is often very different from the UK. There are things I learn from them and there are things they might learn from us, but you are always having to slightly deal with the fact that the ways the parliamentary institutions and budgetary processes work are quite different.

Q109 Chair: The concept of having a steady base budget is commonplace, isn't it? We will be spending whatever our last spending round said until we are told differently, until we are told, "Find a 5% spending reduction across the board to spend on other things," or "Our projection is that the economy is going to grow at 1% so be ready to tell us where you would like to spend the 1%".

Julian Kelly: That is a reasonably common thing but you will find some are still running at almost annual cycles. In fact, I spoke to a Japanese colleague on Thursday or Friday last week who expressed surprise when he actually understood what it means when we talk about fixed budgets and that although we have an annual estimate process where Parliament is voting the actual authority for us to spend that money, it pretty much matches the number that was first announced. He was like, "Really? Oh gosh, that would be great," but that is not what they do. If I talk to my Dutch colleague or my Austrian colleague, they are used to having coalition governments and they will spend several months negotiating a coalition agreement, almost out of which falls the detailed budgets for Departments that are typically fixed over the four years. They will adjust at the margin for changing economic or fiscal events. They are quite used to that concept, but it has fallen out of the fact that they have very detailed, quite protracted negotiations to arrive at a coalition agreement that specifies a lot of detail as to what they are going to achieve. Clearly for us that has been a novelty to some degree.

Q110 Chair: This last time has been a novelty but the standard practice in our politics is that each of the big parties are themselves coalitions and they have that debate internally. Having a year in which to do that on the back of some sensible, impartial, authoritative figures obviously opens up a different dimension about political and public discussion. I don't know if that is a good thing from the Treasury point of view. Treasury may feel that more knowledge should be retained in the Treasury rather than dispersed for political and public debate that may let various hares run. I don't know.

Julian Kelly: I think our official view would be that any Government is going to face some really big choices and it is quite important that those things are properly debated and aired. It is clearly for the political parties to decide what they are committing to and what is in their manifesto and what their stance is. That is not a role for us, that is not for the officials to do, but we talk to think-tanks and people who are publishing research. Our view would be that is a good and healthy debate. These are big issues.

Chair: I think colleagues will press you further on that as we go.

Q111 Paul Flynn: I am not sure how you can possibly do your job seeing that you don't know who the next Government is and what their priorities are going to be. How do you cope with the convulsion that we are going through at the moment where 10 days ago we were a country where it was universal austerity and we were very poor to discovering in the last two or three days that we are actually very rich and it is money no object? How can you factor that into your plans?

Julian Kelly: I am not quite so conscious of there being some major convulsion that suddenly says we are a lot richer than we thought we were two or three days ago but—

Q112 Paul Flynn: Mr Pickles was saying that we are a very rich country. It was not the Government line before. It had to be austerity, we were cutting everywhere, and the Prime Minister has said, “Money, no object” for something that was not a priority before. Will you factor in that anti-global warming measures and anti-flood measures are going to take a bigger share of the budget in future?

Julian Kelly: Clearly events happen and the country has been hit by these incredible storms and the Government is working out the right response to those. We will have to see what is the right response and then work out how we fund whatever is required. That is just life. It doesn't matter what organisation you work for, what plans you make, things change and it is important that you are ready and capable to adapt them and, where necessary, to flex relative priorities. That is just normal life, but we will see what the economic forecast is at the budget in only a matter of weeks and the degree to which that leads to a change in tax receipts or certain elements of spending or not. Right now I don't know what the answer to that is but the Chancellor—

Q113 Paul Flynn: As a practical example of when you are looking forward, what you are anticipating, is that we are the fourth highest spender in the world as a proportion on armaments, on defence or attack, we are the fourteenth on benefits, yet the present Government are cutting on benefits and spending up to the same level on armaments. Would you anticipate any change in that? Would you anticipate with a future Government—presumably a coalition Government, Lib-Lab coalition, or a Labour Government, which is a likely outcome—that things would change? The cuts on benefits might go down. They might look critically at defence spending. How can you prepare for that?

Julian Kelly: All I can honestly say is that those will be decisions for the Government of the day at the time. This Government has set out its plan. My job is to help them deliver that plan and to think, as I said before, what is the information, what is the evidence we are going to need to have available to advise the Government of the future day on how they can best deliver whatever their priorities and set of choices are. I can't anticipate quite what those are. As the different parties write and publish their manifestos, no doubt as an official I will have a much clearer idea of what those are and we can then begin to plan a bit more strategically.

Q114 Paul Flynn: Is it your view that the role of the Treasury is completely inert, to be the faithful servant of the party in power and not to act in any way as a restraint or a brake or a delay on some of the more insane decisions that are taken by all Governments? I am being political now, but don't you see yourself as a restraining influence on free-spending Governments? I always thought it goes with the territory.

Julian Kelly: I wouldn't necessarily have characterised this Government as a free-spending Government. They have put good control on public spending. I see my job as to advise and then implement their decisions.

Q115 Paul Flynn: Over the last 20 years of spending on defence projects, on equipment, by all Governments, without any exaggeration I can't think of one that has been delivered on budget or on time. I don't think there is one that has produced a piece of equipment that was not double the price of what was available in the market when it came out. That is the general history of defence spending in Britain. The present job-creating project is building two aircraft carriers without the aircraft and the aircraft we are buying doesn't work. Our defence spending has been a continuous series of disasters financially.

Chair: Do you think the fixed-term Parliament is going to fix that, Julian? I think that is what Paul is getting at.

Paul Flynn: Yes, and doesn't Treasury have some role in that? These are mostly done for the vainglorious ambitions of politicians who like to see big bits of equipment. It is very much a macho male thing. Mrs Thatcher didn't think we needed aircraft carriers. Shouldn't the Treasury have a role in that? No? You are destroying my faith in the role of the Treasury and it is a very disillusioning experience.

Julian Kelly: The Treasury plays its right role in public spending decisions of scrutinising where they fall above a delegated authority. With respect to the fixed-term Parliament, we continue to play our role as we always do.

Q116 Paul Flynn: With the fixed-term Parliament, is there an advantage in that the spending review need not come after the Government has been in power for a while? They can hit the ground spending as quickly as possible. Are there advantages in doing the spending review at an early stage rather than delayed as it normally is?

Julian Kelly: This Government came in in the May. They did an emergency budget in the June that announced a series of measures on spending and they said they would announce a plan from 2011-12 out to 2014-15 by the October. They did that. It is hard to argue that is taking an inordinate amount of time on what is about £700 billion spent each year. As I think I said in response to one of the earlier questions, there is always a trade-off between the amount of time you spend doing it, and therefore arguably the level of detail one thinks one can get into or the amount of information you are willing to sift, versus doing the right amount but trying to give Departments and services as much certainty as quickly as you can so they can get on with the final details of actually delivering, which is ultimately what needs to happen. That is always a trade-off and it will partly depend—

Q117 Chair: That has traditionally been the case, Julian, but rather than a Government waiting until an election and then doing its planning quickly or slowly, doesn't a fixed term say that we now have a year or more before the election. That is a moment where those parties who may come into Government can use the time to plan rather than, "We have just won an election, let's get cracking". I think we are trying to feel our way towards how the Treasury in particular might be able to facilitate that thinking and planning so that when a party does come into Government, it won't know everything but it will be across the issues and what the key choices are.

Julian Kelly: As I said, I can't necessarily comment on what each political party is doing.

Chair: No, I don't wish you to. It is more the Treasury process. It is not the political parties, it is what the Treasury can do.

Julian Kelly: The civil service as a whole clearly has a duty to serve the Government of the day. That is our job. I think it helps that we do the rolling economic and fiscal forecasts so that the public, the parties, everyone can see what is forecast to happen at an aggregate level and they can make their own view as to what they think the right response is. We have a duty to, where necessary, make the information that we do make available on public spending available as transparently as we can so that people have the information about the baseline of what is spent. That just helps people think things through.

Q118 Chair: Can I be a bit sharper then, Julian? I think that Parliament will take a very dim view if the Treasury has a default position, which is that we wait until the result of an election, when

for the first time ever it has the opportunity to be proactive to inform effective decision-making for up to a year before that election.

Julian Kelly: As I think I said before, the thing we will do and are doing is thinking through what is the evidence, what is the information, what are the questions that we think people are likely or will need to be asking and are we prepared for those. There is clearly ongoing work. I will take some of the efficiency agenda as quite a good example where people are thinking, “What are we doing to make services more digital?” I think irrespective of what the political party is, you are thinking, “What are we doing now that will make services both better and more efficient into the future?” Some of the investments that are being made now are going to have impacts on those future years. I don’t think there is an absence of thought.

Q119 Chair: No, but it is internal. It is the Treasury navel gazing in a good way. It is not engaging, as it now can for the first time, with the political process. I feel that that is a default position and it is missing a very big opportunity. The Treasury and the civil service now, with a little bit of slack before the first year starts, has a marvellous opportunity—I don’t wish you to list the things it could or could not do—to think through how it might engage with Parliament, political parties and others on decisions that may be taken in 400-and-so-many days. Is this fixed-term Parliament a threat or an opportunity to the Treasury, Julian?

Julian Kelly: I don’t see it as a threat. I have said before that I think there are opportunities and we will use those opportunities. It is clearly not for me to decide, actually it is not for the Treasury to decide quite at what point and how somebody contacts—

Chair: I suspect then we should ask that question very pointedly to Sir Jeremy Heywood when he comes before us in a couple of weeks time. Sorry, Paul, I interrupted your flow.

Q120 Paul Flynn: The Public Accounts Committee has recommended that the Treasury should introduce mandatory 10-year impact assessments for all departmental spending programmes. You have talked about a rolling programme. Wouldn’t a 10-day assessment be more practical in view of what has happened in the last 10 days, or do you think it is a reasonable thing to have a 10-year major look at it?

Julian Kelly: Whenever we do some major new investment and someone sets out the business case for that you clearly look at its impact over a considerable number of years, and the number of years depends on quite what the nature of the investment is. I don’t think I am necessarily convinced that there should be some mandatory 10-year assessment of every bit of public spending. I rather worry that you end up falling too quickly into a tick-box process. I can think that in a spending round we will look at things where people are proposing that we do something that has a long-term payback. Clearly at that point you are assessing, you do want to think what the long-term payback is and how good the evidence is, and you do want to think that even if the evidence is not that strong is it still worth doing something and how will we evaluate it? So I am not necessarily convinced that a mandatory 10-year assessment on every item of public spending is the right approach, but us thinking properly and appropriately about what is the long-term impact of what we do is clearly really important.

Q121 Paul Flynn: Caroline Slocock, formerly an official of the Treasury, said there was a case to ring-fence early action spending so that it was not raided for short-term goals. Is this a sensible precaution to take and something where the Treasury can exercise some influence?

Julian Kelly: Successive Governments, not just this one but the previous ones too, have tried to reduce the number of ring-fences that we give. A great example is the plea from local authorities, and other services, to ring-fence less to give people the opportunity to make decisions that fit the particular circumstances and needs of their area and their particular pressures. There are still examples, even in this Parliament, where we have ring-fenced certain spending that would fit this bill. The public health budget is probably about the single biggest example but there are others. Even a decision to protect schools funding is arguably a decision to make sure that we maintain a level of investment in human capital for the long term.

So I think there are examples, but we need to be a bit careful about suddenly thinking ring-fences are again the answer. Services sometimes need to make appropriate decisions about what the balance is of maintaining the existing service and trying to invest in something new, and they need the ability to respond to events. I think ring-fences have their use, we are using them, but over time we have tried to reduce the number and give the right responsibility and flexibility to local managers.

Q122 Mark Durkan: Going back to the civil service in all of this, the whole notion of a fixed-term Parliament as being part of the coalition deal was obviously important at a political level for the two parties to convince themselves and their members, not least in their parliamentary parties, that they were time-locked in this coalition arrangement. How important was it for the civil service at large, not just the Treasury, that this novelty of coalition government did not also have attached to it the fragility that the British system has always associated with coalitions? How important was the fact of a fixed-term Parliament in convincing the civil service that this was a Government that was locked in for a period?

Julian Kelly: If I am absolutely honest, I don't know that the civil service would have necessarily been more or less sure. This might sound a bit trite but your job is to serve whoever it is to the best of your ability and to help them deliver as effectively as they can whatever plan they have set out. But it has undoubtedly helped. I think there has been an opportunity, to use Mr Allen's phrase, of knowing the time. When you know something in advance, it does help you plan. There is greater certainty. I am probably not well placed to comment, but inasmuch as it has helped them politically, if that has provided a greater deal of stability overall that has to be good. We don't think instability is a good thing. I think the more stability you have the better.

Q123 Mark Durkan: Would there have been a Treasury view that it would help to give the markets a settled view as to the stability of the Government? Would that have been more important than the signal sent to the civil service itself?

Julian Kelly: For the markets, the credibility that this Government will deliver what it has said it will do is really critical. The very strong view of the markets that we have set out a consolidation plan and we will deliver it is a big factor.

Q124 Mark Durkan: We have a Fixed-term Parliaments Act currently in force. That may or may not change. We are working on the assumption that fixed-term Parliaments are here to stay in terms of most our questions so far, but if we continue with that presumption, does that give us the possibility of aligning spending reviews more to the period of a Parliament itself?

Julian Kelly: As I think I said before, knowing that you are going to have a five-year Parliament definitely helped this Government say, "We are setting out what our plan is for the whole

Parliament for the fiscal consolidation”, and knowing what it was definitely helped. The thing I can’t say is whether a new Government will choose to do that again or will they choose to say, for example, “We want to set out a plan for the first three years, which is clearly fixed. We see that as phase 2 of a consolidation, but we want to reserve the right to see where the economy is and the fiscal position in order for us to think that maybe we have moved out of consolidation from 2018-19 onwards”. I can’t predict right now a view of the circumstances that a Government will face in May 2015. The Treasury view is, and has been from when we introduced spending reviews back in 1998, that giving longer periods of certainty is a good thing, but what the length of those are will to some degree depend on the circumstances and the view of the Government at the time.

Q125 Mark Durkan: I am trying to test out this suggestion that we can now make five-year spending reviews to basically match the Parliaments. From your point of view in the Treasury do you see some advantage or comfort for the Treasury in still having spending reviews that straddle two Parliaments, maybe that there is a spending review before the end of a Parliament that straddles into the next Parliament? That basically usually means that in current terms oppositions have to pledge to stick with that sort of envelope and that gives the Treasury at least that certainty as to how they are going to start off with a change of Government, that even if it is a changed Government it will be working within the same ambit.

Julian Kelly: As I said, the Treasury would probably think giving a reasonable period of certainty is a good thing not a bad thing. If you straddle a Parliament there is obviously a greater uncertainty as to whether the precise detail of the plan you have set out will hold with a new Government. I can’t say whether a political party will commit to following the plan or not and even if they said that in aggregate they would follow the overall number, you don’t know that they will follow the precise decision on the prioritisation, which is the thing for Departments that is really going to matter. Although we think going reasonably into the medium term is a good idea, when you straddle a Parliament there will always be uncertainty. You can’t rest assured that that is probably as fixed as during a Parliament.

Q126 Mark Durkan: What about the opportunities in an election context for parties to have their spending plans tested or proofed by someone? Obviously civil servants and the Treasury will be made available to the different parties as they are putting together manifestos, but in terms of somebody measuring or proofing, do you think there would be a useful role for somebody like the Office of Budget Responsibility or is there a danger of politicising them?

Julian Kelly: I honestly think that is probably not for me to comment on. The OBR currently have their role as set out in legislation. I know there is a debate going on on this subject but it is probably not something for me to comment on.

Q127 Mark Durkan: How do you think pre-election contact between the civil service, particularly the Treasury, and opposition works? Do you have a view on how well that has worked in the past or whether or not the fact that we are in a fixed term means it is easier to plan that whole period and space now?

Julian Kelly: There is quite clear guidance set out as to how those work. There is a choice to be made, not my choice. As we said, it is probably a question to ask Sir Jeremy Heywood as to what the thinking is on how that is going to work. I personally was not involved in those contacts last time so I could not say how well it worked, although as far as I am aware it worked reasonably

well, as evidenced by the ability for a coalition to come in and reach an agreement, certainly in continental terms, pretty rapidly and then hold to a plan that they are on track to deliver. That makes you think that, even in the context of something that was not necessarily expected, it worked pretty well.

Q128 Mark Durkan: Is it your impression in the past that those sessions with the opposition have been truly with the civil service at large or very particularly with the Treasury, and what would you anticipate in the future? Some of the discussions are going to involve issues of structural changes and possible policies as well, of course, as spending profiles.

Julian Kelly: Again, I honestly suspect that is probably not for me. That would be for my seniors and betters probably to have a view on quite how that has worked and what their thinking is.

Q129 Chair: Thank you, Julian. Just one thing to put on the record as much as anything else, which is that I don't think there is any criticism of the previous interaction between the civil service, the Treasury and political parties ahead of a general election. I don't think anyone has suggested that. It has been good. However, given the new situation of a fixed term, given the new situation of more than a 28-day campaign, having the potential for a one-year campaign, that system, good as it was, is no longer fit for purpose because we have a different set of parameters. How we make that fit for purpose is something that we need to discuss. There are fantastic opportunities to involve Parliament, Select Committees, political parties, members of the public in a mature discussion about some very difficult issues, not "What is your shopping list? If we all had billions of pounds extra what would we all like to spend it on? Rank them in order," but "Can we engage you in a debate about pensions, about early intervention investment, about our future in various other very heavy political questions?" I think your advice would be that these are questions that you find fascinating, but that it is a case for Sir Jeremy Heywood and others.

Julian Kelly: On the broader process, I think that is right.

Chair: Fine. Julian, thank you for coming in. We appreciate your time and good luck.

Witness: **Professor David Heald**, University of Aberdeen, gave evidence.

Q130 Chair: David, welcome. I am glad you are here. We have lost our other witness, Professor Talbot, who has had some transport problems, so I am even more delighted to see you than I would otherwise be. David, do you want to start us off by saying anything in particular or would you like to jump straight into questions?

Professor Heald: I would like to make some opening comments, with the Committee's agreement.

Chair: Please feel free.

Professor Heald: The first point I want to make is that fiscal transparency is very important. If you look at international league tables, the United Kingdom comes out very well but that does not remove the fact that there are some important dysfunctions in the United Kingdom system.

The second point is that given we seem to be living in terms of if not permanent austerity but public spending being very difficult in the near and medium-term future, one has to be very careful that one does not fix spending limits and then Governments devise ways of getting round the

spending limits, for example by using regulation to force people to do things or by giving tax allowances that don't fit within the public spending numbers. In the summer the Treasury published the whole of government account for 2011-12—that is up to March 2012. It is very interesting that PFI liabilities are shown there at £149.4 billion of which 75% is actually not the buildings but the service charges of running those facilities for the life of the concession. The point I am making is that one needs to watch not just the public spending numbers but what else is happening. The obvious point now is guarantees, most obviously in terms of Hinkley Point C.

The third point I wanted to make is that the whole of Government account is so far an unexploited resource. It now takes 16 months to produce. When it takes nine months to produce it will start to give us a better picture of where we are. Much of the evidence you have had so far has been about looking into the future, but I would like to direct you towards looking at the more immediate past and the longer term past. I have been complaining for a very long time that the public expenditure statistical analysis document, which is a very good document in other respects, does not have a long run of years. If you look at the national accounts measures of the composition of public expenditure—something called COFOG—you find that over a 20-year period you get a much clearer view of what has been happening. The obvious thing that has been happening is that defence has been going down very significantly and health, education and social protection have been going up.

My final point is that I think this is a genuine opportunity for Parliament to consider how it will deal with spending and tax in the knowledge that this period ahead will be fiscally difficult. In my written memorandum I make two suggestions. First all, one could think about, not necessarily this time but put into the discussion, the idea of an end of Parliament fiscal report, which was proposed by the OECD as long ago as 2002 and is now done in New Zealand and Australia. Also Parliament needs to think about the way it deals with public spending numbers. I spent 21 years as a Treasury Committee specialist adviser on public spending and government accounting, but the point is that the Treasury Committee's remit is so vast that in a sense it does not concentrate on the public spending and tax numbers. One tends to get a rather ritualised process of the Chancellor and the officials of the Chancellor coming to the Treasury Committee periodically and one does not get the kind of probing that a specifically focused budget or spending and tax committee would bring. Thank you very much.

Q131 Mark Durkan: We have heard in written evidence that spending reviews are simply statements of intent, and in a sense your opening remarks there have said that spending reviews are important but they are not all that is important. We have also been told that spending reviews have no legal basis or force and you are pointing to the fact that there are points where Governments, when they frame spending figures, then maybe sometimes find ways around those spending limits. How do we fix in our heads how important our central spending reviews are to fiscal planning? Can you go further in maybe indicating to us how we can better mesh spending reviews to the other aspects that you have talked about?

Professor Heald: I tend to not agree with my colleague. Spending reviews might not have a formal status but they are the decision point and what eventually appears as supply estimates really are working out the implications of. Basically the decision point is the spending review and the annual estimates and supply is the constitutional symbolism. It is very important symbolism that a Government can only spend and tax if it has the consent of the legislature. So I think the spending reviews are decisively important in the way the system works even though they don't have the formal position.

Before the 1998 spending review system came in, you had annual public expenditure White Papers and one of the things that happened there is you had an awful lot of churning from year to year.

Transport went up one year and it went down the next year. It seemed to change almost as often as Transport Secretaries changed. The spending reviews have given more certainty. They fit into the macro fiscal projections and, as has been emphasised by the Treasury a few minutes ago, they enable the decisions to be passed down to Departments and then out to health bodies, public bodies and local authorities. So I think the spending review system, as it was brought in in 1998 and survived the change of Government in 2010, is actually beneficial. But what Parliament has not done is ever have significant debate about what was in those spending reviews. The previous Government had a very bad habit of having spending reviews in July. Members will realise that if you have a spending review in July, by the time Parliament comes back in October or September the matter is dead in a newsworthy sense. Embarking on an inquiry about a spending review, about a document published in July loses its political appeal. Quite obviously, members are genuinely concerned about what has political profile. One of the things that Parliament could insist upon is having a spending review that fitted into the parliamentary timetable rather than was just convenient to the Executive.

Q132 Mark Durkan: Further to that, as a devolved Minister of Finance, I had experience of essentially handling public spending. I did not have to worry about raising revenue, taxes, regulating financial services or anything else. It very much was in terms of managing the budget, and even in that context I found that the level of scrutiny in the Assembly in Northern Ireland could have been much improved to help things.

Do you think, if we are taking fixed-term Parliaments as a given and if that was going to provide a different context in which to frame spending reviews, that there is a case then for Parliament looking at its own infrastructure of scrutiny in relation to spending? Maybe we could have a dedicated budget committee or a committee that scrutinises what is happening in public spending, or even added cross-cutting committees, like the Public Accounts Committee, that can directly focus on, say, capital spending and the plans and the efficiencies there so that we use parliamentary scrutiny to pick up on more of what is happening and what is planned and how well it stands up, and to provide more of a dashboard in relation to what you have talked about as to what has happened in the past and particularly what is happening in the recent past. Is there more that we should be doing in Parliament in terms of our own mechanisms?

Professor Heald: Yes. My answer to your question is categorically yes. I think there is a difference with the devolved administrations, however, because the devolved administrations are fixed-term but they are largely dividing the cake. They are not really making the decision on the size of the cake, so some of the issues are different.

The other point to make is that people have mentioned the interaction of coalition government and fixed-term Parliaments. Your point is that devolved administrations are all on proportional representation, and that means that people know there is likely, in most cases, to be a coalition and I think the dynamic changes. In the Westminster system, there may be a coalition, but people are never going to know in advance whether there will be a coalition, and I think that does affect it. One of the questions that came up earlier was about costing party manifestos. The country that does this is the Netherlands, where the central planning bureau does cost manifestos. The obvious question is whether that is a product of the rather more consensual Dutch political system based on proportional representation and based on the fact that before the election all the parties know that they are going to have to be in office with one of the other parties.

One of the issues about the UK is the fact that the Executive is so dominant, and what you have to address is what incentive there is to the Government parties to share that knowledge with parties that they are going to compete in the election with. The UK context is rather different and rather more demanding.

Mark Durkan: I have no argument with that. One thing, just as an observation before I finish, I have to confess that when I was Minister of Finance in Northern Ireland, because it was a brand new Executive and so tentative and there were the four parties involved and only three of them were sitting at the Executive table, I was not allowed to even publish indicative figures for the second and third year because Ministers in other parties were saying that will show we are going to face a reduction of 1% or 2% in the second or third year or whatever. While I was able to get agreement on the budget for this year and while they privately received the figures for two and three, we could not even put those figures in front of the Assembly. While it was a lot easier than it was in having to deal with revenue raising and managing financial services and all the rest of it, there were particular limitations because of the sensitivity of a novel coalition in that situation.

Q133 Tracey Crouch: Could I ask what may be a daft question? You referenced New Zealand in your written evidence. What is an end-of-year fiscal report? Why would that be important in terms of fixed-term Parliaments?

Professor Heald: It is something that OECD recommended in 2002, not in the context of fixed-term Parliaments but relevant to this Committee in the sense that Parliament now has an opportunity to think about what it wants. It is more that you have thinking space that you would not normally have. If the Treasury knows when the election is most likely to be, you can timetable the production. If there is great uncertainty about the time of the election, the Government would have less incentive to want to do it and the mechanics of it would be much more difficult to organise. I would argue that it is a desirable idea in the context of whatever the system is about when elections are called. One of the advantages is it gives a base point. It gives a baseline for what the political debate can be about what the expenditure and tax priorities are.

Q134 Tracey Crouch: What would it contain that would be any different from the pre-election budget that we will have?

Professor Heald: It would integrate the macro forward forecasts. Pre-election budgets tend to be very political events.

Q135 Tracey Crouch: But all the budget documents that are published with the Red Book contain the long-term macroeconomic figures, so why would an end-of-year report be any different from those documents?

Professor Heald: I do not have detailed experience of either the New Zealand or Australian systems, but I am assured by people in Australia and New Zealand that it has become very useful in terms of anchoring the political debate about priorities and, because they command a degree of consent across the political spectrum, that they are a reasonable representation of what the picture is. The obvious problem with the UK would be about who did it, because one point to make about New Zealand is that there is not a Fiscal Council or an Office for Budget Responsibility. It is a treasury document. There is a question about who does it.

In terms of anchoring expectations about what is going to happen in future—going back to the earlier discussion with the Treasury—my view would be that the reason why we only have the one-year spending review was nothing to do with fixed-term Parliaments. It was to do with the fact it was a coalition. I would be very worried about a proposal to align a five-year spending review to a five-year Parliament because of the concern about falling over a cliff edge at the end.

Tracey Crouch: I was going to ask about that.

Professor Heald: I would not want a cliff edge.

Q136 Tracey Crouch: You would not align the spending review with that of the term of the fixed-term Parliament?

Professor Heald: No, I would not.

Q137 Tracey Crouch: What do you think is the best period for a spending review?

Professor Heald: There is a matter of judgment involved, and I would be open to debate, but my instinct would be that a Government would come in, have a spending review relatively early in its term for, say, three years, and then would revisit it for the last two years of a five-year Parliament so that there is a proper overlap into the next Parliament. The question for the new Government, whatever it is, is having a spending review that at least has the baseline figures and forward departmental plans.

Q138 Tracey Crouch: You would not agree with the previous witness, who suggested that we had a 10-year financial plan put in place to give some sense of the future spending envelope, albeit with a period where it could be revised if necessary?

Professor Heald: It depends exactly what you mean by that. I watched the video of the Caroline Slocock evidence, and she was quite clear that the fixed plans would only be for three years. I think on the whole, given the macro uncertainties about where one will be, probably three years is the most one can do. The spending envelope is now projected forward to 2018-2019, so there is nothing to stop you projecting the overall spending envelope further forward.

I do not like the word “rolling”. It depends what you mean by “rolling”. I remember the public expenditure White Paper system whereby basically every year you revisited all the years. That could have led to an enormous amount of churning, so the idea of having things pretty fixed for three years—obviously “fixed” is a relative term, but it provides a very clear anchor for three years—is the right amount. If you are going to think about longer, one of the things that there seems to be general agreement about is that capital needs to be budgeted over a much longer period. 10 years in the context of capital would sound quite a sensible point. You might have a system that was much more concrete and much more disaggregated about what your capital plans were than you did on the revenue plans.

The other thing I would worry about, planning too far ahead, is about the public presentation of things. One of the things that irritates me is when people describe cuts to plans as “cuts”. If you plan too far ahead and the Government revises the numbers down, you get a political narrative about cuts, which are really not cuts on present spending but cuts on what the future projected spending was. I would not want to go too far ahead, not at the level of detail, though at the envelope level you could go further ahead.

Q139 Tracey Crouch: One of the interesting things that Julian said, which he just said and moved on, was about market stability. I think one of the things that happened with the formation of the Coalition Government is that it provided stability at a time when the markets were incredibly jittery. Arguably, the fixed-term Parliament has also created some stability in that the markets are not speculating on when the election will be, because they know. Do you think that that could be the same with having a more defined spending review period, perhaps something that is longer or more considered?

Professor Heald: I do not think Governments would want to tie themselves down to when spending reviews were held.

Q140 Tracey Crouch: But the markets seem to like having that certainty.

Professor Heald: Yes, but to some extent it depends what the markets are worried about. Markets are much more worried about the fiscal aggregates and not so much about the detail of plans. The practice that has developed has been to have the fiscal aggregate, the total monetary expenditure, set in the autumn statement before the spending review, which is separate from the spending review, which then divides up that money. I do not think particularly the composition of the spending is that relevant to what the markets think. They are much more concerned about the fiscal aggregates.

Q141 Chair: If you had the magic wand and you could decide what was going to happen in this field in the final year, what would be on your wish list in terms of using the fixed-term Parliament and getting that broader involvement, not least of Parliament and political parties?

Professor Heald: What Parliament should be looking for from the Treasury is much more serious analysis of what has been happening. I have often commended the public expenditure statistical analyses, which I think is an excellent document, but it only goes back over a very few years. It does not give you a long enough period, particularly when we have had long and uneven fiscal cycles. It does not give you a view. A serious analysis from the Treasury of what has happened over the last 20 years and about how the composition of public spending has changed, what the pressures for that are, would be helpful in terms of anchoring us to where we are.

The Treasury co-operated with a study published from the University of Oxford by Soroka, Wlezien and McLean in 2006 that tried to chain-link all the expenditure data back, a remarkably difficult task. That was a commendable exercise but it was a false dawn. We have just gone back to having a very limited window of figures on the TME budgeting basis; so better knowledge of what has been happening to anchor political debate. It was said earlier in the Committee about defence going up. When you look at the composition of defence, it has been going down quite remarkably over the last 20 years as a proportion of public spending.

The second point is that the Parliament needs to think about what role it wants in the public spending process. If Parliament knows what it wants in the public spending process, I think there are some things that Government will concede and some things that Government will not concede, but if Parliament does not make its mind up what it wants, nothing will happen. I have been a very strong supporter of accruals accounting in Government, and I do not regret any of that, but the point is that Government accounts have become very complicated. There is a problem of communication about what the numbers mean. The Treasury has done better in terms of getting the numbers dumped out there in the public domain, which is commendable, than it does at communicating what the numbers mean and engaging Parliament in it.

Where I think will be much more difficult is that we live in a system of Executive domination of the process to a much greater extent than devolved administrations do, which Mark Durkan mentioned a few minutes ago. A much more Executive-dominated system and control of the machine and the numbers and ability to credibly cost policies is something that is part of the Executive advantage. Whether the fact of coalition, the extra thinking space of a fixed-term Parliament might alter some of that balance, I do not know, but I think, given the fact that spending is going to be tight—I think everybody agrees that—we have to be very careful that we do not get

lots of off-budget measures, ways of doing good things by stealth. We have to be very careful we do not generate a new generation of that.

What people forget is that although the PFI accounting has been sorted out, there is still a budgetary incentive to use PFI because the national accounts measures are used for budgeting purposes. We have to be very careful about the Government building up obligations. PFI might be a perfectly sensible policy to use in certain circumstances, but it may well be used for reasons that are not sensible. There are a lot of things Parliament can do, but the question about what a Government would have the political incentives to concede is a matter for the Committee.

Q142 Chair: I saw you listening very intently to our witness from the Treasury, and it seemed clear to me that we might, if we worked hard enough, get from them an administrative bonus arising from the fixed-term Parliament but I was not too clear that we were going to get a democratic bonus from the fixed-term Parliament. What is your view on what you heard from the Treasury and whether in fact we can get to the point where political parties, Parliament and the public are involved a little more, as appropriately, in the spending review, particularly in the last year?

Professor Heald: One of the differences is that, as a witness, I am much more free to speak than a Treasury witness is free to speak. I thought what the Treasury witness made very clear is that is a political decision. The reference was made to Sir Jeremy Heywood. Really it is a political decision. It is about whether the major political parties are willing to open up the process. As has been discussed in one of your previous sessions, we are also in an unusual situation that two of the major political parties are in Government. It is not just having one Government party and one Opposition party. One has two parties in Government. The question is very clearly about what access the Conservative party and the Liberal Democrat party have relative to the Labour party.

In terms of democratic accountability, having a better capacity to cost policies in advance, before parties commit themselves to programmes, would be a very good idea. Once parties commit themselves to things in their election manifesto, the media and the opposition parties and lobby groups just denounce them for not fulfilling their election manifestos. One of the democratic bonuses might be the fact of having the possibility that people can float ideas that are then costed in an even-handed way, without being subsequently ridiculed. In a sense, there is a lack of trust at the heart of the system. Given the fact that things are going to be very constrained and you are going to have to make trade-offs, getting accurate costings of what a particular policy would cost extra or what a reduced policy would cost less would be enormously helpful.

Q143 Mr Turner: You said that the timing of spending reviews has had the effect of marginalising Parliament. Why do you think this?

Professor Heald: I think it has had two effects. If I could concentrate first of all within Government. The spending review system from 1998, in terms of getting some kind of media internal focus, has been a benefit. However, it centralised power in the Treasury, and that point was made by your previous witness who worked in the Treasury. It centralised power to the Treasury. One of the reasons it has marginalised Parliament is by the fact that the previous Government had a habit of publishing them in July, which you can either think was just administrative convenience or it was a political decision. It marginalises Parliament in terms of making it much more difficult for Parliament to do a consideration unless you fit the timing of the spending review publication to what would be suitable for Parliament. That is, in a sense, the major point.

The other point is that, even though I did not like the annual public expenditure White Paper system in the sense that it churned expenditure between headings backwards and forwards, it did

lead to a more continuous engagement of the Treasury and the Treasury Committee, whereas what one tends to get now is much more the formal occasions. If you have watched a lot of these formal occasions, you do not really get very far.

Q144 Mr Turner: How can this be remedied—in a way you have answered this—so that Parliament is able to have an effective say on spending plans?

Professor Heald: The comment all but suggested a draft spending review and that is something that I do not have a view on at the minute. I can see that the Government will think it exposed itself, exposed tensions within the Government party and tensions within a possible coalition, but one of the ways one can get engagement is by what I was saying a few minutes ago, that the Government becomes more willing to show what alternative policies would cost. There is an academic literature that says that fiscal discipline is better in systems that have strong finance ministries. I am in a paradoxical situation of believing in a strong finance ministry for fiscal discipline reasons but for legitimacy reasons it is important that Parliament engages. Given the fact that the elected Government of the day is going to decide what the size of the fiscal cake is, and if Parliament does not like that you remove the Government of the day, but Parliament could get more engaged in a debate about priorities. The problem about the next year is that I have no idea how it is going to unfold. The next year might be a time for serious reflection or it might just be a continuous election campaign, and I think that is the difficulty.

The other point to remember is that a new Government will have to do a spending review pretty quickly, and particularly if the Government is of a different composition it is going to have to do it very quickly. This is a period in which Parliament could articulate what it would like in the form of information and what it would like in the form of process. There is a tension, but there is a compromise possible between having a strong finance ministry that controls the fiscal aggregates that are important for markets and also engages Parliament in a more intelligent way about what the priorities are.

Q145 Mr Turner: A moment ago you gave the difference in view of the Treasury and the Committee, which sort of assumed that most people are not really engaged within Parliament, it is just the Committee. What proportion of people in Parliaments do you think actually have an understanding of money?

Professor Heald: That is too big a question, phrased like that, but to answer it in a particular way, I think that there is a tendency for people to regard the numbers as boring and technocratic. It is difficult to get people engaged. Although I approve strongly of the way the Treasury does the financial statements, the estimates and the whole of Government accounts, they are technically complicated. My guess would be that relatively few Members had great understanding of what the numbers are. There is the obvious distinction between the ex-ante system that we are talking about and the ex-post system that is the public accounts remit. The people who have been through Public Accounts Committee probably have more understanding of that side of it, but where the UK Parliament is deficient is about the ex-ante discussion of what the priorities are.

You would have to ask your colleagues about how many people understand the numbers. I would suggest that as the Government accounts become more complicated that level of understanding has gone down. On the other hand, people tended to misunderstand the cash numbers anyway because the cash accounting itself was more complicated than it seemed.

Q146 Mr Turner: Is it not vital, if we want there to be a real understanding, to have the real understanding, first of all, of a broader number of people in Parliament?

Professor Heald: Absolutely. Also, there has been at various points in the last 25 years discussion of what the UK could learn from the Congressional Budget Office, but the difficulty of transferring that over is that we are in a parliamentary system, not a presidential system, and you do not have the division between the presidency and Congress. There is the question of technical support to Parliament but there is also the question of getting Members to believe this is important, and there is a substantial learning curve to go. When I start looking at the notes to the accounts on financial guarantees, my eyes glaze over as a professor of accounting. I understand that there is an accessibility point but there is an obligation, in my view, for the democratic accountability reasons, for the Treasury, and the Government generally, to engage in explaining and communicating the messages from the sound financial information system and for Members of Parliament to put more effort into it.

Q147 Mr Turner: Most significantly, I think you said the Treasury has to communicate with us rather than we desperately trying to follow their explanations, which are too complex.

Professor Heald: I have been writing extensively about fiscal transparency. One of the points I would make is that fiscal transparency has two dimensions. First of all, the clarity of the information that is provided generally, with the exception of the off balance sheet things, in the UK has been very good relative to other countries, but it is a question of communicating that into public debate. I do not think that the Treasury would seriously disagree with me that that is the challenge now; that having got the infrastructure working, it is a question of getting people to use, for example, whole of Government accounts. It is because of whole of Government accounts that we know the full size of PFI liabilities.

Chair: David, that has been very informative and you have said many interesting things, not least that we can make a choice now. Either we have the 28-day election campaign writ large over the next year, or it is incumbent upon people like us and Parliament, and indeed the leaders of parties, to take this opportunity to have something a little more thoughtful, possibly alongside the good old Punch and Judy blame game. But there is an opportunity that exists now, because of the fixed-term Parliament, that has never existed in my political lifetime. Many wise words, including those. David, thank you very much for your time this morning, and we will take your evidence very seriously indeed.