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FROM: CHIEF SECRETARY

DATE: 29 March 1988

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

For some time the PAC and TCSC have been pressing for (different) changes in the way in which information on public expenditure and Supply is reported to Parliament. The PAC, most recently in their report on Financial Reporting to Parliament, HC 98, have sought further expansion of the Estimates, coupled with the development of departmental reports, perhaps building on the Appropriation Accounts. The TCSC have suggested dividing the Public Expenditure White Paper (PEWP), with the Autumn Statement being confirmed as the occasion on which the broad lines of public expenditure policy are set out, with the departmental chapters developing in the direction of separate departmental reports to be published in the spring (rather than autumn as the PAC tend to favour).

2. In our response to the PAC last July (Cm 177) we undertook to consider further the PAC's suggestions for changes in the documents which form the basis for Parliamentary consideration of Supply. We also need to respond to the proposals on financial reporting made by the TCSC in February as part of their Report on the Public Expenditure White Paper, HC 292.

3. We now propose to reply to both Committees in the terms ... of the attached Memorandum, which has been prepared in consultation with departments. Our conclusion is that we should incorporate into the Autumn Statement as much of Chapter 1 of Volume I of the PEWP as is appropriate and practicable; and publish departmental booklets containing the material in Volume II in conjunction with the Estimates shortly before the Budget. This would leave a rump of statistical information which could be made public separately in a number of ways.

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4. These changes cannot be fully implemented before the documents embodying the outcome of the 1990 Survey. In 1988 the Treasury will be installing its new computer and reorganising the PES and Estimates databases, and departments need time to develop the new documents and supporting systems. I have put forward proposals separately for conducting the 1989 Survey using a new definition of the planning total. The switch to the new form of departmental reports after the 1990 Survey would complete a 3-year process. But we intend to make a start with some of the changes as soon as possible: the 1988 Autumn Statement will be expanded, and Volume II of the 1989 PEWP can be published in a number of booklets rather than in one volume.

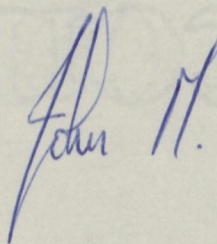
5. We shall also need to consider in more detail two outstanding issues on the new departmental booklets: the extent to which they should be a uniform family of documents, with similar structure and presentation, and the division of responsibility for editorship and production between the Treasury and departments. None of the issues involved needs to be resolved before we report the outcome of our deliberations to the two Committees, immediately after the recess.

6. This will mean the demise of the public expenditure White Paper after some twenty years. But as a result of expansion over the years the White Paper has become increasingly unwieldy. Moreover, the Autumn Statement has now taken over from Chapter 1 of the White Paper as the primary occasion for setting out public expenditure policy in aggregate, and the broad departmental plans. The changes will help emphasise this, will eliminate the duplication between the Autumn Statement and White Paper, and will clarify the distinction between the broad picture and the detailed departmental plans. They will also avoid the disappointed expectations about further expenditure increases that publication of the PEWP aroused two months ago.

CONFIDENTIAL

7. The changes will also mean the disappearance of the January/February occasion for a debate on public expenditure and economic policy. The TCSC have suggested that Parliamentary time should be made available in May/June instead to allow a debate or debates on individual departmental reports and Main Estimates and the reports made by the departmental Select Committees upon them. Paragraph 14 of the Memorandum recognises that the changes would have implications for Parliament. I would be grateful if the Lord President could confirm that it would be possible to reach understandings with the Opposition on this.

8. I am sending copies of this minute to other members of the Cabinet, Richard Luce, Christopher Patten, Patrick Mayhew, Kenny Cameron and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to read 'John M.', is positioned above the printed name.

JOHN MAJOR

FINANCIAL REPORTING TO PARLIAMENT

Memorandum by H.M. Treasury

Introduction

The Committee of Public Accounts (PAC), in its Eighth Report of 1986-87 (HC 98) said they wanted documents tailored more specifically to Parliament's needs in its consideration of department's expenditure proposals and suggested three possibilities:

- to develop Volume II of the Public Expenditure White Paper (PEWP), possibly dividing it into separate departmental reports, so that it embodies formal Estimates of the sums required to be voted by Parliament;
- to publish the Estimates earlier and develop their present form to include the forward looking information on departmental objectives and performance targets needed by Parliament to consider Supply;
- to develop some other document tailored more specifically (in relation to both timing and information content) to Parliament's needs, relegating the Estimates to a formal supporting role.

2. The Government replied on 15th July 1987 (Cm 177) agreeing that the form and content of financial reports should reflect internal systems and Parliament's perception of its own needs. There should be a direct correlation between the information in the White Paper on departmental objectives, performance and output and the Supply Estimates, so that the information in the former can be relevant to the examination of the latter. The Government expected to carry this process forward, so that the Committee's concern that information on aims, objectives and performance could be directly related to the Estimates should be largely met without repeating that information in the Estimates themselves. The Government saw advantages which publication of the information in the White Paper and the Estimates in a

combined document might produce, but noted that there were many other implications to be considered (eg for the timing of work in departments and the Treasury and in Parliament) before such a move could be decided upon. The Government would review these implications and report their conclusions to the Committee.

3. The Treasury and Civil Service Committee, in its report on the 1988 PEWP (HC 292), also considered the structure of expenditure documents and the way they are presented to the House and debated by it. The TCSC observed that the Autumn Statement now provides very much more information on the public expenditure aggregates and the broad division between programmes for the three years ahead. In consequence there was very little new that the PEWP has to say on the broad picture.

4. The TCSC recommended dividing the PEWP into three. The material on the broad policy on the totals and the outline plans should be absorbed into the Autumn Statement, to the extent that it is not already there; the departmental chapters of Volume II should be published as departmental reports no later than the Budget, together with the Estimates; and the technical analyses of Volume I should be released in January/February.

5. This memorandum accordingly presents the outcome of the Government's consideration of the matter and its proposals for future action, and invites the comments of the two Committees.

Government Proposals

6. The Government notes in the proposals of the two Select Committees some themes which it considers should feature in any new system. These are that the present series of three documents (Autumn Statement, PEWP and Estimates) could usefully be rationalised into two; that the main elements of the outcome of the Survey ought to be made available as soon as possible after the Survey has been completed; that clear and comprehensive information about the objectives, performance and output of each of the departmental programmes should be published for consideration and, as necessary, debate by Parliament; and that there should be clear links between the information about

programme plans and the requests for Supply which Parliament is asked to approve. In addition, if the documents are to include the information which Parliament requires, there need to be clear links between the timetable for these documents and the internal management systems which are used within departments and the Treasury to plan and control the expenditure.

7. Against this background, the Government's proposals are in brief as follows:

i. The Autumn Statement would include as much as practicable of the key material from Chapter 1 of the PEWP. This would still be published in November within a few working days of the Cabinet's decisions on the Survey.

ii. Volume II of the PEWP would be split up into separate departmental volumes containing each department's plans. These would be published in March, on or shortly before Budget day, in conjunction with the formal Supply Estimates. They would thus serve both as a description of the department's plans and as the necessary background information for understanding of the Supply Estimates.

iii. The remaining material in Volume I of the PEWP cannot be produced until departments have decided how the Survey allocations should be further broken down between sub-programmes (especially in the territories where this process has to await decisions on all the English programmes) and the detailed figures have been collated and analysed in the Treasury computer. This could be made available in a number of ways, for example as a statistical supplement to the previously published Autumn Statement, in written answers to Parliamentary questions, or along with the departmental reports in March.

8. A number of related questions will also need to be considered. First, whether for each department the volume on the departmental plans and the corresponding booklet of Supply Estimates should be merged into a single document; or whether the departmental plans should be published separately from,

but on the same day as the formal Supply Estimates which would be published in a series of booklets as now. The Government undertook, in the statement mentioned in paragraph 2 above, to consider this question. Merger would have the advantage that all the relevant information would be bound within one document. But many readers of the departmental plans would not need to have, or want to pay for, the relatively detailed breakdown in the Estimates which is needed by Parliament and Government as the basis for the preparation and audit of the Appropriation Accounts.

9. The Government sees advantages in publishing the departmental material now in the PEWP on the same day as the corresponding Estimates. One effect would be that the figures for the year immediately ahead would be those which had been agreed in the Survey, as modified by subsequent Estimates scrutiny. Linking the two exercises in this way would help to improve the read-across between PEWP and Estimates. But for the reasons given above, it feels it would be better not to bring the two sets of publications into single volumes, but to publish departmental volumes containing the former PEWP material plus a summary of the Estimates. The latter would provide the bridge with the full Estimates which would be published at the same time but in separate booklets. This would still allow Select Committees to have most of the relevant information brought together at the start of their scrutiny of departmental programmes. It would also allow the current arrangements under which the Treasury is responsible for presenting requests for Supply and for the associated procedures to continue.

10. Second, there is the question of the degree of uniformity of the departmental volumes. The character of the main programmes varies greatly and the volumes will need to reflect that. They will however need to contain a basic core of financial information, drawn from a common database, to link them to the information published in the Autumn Statement about the outcome of the Survey. They will also need to contain certain mandatory elements, such as a statement of objectives, an adequate array of indicators of performance and output, with comparisons with the comparable targets set in previous plans, information

about running costs and manpower, and (as noted above) a clear link with the detailed Estimates. As the PAC have pointed out, the information presented should satisfy the criteria of consistency, relevance and reliability. Subject to these requirements, the aim would be to provide as informative an account as possible, bearing in mind any requests for information made by individual departmentally-related Select Committees. To meet the needs of those readers interested in more than one programme it will be our aim to ensure that as far as possible the volumes have similar structure and presentation.

11. Third, there is the timing of the change. The Treasury is well advanced with plans to introduce a new computer system and this will need modification to bring together the separate systems which support the Survey and the Estimates. Changes will also be required to the departmental systems which support the central database and to the timetables for collecting information. Linking the Survey and Estimates databases in a way which would permit the two sets of material to be published together would therefore not be practicable before the documents presenting the outcome of the 1990 Survey.

12. But this need not delay action on the main proposals in paragraph 6 above. The Government proposes to include in the 1988 Autumn Statement additional information on departmental plans in real terms, comparisons of outturn with previous plans for the expenditure totals, and debt interest in order to make it a more complete account of the outcome of the Survey. It also proposes next year to present the existing departmental chapters in the current Volume II of the White Paper as separate booklets in January; to continue to improve the read-across to the Supply Estimates; and to release the remainder of the analytical material now in Volume I in some suitable way. The policy material of Chapter 1 which was moved to the Autumn Statement would not be repeated. This would be followed after two years by moving the departmental reports to March alongside the Estimates.

13. In addition, the Government proposes to proceed with the simplifications to the Estimates identified in the National

Audit Office report (HC 576) and summarised in Annex A to the Government's reply to the PAC in July 1987 (Cm 177), including if the PAC sees no objection the change in treatment of grants-in-aid and international subscriptions.

14. Fourth, as the TCSC has pointed out, there are implications for the way in which the information presented is debated by Parliament. If the PEWP is divided as proposed, there would be no basis for a debate in February in addition to the debate already held on the Autumn Statement. The alternative might be that more time should be devoted to general expenditure issues in the Parliamentary consideration and debate of the Autumn Statement; and that the February debate might be replaced by a debate in May or June, as the TCSC have proposed, arising from Select Committee scrutiny of one or more of the departmental reports.

15. The Government would be grateful for the views of the PAC and the TCSC on the proposals above. It will then take account of those views in devising more detailed arrangements for future expenditure documents along the line suggested in paragraph 10.

H.M. Treasury
February 1988