

TRL Insight

Practical devolution – your money, your control

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Dear Chancellor of the Exchequer and Chief Secretary to the Treasury

I was delighted to hear the Chancellor announce on Thursday that she will be changing the measure of debt used in the Investment Rule.

I have been arguing for change to the primary measures of debt and deficit for over a decade, in articles, briefings and reports, both from TRL Insight and from other organisations for which I have worked. Indeed, for much of this time, I seemed to be a lone voice highlighting the desperate need for these changes.

But I beg of you, please take the time to get this right.

The desire to make a quick change to turn on the taps of investment is completely understandable, given the current state of the public finances and a keen desire for the UK not to fall further behind comparators.

But it's vital to get the changes right. With the right changes to these measures and to fiscal reporting, the Government could **unlock developments like the Stephenson Quarter in Newcastle-upon-Tyne and Brent Cross in London, in town and city centres across the length and breadth of the UK**. It could also potentially **unlock massive institutional investment in the likes of public health programmes and interventions to reduce offending**.

Get them wrong, though, and the Government would not only risk not generating these benefits, but it could **introduce perverse incentives** into the system which could play out over years or decades, such as we saw with the Private Finance Initiative being repeatedly used for completely inappropriate projects.

Tuesday's Budget is a golden opportunity, being also a one-year spending review. I believe the Government should take this opportunity to **launch a review of deficit and debt measures and most the harmful aspects in the current presentation of fiscal documents**. This could consult with all parts of the public sector, as well with as institutional investors and innovative investment platforms, in time for changes to be **implemented in the Spring 2025 Spending Review**.

I would urge you to consider in this review:

1. How **revenue investment** is recognised in the fiscal rules and fiscal reporting – that is, revenue expenditure which will produce increased tax yields or savings over time, such as your policy of hiring more HMRC staff, and health interventions to help people into work.

2. Whether capital expenditure by sub-UK authorities and governments¹ which is funded by income raised by those institutions – such as **bank loans, municipal bonds and share issues** – should continue to be **included in the primary measures** of debt and deficit.
3. Whether savings or tax yields accruing after the end of a spending review can be captured with a Net Present Value calculation. (This suggestion was inspired by the Chancellor's recent speech to the Labour Party conference; I have not yet had a chance to assess its practicalities, but I think it could be an avenue worth exploring.)
4. **How to revise fiscal documents** (e.g. spending review and budget reports) to match these changes and the Government's long-term vision for the UK. In particular, how tables in them and their overall structure could **reflect a greater emphasis on devolution, investment in infrastructure and investment in prevention**.

I would also urge you **not simply to accept an off-the-peg choice of primary deficit or debt measure** offered by the Treasury or Institute for Fiscal Studies (IFS) as a long-term solution. I understand that it may be necessary for this budget, to balance the books and start to get investment flowing. But these may be highly suboptimal choices for 2026-27 onwards, as the IFS itself admits².

If, for whatever reason, it's unavoidable that the primary debt and deficit measures must be locked down now for the spending review period starting 2026-27, I would urge you to work towards more suitable changes, tailored more specifically to the nation's requirements, for the following spending review.

Yours sincerely

(Dr. Tom Lawrence)

¹ Local authorities, combined authorities/regional governance and devolved administrations

² Fiscal rules and investment in the upcoming Budget (<https://ifs.org.uk/articles/fiscal-rules-and-investment-upcoming-budget>)

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