



Inside the Counting House

A Discussion Paper on Parliamentary
Scrutiny of Government Finance

Alex Brazier and Vidya Ram



HANSARD
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of Government Finance*

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Inside the Counting House

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Introduction

*The House of Commons possesses the most important power vested in any branch of the legislature, the right of imposing taxes upon the people and of voting money for the public service.*¹

Every citizen is affected by taxation and government expenditure. Spending money on the public service is a central function of government, and Parliament has a unique constitutional role in giving approval for government to raise money and in holding it to account for the way that it spends that money. Taken together, the processes involved in raising and spending public money, and the corresponding methods of parliamentary scrutiny, go to the heart of our system of government and the relationship between government, Parliament and the public.

It is widely believed that Parliament's financial scrutiny work could be carried out more effectively. The Hansard Society has examined this subject in the past, most recently in the 2001 report of its Commission on Parliamentary Scrutiny, *The Challenge for Parliament*, which identified major flaws in the way that Parliament authorises and scrutinises government expenditure. The report concluded:

*The Commons has a unique legal role in the authorisation of tax and spending proposals and therefore a special responsibility to scrutinise them. MPs have a responsibility to the public to ensure that the Government provides value for money in what it spends and that the money is spent wisely. At present, the Commons fails to perform this role in either a systematic or an effective manner.*²

Since 2001, several attempts have been made to increase Parliament's capacity to scrutinise government's expenditure and taxation plans. These include reforms to the way select committees operate, the establishment of the Scrutiny Unit to support Commons committees, and an extension of the National Audit Office's remit. The Hansard Society has decided to look again at this important subject, to assess the effect of recent developments and consider specifically whether further reforms are needed.

The scope of our project

This discussion paper provides an overview of the current system, describing the processes involved, as well as highlighting its strengths and weaknesses. In this paper, we do not suggest or identify solutions to any of the concerns that have been raised. These issues will be considered in greater depth in the final report, which will examine specific case studies on the operation of financial scrutiny and will make further reference to the written evidence we have received. The final report, to be published in spring 2006, will also cite international comparisons, and conclude by identifying options for reform.

¹ Erskine May, (2004), *Parliamentary Practice*, 23rd Edition, p 73.

² Hansard Society (2001), *The Challenge for Parliament: Making Government Accountable*, Report of the Commission on Parliamentary Scrutiny, chaired by Lord Newton of Braintree.

We have received evidence from a range of main players within and outside Parliament and government, which highlight the strengths and flaws of the current system, and make proposals for change.³ This interim paper draws on this written evidence and makes reference to a number of reports that have considered the subject.⁴

An outline of this paper

The paper is divided into four main sections, which consider central aspects of Parliament's financial scrutiny work. The first section looks at parliamentary authorisation for government taxation, in particular the role of the Budget and the Finance Bill, and includes a description of recent developments in the House of Lords.

The second section considers the supply process, by which government presents its spending plans to Parliament for approval and authorisation. This section looks at the statutory authority provided by Acts of Parliament and the role of procedures such as debates on estimates days, and also outlines initiatives to make government spending more transparent, including the impact of public service agreements and the move to resource accounting and budgeting.

The third section looks at the scrutiny and audit of public expenditure once money has been spent, focusing on the work of the National Audit Office, the Public Accounts Committee and the Audit Commission. This section also refers to two major reviews: the *Review of Audit and Accountability for Central Government* in 2001 and the *Review on Public Sector Efficiency* in 2004, and also looks at new challenges to scrutiny, such as the Private Finance Initiative.

The fourth section looks at the work of Commons select committees and examines the impact of support provided by the Scrutiny Unit, and the issues of public involvement and accessibility in this complicated subject area. Finally, there is a conclusion which draws together the themes we have discussed and points towards the next stages to be considered in our final report.

Given the technical complexity of the subject, the appendices include a glossary of terms and a timeline of the main elements in parliamentary authorisation and scrutiny of government finance.

³ Appendix 1 shows the full list of evidence received.

⁴ Quotations and references used in the text are from the evidence received as part of this project, unless otherwise stated.

'Ways and Means': Parliamentary Authorisation for Taxation

*The central historical and constitutional principles, common to both expenditure and taxation, are that the Crown, (which today means ministers of the Crown) demands money, the Commons grant it and the Lords assent to the grant: but the Commons does not authorise expenditure or seek to impose taxes unless this is sought by the government.*⁵

Before government can spend any money, it must first raise it. The government sets out its economic and financial forecast, and overall plans for spending and taxation, in the annual Economic and Fiscal Strategy Report and the Financial Statement and Budget Report, collectively known as the Budget. A speech outlining the main aspects of the Budget, with particular emphasis on taxation proposals, is delivered by the Chancellor of the Exchequer to the House of Commons. In recent years the Budget has reverted to being delivered in March or April after a few years in the 1990s when it was held in November. A few months before the Budget, a Pre-Budget Report is released, which updates the economic and public finance forecast and describes new policies being considered by the government.

The Budget seeks to reconcile spending plans with projected income, currently in accordance with the principles which the Chancellor Gordon Brown has proclaimed, namely the 'Golden Rule', which provides that over the economic cycle the government will borrow only to invest and not to fund current spending, and the 'Sustainable Development Rule' which states that the public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

The Budget, and its taxation proposals, is considered in the chamber of the Commons during a debate which lasts four to five days. The Budget is also considered in detail by the Commons Treasury Select Committee, which takes oral evidence from the Chancellor of the Exchequer and Treasury officials (including the permanent secretary), and reports back to the House before the Finance Bill is introduced.

1.1 The Finance Bill

The income raising element of the Budget is mostly embodied in the proposals for various forms of taxes and revenues which are approved in general terms when the House of Commons agrees the string of 'Ways and Means' resolutions at the end of the Budget debate. The proposals are given statutory force in the annual Finance Bill, introduced a few weeks after the Budget. This bill allows Parliament a more active role

⁵ Blackburn, R. & Kennon, A. (2003) *Parliament: Functions, Practice and Procedures* (London: Sweet and Maxwell).

in scrutinising the government's taxation proposals. The second reading of the bill, which usually lasts a whole day, allows MPs to consider the government's taxation system and priorities more generally. Unlike with most legislation, the more controversial clauses are considered by a Committee of the Whole House for two to three days, before the rest of the bill is considered clause by clause in Standing Committee.⁶ The committee is usually made up of 30 to 40 members - double the membership for most legislation - and tends to sit in the mornings *and* afternoons.

In theory, the committee stage allows Parliament an opportunity to scrutinise and improve the quality of the legislation. However, in practice, as with most legislation, the debate is divided along party lines, and the government's majority in the committee ensures that its proposals are passed in the form that it wishes. It has been argued that the government may in fact be more rigorous in ensuring that the bill is passed with few changes, given its impact on government finances and activity. In addition, the defects that many commentators have identified with the legislative process - notably haphazard scrutiny resulting in key clauses being undebated - are particularly evident. The weaknesses in the committee stage were highlighted by Lord Wakeham in his evidence to this inquiry:

The principal opportunity to examine draft tax legislation in detail is at Committee stage in the Commons. As a practical matter this has typically come to take the form of Opposition members putting forward arguments and comments based on briefing received from professional and other representative bodies. The Treasury bench then responds on the basis of briefing prepared by officials. Anecdotal stories tell of responding Ministers on occasion reading out the wrong brief and neither side - such being their grasp of the detail - being aware of this.

However, perhaps the greatest challenge to effective scrutiny is the increasingly complex and lengthy nature of the bill itself. Often running to 250 clauses the legislation includes detailed proposals on taxation and tax administration.⁷ Concerns over the nature of the legislation have, in the past, led to calls for the Finance Bill to be split into two major annual bills: one containing tax changes and a separate one concerning tax administration. However this recommendation has been rejected by the Government.

1.2 Role of the House of Lords

It is widely assumed that when it comes to financial matters, the House of Lords merely endorses what the Commons has agreed to, and does not get involved in debates regarding financial policy or with implications on government spending. It is certainly the case that the Upper House is forbidden by statute from amending 'money bills', and that

⁶ The motion selecting the clauses to be discussed on the floor of the House is put forward by the government, though in practice the Opposition determines the content.

⁷ A study by KPMG on 8 March 2005 found that the Finance Bill has grown in length by three per cent over the past eight years. It is now 3248 pages long compared to 2500 eight years ago.

even where a bill does not fall within this narrow definition, convention requires that the Lords make no changes to proposals for taxes. However, the rules governing this issue state that the Lords can ‘express their opinion upon public expenditure, and the method of taxation and financial administration, both in debate and by resolution, and they have investigated these matters by their select committees.’⁸

In 2002, a Group within the Lords, set up to review new procedures, considered how the House could have a more active role in considering the Finance Bill, without encroaching on the Commons’ financial privileges. In its report, the Group recommended that the House establish a permanent sub-committee within the Economic Affairs Committee (EAC), to consider the bill.⁹ It stressed that the committee should focus on scrutinising tax administration and clarifying proposals in the bill, rather than on the incidence or level of taxation. The committee, which was established with the unanimous agreement of the House, has since taken written and oral evidence from experts and officials, looked in detail at subjects such as stamp duty and small business taxation, and issued regular reports. In the view of Lord Wakeham, (chairman of the EAC but writing to this inquiry in a personal capacity), the sub-committee’s work has enhanced scrutiny of the Finance Bill, and in his submission he pointed to ‘strongly positive’ comments made by MPs when referring to the committee’s report in debates.

⁸ Erskine May, (2004), *Parliamentary Practice*, 23rd Edition, p. 908.

⁹ Leader’s Group on Working Practices, (2002) *Report by the Group Appointed to Consider how the Working Practices of the House can be Improved, and to make Recommendation*, HL 111.

The Supply Process

Parliament is fully informed of the Government's spending plans and outturns through a range of announcements and publications and has the opportunity to debate them both on the floor of the House of Commons and in Committee.

HM Treasury

The government seeks parliamentary approval for its spending plans through the supply process. Requests from government to fund its activities are put to Parliament in the form of supply estimates, which detail the resources required for individual spending programmes of government departments. The requests are largely based on spending plans set out in government spending reviews (see section 2.4).

In April or May, shortly after the Budget Statement, the government presents Parliament with its principal request for funding in the form of the main estimates for each government department. Compiled by the Treasury, and based on bids from individual departments, these are contained in four separate volumes.¹⁰

The estimates indicate, in various levels of detail, the resources and cash being sought by each department. Each follows a standard format, and includes a number of 'requests for resources' (RFR) – setting a limit on the resources required for each main departmental activity – and an 'ambit' explaining the purposes for which the resources are being requested.

In-year changes to departmental estimates are made through the introduction of supplementary or revised estimates to the Commons in the summer, winter and spring. In addition, Votes on Account are put to Parliament each November, requesting the interim spending power required to tide the government over until the main estimates are approved in July. If departments overspend, they must gain retrospective approval from Parliament, through the passage of Excess Votes in the following year.¹¹

Members of Parliament have an opportunity to debate the content of estimates on the floor of the House on three 'estimate days' in each parliamentary session.¹² However, as will be shown in the sections that follow, only a few estimates chosen by the Commons Liaison Committee receive any scrutiny at all and very few motions relating to the estimates are ever opposed or even debated (see section 2.2).

At the same time as the estimates are placed before Parliament, departments also send explanatory memoranda on each estimate to select committees with an interest in the

¹⁰ The first volume covers central government departments and other separate volumes cover the House of Commons, the National Audit Office and the Electoral Commission.

¹¹ In practice government departments are discouraged from using Excess Votes.

¹² It is specifically the 'Requests for Resources' within each estimate that is the subject of debate.

department's activities. In theory the memoranda, which explain differences between the current and previous year's estimates, as well as the impact of these changes, enable select committees to carry out more rigorous scrutiny of estimates. However as will be seen in section 4, select committee scrutiny of estimates can also be limited.

2.1 Consolidated Fund Acts and Appropriation Acts

The government gets the legal authority to spend the funds set out in estimates only after Parliament approves two Appropriation Acts and one Consolidated Fund Act each year.¹³ The two Appropriation Acts begin life as Consolidated Fund (Appropriation) Bills.¹⁴ Each Consolidated Fund Bill, when enacted, releases money from the Consolidated Fund - the government's account at the Bank of England. The Consolidated Fund (Appropriation) Bills also 'appropriate' supply authorised in supplementary estimates and in earlier acts.

Main estimates are enacted in the summer Appropriation Act, while supplementary estimates laid in the summer, winter and spring are embodied in both Appropriation Acts. The Consolidated Fund Act authorises a single sum for cash and resource supply, and is passed in November or December. As the measures outlined in these bills are deemed to have been debated on estimate days (see below), they are passed without debate at any of their formal stages. As the Lords has no power to block or amend Commons' approval of supply, only their formal approval is required before the bills receive Royal Assent. (Box A provides a timeline of the main features of parliamentary scrutiny. Appendix 2 contains a glossary and explanation of the procedural terms.)

¹³ Prior to 2004-5 there was one Appropriation Act per parliamentary session, introduced in July.

¹⁴ There may be some variance in procedure. Some Appropriation Acts merely appropriate supply and are introduced as Appropriation Bills.

Box A: Timeline for parliamentary scrutiny of government finance¹⁵

Date	Budgetary Cycle	Estimates Cycle	Reporting Cycle
November Financial Year 2	Pre-Budget Report published and considered by committees including the Commons' Treasury committee.	Winter supplementary estimates (for financial year 2) for departments presented to the Commons. Votes on Account (for financial year 3) put to Parliament to fund government activities till approval of main estimates.	Resource Accounts (detailing departmental expenditure for financial year 1) ¹⁶ presented to the Commons following consideration and approval from the National Audit Office. ¹⁷ Departmental Annual Reports (for year 1) published.
December Financial Year 2		Consolidated Fund Bill passed, becoming the Consolidated Fund Act.	Select committees review and report on departmental performance and accounts.
January Financial Year 2		First estimate day. Select committee reports relating to particular estimates are debated, as selected by the Liaison Committee.	
February Financial Year 2		Spring supplementary estimates presented to the Commons. Excess Votes for previous year (Financial Year 1) presented to the Commons, Second estimate day.	
March Financial Year 2	Budget Statement and debate.	Consolidated Fund (Appropriation) Bill passed before 18 March, becoming the March <i>Appropriation Act</i> . The bill incorporates the winter and spring supplementary estimates. Main estimates (for year 3) presented to the Commons for approval by 5 August.	
April Financial Year 3	<i>Start of Financial Year 3</i> Finance Bill, introducing taxation and other measures outlined in the Budget Statement, is published. Second reading takes place following a report from the Commons Treasury Committee.		Departments publish reports and spending plans for Financial Years 3, 4 and 5. The reports are reviewed by departmental select committees.
May Financial Year 3	Finance Bill considered first in Committee of the whole House. Remaining clauses are considered by a standing committee.	Summer supplementary estimates (for year 3) presented to the Commons for approval by 5 August.	
June Financial Year 3	Finance Bill report stage and third reading.	Third estimates day.	
July Financial Year 3	Finance Bill passed becoming Finance Act following formal approval from the House of Lords and Royal Assent.	Consolidated Fund (Appropriation) Bill passed, becoming the summer <i>Appropriation Act</i> . Three year spending plans published by Treasury for Financial Years 4, 5 and 6. (This takes place every two years)	

¹⁵ Adapted from Paul Evans (2002), *House of Commons Procedure*, 3rd edition, p. 108, Vacher Dod Publishing Ltd, London and Robert Rogers & Rhodri Walters (2004), *How Parliament Works*, 5th edition, p. 255, Pearson Education Limited, London.

¹⁶ Year 1 refers to the financial year preceding the start of this timeline.

¹⁷ Some departments are now producing resource accounts before the summer recess, and the Treasury requires all departments to do so by 2005-6 financial year.

2.2 Parliamentary control of the Supply Process

Over the past century, the procedures for scrutinising and authorising the government's expenditure proposals have increasingly been stripped to the bare essentials and specific debates on expenditure as such have been greatly reduced.¹⁸

The House of Commons has the right to debate, vote on and even to refuse supply estimates, but not to increase them. In earlier centuries the House spent much of its time in the Committee of Supply debating the estimates, though rarely to any great effect other than delay. At the beginning of the twentieth century these days had already, in effect, become opportunities for the opposition to decide the subject of debate, and the link to particular lines of spending was often tenuous. In 1967 the Committee of Supply was abolished to be replaced by 'Supply Days', and the requirement to link opposition debates on these days to particular estimates was removed. Following a Procedure Committee Report in 1982, an attempt was made to recover at least some of the notion of debating supply. The larger portion of 'Supply Days' were renamed 'Opposition Days' (to reflect their true purpose) but three days per session were set aside as 'Estimate Days' on which debate would be confined to formal motions relating to supply.

On these estimate days the subject of debate is determined by the Liaison Committee, usually on the recommendation of one of the House's select committees. Although the debate takes place on the specific Requests for Resources which the Liaison Committee has selected, in practice the connection between the estimate and the subject matter of the select committee report to which it has been linked may be rather artificial, and the financial content of the debate is often negligible. At the end of the day's business, all remaining estimates are approved in aggregate, without further debate. In reality, 99.9 per cent of government spending is passed without even the pretence of formal debate. The issue was highlighted by Sir Nicholas Winterton MP in his evidence to this inquiry:

[Estimate Day debates] are extremely low-key, with amendments and divisions almost unknown. Also the debates have tended to focus on policy, rather than expenditure and were a somewhat artificial peg on which to hang a debate on a committee report on a more general subject.

While it is possible for an amendment to be tabled on one of these days to reduce an estimate (on which a vote could then take place), this in practice rarely happens since more often than not the committee's aim is to increase rather than reduce spending on a particular programme area. Constitutional practice requires that the House of Commons cannot propose increases to expenditure or transfers within budget totals. MPs do have the right to completely reject an estimate. However given the government's majority in the Commons this option is never exercised in practice. This

¹⁸ Blackburn, R. & Kennon, A. (2003) *Parliament: Functions, Practice and Procedures* (London: Sweet and Maxwell).

problem was highlighted by the Hansard Society's Commission on Parliamentary Scrutiny which argued:

*The process by which revenue is raised and spending programmes are allocated has become ever more politically charged. The government regards getting its spending proposals through the House of Commons, in the form already decided in Cabinet and Whitehall, as essential to its programme and its credibility. Parliament has only one real sanction; to reject the government's spending proposals. With the majority of MPs being members of the governing party, they are most unlikely to take the 'nuclear option'. The effects of the lack of subtlety and real options means that the Government can safely take Parliament for granted.*¹⁹

In 1999, the Commons Procedure Committee proposed changes to allow the House greater flexibility in this area.²⁰ However the proposals were rejected by the Treasury on the grounds that they would be a 'radical departure which would serve to undermine the financial initiative of the crown.'²¹ The proposals were taken up and championed by the Hansard Society Commission on Parliamentary Scrutiny which suggested that, in order to allow Parliament greater input into government spending plans, the House should be able to propose, and vote for, transfers within budget totals for a particular department. The Commission argued that 'Even if proposed transfers were not successful, the process would help focus the House and Ministers on the scrutiny of spending plans.'

While it could be argued that the government should be able to get the spending it requires to carry out the programme of work mandated by the electorate, the lack of meaningful parliamentary procedures in this area is a cause of concern. Large sums of public money are therefore given authorisation without any genuine detailed parliamentary scrutiny.

2.3 Recent changes to Estimates and Appropriation Procedure

In 2004, following correspondence with the Liaison Committee, the Public Accounts Committee (PAC), the Treasury Committee and the Procedure Committee, the government introduced various changes aimed at strengthening parliamentary, and particularly committee oversight of the estimates procedure.²² These included:

- The introduction of two Appropriation Acts in each parliamentary session. Under this system, an Appropriation Act, relating to estimates for the previous financial year, is passed in March, while a second Act, for the current year's main estimates, is passed in

¹⁹ Hansard Society (2001), *The Challenge for Parliament: Making Government Accountable*, Report of the Commission on Parliamentary Scrutiny, chaired by Lord Newton of Braintree.

²⁰ Procedure Committee (1998-99), *The Procedure for Debate on the Government's Expenditure Plans*, HC 295.

²¹ Procedure Committee (1999-2000), *Government Response to the Sixth Report of Session 1998-99: Procedure for Debate on the Government's Expenditure Plans*, HC 388.

²² Procedure Committee, (2003-4), *Estimates and Appropriation Procedure*, HC 393.

July. By shortening the period between the end of the financial year and Parliament's formal authorisation of appropriation, the new system is intended to make departmental resource accounts available to Parliament as soon as possible after the financial year to which they related. It was also hoped that this would encourage committees, in addition to the Public Accounts Committee, to scrutinise the accounts.

- Faced by criticisms that select committees had a mere eight days to consider supplementary estimates before they are put to a vote, the government has extended that period to 14 days.
- In order to ensure that information is clearly presented, estimates must now follow a standard template. Departments are also required to produce an estimate memorandum for the relevant select committee, explaining the consequences of the estimate and how it relates to departmental targets.

The Procedure Committee welcomed the changes but stressed that they were 'minor.' In addition to concern over the fact that the changes failed to address fundamental issues concerning parliamentary scrutiny of estimates, there has also been criticism of the way some of the changes have been implemented. Analysis by the Commons Scrutiny Unit of the first batch of estimates memoranda was critical of the quality of information provided. It noted 'In the majority of cases memoranda did not contain sufficient detail under the specified standard headings to add significantly to committees' understanding of the changes sought. In two instances the memoranda produced were of such poor quality that committees returned the documents and requested revised versions from the departments. In another two instances the memoranda arrived over a week late.'²³ However it could be argued that this in itself is evidence of a more active engagement by the select committees with the detail of the appropriation procedures.

2.4 Government Spending Reviews

The estimates presented to Parliament are based on government spending plans drawn up by the Treasury. Departmental bids for funding are considered by the Budget and Public Finance Directorate within the Treasury, which scrutinises and prioritises departmental demands for money. The cabinet committee on expenditure, chaired by the Chancellor of the Exchequer, provides a formal mechanism of control. Until 1997 the amount of money a department intended to spend in a twelve-month period was announced the previous year. In the departmental annual reports which were then published to explain how this funding was to be applied, projections of spending on particular programmes for the following two years were also included. Those for the

²³ Liaison Committee, (2004-5), *Annual Report for 2004*, (Appendix 4: Memorandum on the Work of the Scrutiny Unit), HC 419.

second and third years were subject to change.

In 1997, the incoming Labour Government announced that it would conduct a Comprehensive Spending Review to examine departmental spending from a zero base, which took place in 1998. Since then spending reviews have taken place biennially, with the most recent in 2004 setting out plans for the period of 2005-08. The resultant reports provide summaries of departmental objectives, planned expenditure for the next three years, and broader cross departmental issues. A further Comprehensive Spending Review is due to take place in 2006.

2.5 Departmental Annual Reports

Departmental annual reports are published by individual government departments, between March and May each year, and set out departmental aims, objectives and principal activities, expenditure (including estimates of spending in future years) and achievements, as well as Public Service Agreement targets. The first departmental reports were published in 1991. Annual reports provide Parliament with information that can be used to scrutinise and debate the activities, priorities and spending plans of government departments. This examination takes place almost exclusively in select committees.²⁴

While committee consideration of these reports has undoubtedly increased in recent years, the valuable information contained in these documents provides Parliament with an opportunity to significantly enhance its scrutiny work, which should not be missed. In particular, the detail provided about provisional spending plans for future years as well as past expenditure, provides Parliament and its committees with the tools to seek further explanation from government about its activity. Although much good work is already undertaken, there is still considerable unfulfilled potential in this area. Our final report will look at ways in which the valuable resource of departmental reports can further enhance Parliament's scrutiny and accountability functions.

Box B: Public Service Agreements

The 1998 Comprehensive Spending Review also introduced Public Service Agreements (PSAs), three year agreements negotiated between individual departments and the Treasury which are intended to indicate what is to be obtained for money spent. Each sets out a department's high-level aim, priority objectives, and key performance targets and are responses to criticism that scrutiny and

²⁴ In its report on *The work of the Committee in 2004* the Treasury Committee notes that it held several evidence sessions on the 2004 Spending Review. See Treasury Committee, (2004-5), HC 335.

control had traditionally concentrated on money and resources (input) rather than what the activity produces (outputs) or was intended to produce (outcomes).

While PSAs and the associated system for measuring government performance are considered by the government as essential to enhancing public sector effectiveness, as well as improving accountability to Parliament, they have faced criticism at a number of levels. The use of targets has proved particularly controversial. Targets are criticised for being overused (there are currently 130 departmental targets, just under seven a department), too rigid, and often resulting in unintended consequences.²⁵ Questions have also been raised about the quality of data used in the targets, and where responsibility lies for meeting targets.

In 2002, in response to such criticisms, the Government invited the National Audit Office (NAO) to validate the systems used to report performance against PSA targets. The main objective was to provide assurance to Parliament and the public about the quality and integrity of the systems used by government departments to report on PSA targets, while also identifying ways departments could strengthen their data systems. In March 2005, the NAO published a progress report, *Public Service Agreements: Managing Data Quality-Compendium Report*, which summarised the results of their 2004 validation work programme. The report stated that departments had made variable progress in establishing 'robust' data systems, with around half of the systems examined by the NAO encountering problems.²⁶ The NAO is currently preparing a report to Parliament on the data systems underpinning all the PSA targets agreed for the period 2003-06.

The 2005 Social Market Foundation Commission report *To the Point: A Blueprint for Good Targets*, backed the use of targets as a key to improving transparency as well as efficiency.²⁷ However, the Foundation called for a new approach to the principles on which targets are set, in order to avoid unintended consequences and promote service improvements, as well as greater validation and scrutiny of targets by the NAO, the Audit Commission and select committees. Speaking at the report's launch, then Cabinet Office Minister John Hutton MP defended the use of targets and said that the Government would continue to use them. Nevertheless, he accepted the need for a better balance between centrally imposed targets and that more local accountability should be introduced.

²⁵ The data was taken from the *HM Treasury: Public Service Performance Index* website on 25 September 2005. See Social Market Foundation (2005), *To the Point: A Blueprint for Good Targets*, Report of the Social Market Foundation Commission on the Use of Targets in Public Services.

²⁶ National Audit Office (2005), *Public Service Agreements: Managing Data Quality - Compendium Report*.

²⁷ The Social Market Foundation (2005), *To the Point: A Blueprint for Good Targets*, Report of the Social Market Foundation Commission on the Use of Targets in Public Services.

2.6 Resource Accounting and Budgeting

The Government Resources and Accounts Act 2000 introduced resource accounting and budgeting (RAB) into the central government expenditure system. RAB is intended to capture more effectively the economic costs of providing a service, including consumption of assets (depreciation, costs of using capital assets etc).²⁸ The move to RAB was considered to be a major opportunity to improve the transparency and accountability of government finance. The Treasury submission to this inquiry noted that:

The introduction of resource accounting and budgeting in 2001 has enhanced the quality of financial information available to Parliament by identifying, on a consistent basis, the full costs of departmental activities and giving a clearer picture of the capital assets used by departments and the economic cost of holding them. It also provides information that can help determine the relative efficiency of different activities.

While the introduction of RAB has been widely welcomed, some concerns have been raised. For example, the Defence Select Committee in its report, *Lessons from Iraq*, considered how RAB had impacted on the cost of the operation and concluded:

*[RAB] is a complex financial process and [the Ministry of Defence (MoD)] needs to ensure that its staff is appropriately trained in its application. We remain concerned that the application of RAB may, perhaps through a misinterpretation of its aim, have led to stock holdings being reduced too far. We recommend that MoD undertakes a review which assesses whether RAB is leading to poor decision making, in particular in relation to stock level holdings.*²⁹

Criticisms of departmental accounting practices have continued and were reiterated in a report by the PAC, which noted that many government departments do not properly understand how to use commercial accounting and budgeting techniques. The committee chairman, Edward Leigh MP, said: 'Departments now have highly developed mechanisms to help them use their resources more productively. Many departments are not using them properly. If they did, they could identify areas of waste or low productivity. Just a small proportion of efficiency gain could save billions of pounds for the tax payer.'³⁰

The Government Resources and Accounts Act 2000 also committed the government to producing Whole of Government Accounts, covering the entire public sector. As these accounts treat government as a single (consolidated) body and discount transactions that take place between departments, the Treasury hopes that they will

²⁸ However, to recognise the importance of cash within the system, departments still report cash requirements to the Treasury and to Parliament.

²⁹ Defence Committee, (2003-4), *Lessons from Iraq*, HC 57-I.

³⁰ *Financial Times* 7 April 2005; See Public Accounts Committee, (2003-04), *Managing Resources to Deliver Better Public Services*, HC 181.

present a clearer overall picture of government activities, and will be a useful source of data for fiscal managers. Crucially the accounts will provide Parliament with information to assess the overall state of government finances and activity. The first set of Whole of Government Accounts are set to be published for the fiscal year 2006-07. These will comprise the accounts of bodies within central government, as well as local authorities, NHS trusts, Foundation Trusts, trading funds and public corporations.

Chapter 3.

Scrutiny and Audit of Government Expenditure

In reality such success as Parliament has achieved in relation to public money has come not in exerting formal control, but in exercising influence, the main vehicles for which have been the select committees of the House of Commons generally, and the combination of the NAO and the PAC.³¹

Scrutiny of government expenditure, in particular that carried out by the NAO and the Public Accounts Committee (PAC), is widely regarded to be the stronger aspect of Parliament's scrutiny of government finance, certainly in comparison with the authorisation of expenditure. In this section we provide an overview of this scrutiny and audit work and look at recent developments that present a challenge to Parliament.

3.1 The work of the National Audit Office and Public Accounts Committee

The National Audit Office is an independent parliamentary body headed by the Comptroller and Auditor General (C&AG). The C&AG, with the NAO's support, has a statutory responsibility to audit the financial statements of all central government departments, agencies and other public bodies, and to report the results of his examinations to Parliament. In 2004-05 the NAO audited over 570 accounts covering some £800 billion of revenue and expenditure. These accounts range from major government departments such as the Department of Health, the Ministry of Defence and the Department of Work and Pensions, to other public bodies such as some museums and research councils.

The NAO in its current form originates from the National Audit Act 1983, which established it in place of the Exchequer and Audit Department. The Act provides a statutory basis for the C&AG's value for money work and gives him complete discretion in his work. It also made the C&AG an 'Officer of the House of Commons', signalling his independence from the executive (although the C&AG is not controlled by the House). Under the Act the C&AG is prohibited from questioning the merits of policy objectives in areas under examination, and his remit excludes local authorities which, in England, are audited by the Audit Commission (see 3.4).

The primary objective of the NAO's financial audit is to provide independent assurance, information and advice to Parliament on the proper accounting and use of public resources. The C&AG expresses an opinion on the financial statements of the bodies for which he is the appointed auditor, reporting whether in his opinion the financial statements give a 'true and fair view', and have been properly prepared in accordance with the relevant

³¹ McEldowney, J. & Lee, C., 'Parliament and Public Money' in Giddings, P. (ed.) (2005), *The Future of Parliament: Chance or Decay?*, London: Palgrave.

statute and Treasury directions. He also reports his opinion as to whether the transactions contained within the financial statements are regular in that they have been undertaken in accordance with relevant legislation, other regulations issued by Ministers, and with parliamentary and Treasury authority. The C&AG draws to the attention of Parliament, by way of a qualified audit opinion and an accompanying published report on the accounts, significant matters relating to poor financial control or matters having an impact on public expenditure. Reports arising from the C&AG's annual financial audit are normally published with the related accounts when these are certified and presented to Parliament.

The other main function of the NAO, representing a significant change from the situation that existed prior to 1983, is to provide independent reports to Parliament on the economy, efficiency and effectiveness with which government departments and other bodies use their resources. These value for money reports take a focused look at how specific government programmes, projects and activities have been implemented. Two years ago, in response to demands from Parliament to increase scrutiny of public spending programmes, the C&AG increased the number of value for money reports produced by the NAO from 50 to 60 a year. Most of the C&AG's reports to Parliament are considered by the Public Accounts Committee (PAC).

Historically, the primary purpose of the PAC's inquiries was to satisfy itself on the accounting for and the regularity and propriety of expenditure; matters to which the C&AG's financial audit largely relates. The PAC retains its interest in these matters, but the committee also explores issues related to economy, efficiency and effectiveness which are set out in the C&AG's value for money reports. Following a recommendation in the *Sharman Review of Audit and Accountability*, the NAO also provides some support to other Commons select committees (see Box C).

The PAC takes oral evidence in public from the departmental permanent secretaries or agency chief executives (with questions and briefings produced by the NAO) who, as accounting officers, have a direct and personal responsibility for their organisation's expenditure, and other relevant witnesses such as senior officials from private sector contractors. The PAC considers the evidence and publishes its own report with recommendations. It derives a level of independence from the fact that it is chaired, by convention, by an Opposition member (currently the Conservative MP Edward Leigh). Issues dealt with in recent reports include a review of NHS dentistry, the state of Network Rail, and procurement capabilities at the Ministry of Defence.³² With the backing of the NAO and its staff of over 800, the PAC produces approximately 50 reports a year, far more than other select committees. According to the NAO, the government responds to about 1,000 recommendations from the PAC in an average Parliament, and accepts about 95 per cent of them.

³² See Public Accounts Committee reports, (2004-5), *Network Rail: Making a Fresh Start* (HC 556); *Department of Health: Reforming NHS dentistry* (HC 167); *Ministry of Defence: the rapid procurement of capability to support operations* (HC 70).

3.2 The impact of the NAO and PAC

In 2004, the NAO estimated that by following its recommendations, the Government had secured savings for the taxpayer of £515 million.³³ Less quantifiable, but undoubtedly significant, is the deterrent effect of the NAO and the PAC in promoting efficiency and safeguarding public funds; the knowledge that inquiries may be launched has the effect of improving performance within government. Crucially, the NAO's resources, expertise and independence plays a crucial role in ensuring that Parliament has access to impartial, detailed information on which to hold government to account.

Nevertheless, despite the impressive figures for savings and the importance of the functions of both the NAO and PAC, a range of problems have been identified. For example, the enormous scope of the government means that even with the resources of the NAO, the PAC has to be selective in what it considers and can still only take a limited look at government expenditure. Of course, selectivity may be a virtue, as it allows review bodies to concentrate efforts in areas where they can actually make a difference or where the need for investigation is most pressing. However, it raises the question of whether the PAC's output, and ability to review, is excessively selective and limited; and crucially, whether members of the PAC are able to develop sufficient expertise in all the areas that they have to cover.

Furthermore, as David Walker argued in evidence to this inquiry, 'conventional wisdom says that the PAC system scares officials into risk aversion' as it is only interested in the allocation of blame. Walker made a number of significant criticisms of the PAC, characterising its house-style as 'confrontational, acerbic and probably dysfunctional'.

The work of the PAC has also been called into question by CBI director Sir Digby Jones who said that the government needed a 'profoundly different approach' to achieving value for money. He argued that there should be a standing version of the *Gershon Review of Public Sector Efficiency* (see Box D) at arms length to government, staffed by specialists from the industry and academia, to provide permanent challenge to government on value for money.³⁴

Faced with such criticisms the PAC could point to evidence that presents an alternative view. For example, the 2001 (Sharman) *Review of Audit and Accountability* considered the charge that the PAC discourages innovation and noted that 'no specific examples were provided' and moreover that others – both within government and the private sector companies – regarded this criticism of the PAC as a 'red herring'. It concluded 'that public bodies continued to undertake numerous highly innovative and risky

³³ Figures from memorandum submitted by the NAO. The NAO has a target of saving £8 for every £1 spent and which it exceeded, once again, in 2004.

³⁴ *Financial Times*, 6 June 2005.

activities'. The PAC also challenged this perception in its report, *Managing Risks to Improve Public Services*, noting that 'the committee recognises that risks need to be taken for tangible improvements in public services to be achieved, and encourages innovation and supports well managed risk taking.'³⁵

A further criticism made by David Walker is that the PAC 'does not take sufficient action to ensure that its recommendations are followed up.' Again, there is a counterbalancing view: the NAO's evidence to this inquiry stated that 95 per cent of the PAC's recommendations are accepted by the government, and that reviews of accepted recommendations have shown that in 99 per cent of cases action had been taken.³⁶

There is, of course, potentially a significant difference between what such figures imply (i.e. that the PAC has an almost universally successful impact on government) and what actually happens in practice. As the Hansard Society Commission on Parliamentary Scrutiny pointed out, sometimes the action taken by government in response to PAC reports and those of other select committees can be quite limited in practice, if it even happens at all. Furthermore, the true test is whether the action taken makes a real difference to public services and promoting financial efficiency. Only detailed monitoring can truly evaluate the outcomes achieved and, in this sense, greater follow up of the PAC reports, and particularly the issues on which they are based, is required.

BOX C: The Review of Audit and Accountability for Central Government 2001 (The Sharman Review)

The move to resource accounting and budgeting was widely welcomed as a significant step in strengthening the quality of financial information provided to Parliament. Nevertheless, criticisms of auditing and accountability arrangements continued. In its response to the Government Resources and Accounting Bill, the PAC expressed reservations about departmental auditing procedures, the quality of information provided in departmental accounts, and the limited remit of the NAO.³⁷

In the face of such criticisms, the Government invited Lord Sharman of Redlynch to carry out a review of audit and accountability to 'recommend suitable audit and accountability arrangements for central government in the twenty first century'.³⁸ The final report was published in February 2001 with proposals to improve the

³⁵ Public Accounts Committee, (2004-05) *Managing Risks to Improve Public Services*, HC 444.

³⁶ The NAO undertakes work to follow up how effectively departments have implemented the recommendations of the PAC; see the NAO's Annual Report 2005 (p.22) on *Managing Attendance in the Department of Work and Pensions* and details provided in its Corporate Plan 2006-07 to 2008-09 (p.25).

³⁷ See Public Accounts Committee, (1999-2000), *Government Resources and Accounts Bill*, HC 127.

³⁸ Lord Sharman of Redlynch, (2001), *The Review of Audit and Accountability for Central Government*.

government's internal audit (including through the introduction of formally constituted audit committees for all departments) as well as to strengthen the external auditing system. Many of these recommendations have since been implemented:

- **Extending the remit of the NAO:** The initiators of the legislation which set up the NAO wanted the organisation to follow public money wherever it went. However, from the outset this was never the case. Following the review's recommendation, the government has extended the scope of the NAO's auditing remit to include a further 50 non-departmental public and health bodies, including English Heritage, the Environment Agency, and Special Health Authorities. The NAO believes that this change has increased the 'visibility and accountability of these bodies to Parliament'. The C&AG has also been given statutory access (though not auditing rights) to a range of bodies that receive public funding and support, including train operating companies, Private Finance Initiative contractors, recipients of government grants, and registered social landlords. The Government accepted Lord Sharman's recommendation that the C&AG should be able to audit non-departmental public bodies (NDPBs) that are companies as well as companies that are subsidiaries of NDPBs, and is set to introduce changes to the Companies Act legislation to enable this to take place.

- **NAO support for select committee inquiries:** Recognising the burdens which constrain parliamentary scrutiny of government expenditure, the review called for the NAO to be provided with resources to brief departmental select committees annually on key financial issues. The recommendation has been followed up by the NAO which is building on the support it already provides through seconding staff to select committees and the Scrutiny Unit and through briefings to a wide range of parliamentary committees, including the Environmental Audit Committee and the Transport Committee.

- **Strengthening the work of the PAC:** The Review also outlined a range of ways in which the PAC could improve its scrutiny of government activity, including by examining themes across government such as risk management, corporate governance and fraud – a proposal which was welcomed and accepted by the committee.³⁹ Since then the PAC has conducted a range of inquiries with cross governmental themes: in the 2004-05 parliamentary session issues considered included managing risk in the public sector, improving cost effective procurement by departments, and how government departments interact with citizens.⁴⁰

³⁹ Public Accounts Committee, (2000-1), *Review of Audit and Accountability for Central Government*, HC 260.

⁴⁰ For details of these reports see Public Accounts Committee, (2004-5), *Managing Risk to improve Public Services* (HC 444); *Improving departments' capability to procure cost-effectively* (HC 541) and *Difficult Forms: How Government Departments Interact with Citizens* (HC 255).

3.3 The Private Finance Initiative

The way that government spends money and delivers services has changed dramatically in recent years, at a rate which shows no signs of slowing. Such changes place a responsibility on both government and Parliament to ensure that the mechanisms are in place, and updated as necessary, to ensure full accountability. One notable example of a new model of expenditure involves the Private Finance Initiative (PFI). The PFI was launched in 1992 to achieve closer co-operation between the public and private sectors and has been used in numerous policy spheres, including health and transport. Although its outcomes in terms of efficiency and value for money are increasingly questioned from some sources, the Government believes that PFI encourages value for money in public expenditure and transfers financial risk to the private sector.⁴¹ Since it was first launched PFI has grown rapidly, with over £45 billion of PFI projects and around 700 PFI contracts now in force.

The NAO has published over 50 PFI/PPP reports. These have examined a range of matters: how individual contracts were awarded; how the deals are working in practice, either as individual deals or group projects such as PFI hospitals; and thematic subjects such as refinancing, managing PFI relationships and PFI construction. Over the last six years, the NAO estimates that recommendations from the NAO's and PAC's work on PFI/PPP have saved the taxpayer an estimated £750 million.

The NAO submission drew attention to the complexity of accounting methods involved in the PFI, noting: 'It is clear that different interpretations of the accounting guidance have been applied to projects in different parts of the public sector. This may have an impact on the Whole of Government Accounts incorporating the local government and health sectors.' To address this problem the C&AG has been working with the Treasury and other audit bodies to investigate the factors behind 'the seemingly inconsistent treatments and to consider whether changes to the guidance are necessary'.

According to McEldowney and Lee, 'Parliamentary scrutiny of PFI has been ad hoc - mainly relying on the NAO to draw attention to any impropriety. In this area as in others, select committee scrutiny tends to be spasmodic and reactive. PFI arrangements set new challenges for Parliament in examining a technically complex and difficult subject.'⁴² In evidence to this inquiry, Gwyneth Dunwoody MP, chair of the Transport Committee, drew attention to the difficulties that the committee had encountered in dealing with PFI projects:

⁴¹ See for example, the report from the trade union UNISON, *A Policy Built on Sand*, (October 2005) which claims that PFI projects do not out-perform public sector projects and which also disputes Treasury figures on the operation of PFI.

⁴² McEldowney, J. & Lee, C., 'Parliament and Public Money' in Giddings, P. (ed.) (2005), *The Future of Parliament: Chance or Decay?*, London: Palgrave.

The area in which we have encountered the greatest difficulty in scrutinising the work of the Department is the Private Finance Initiative or Public Private Finance Partnerships. ... The numbers of occasions on which we were informed that the figures we were seeking were unavailable due to commercial confidentiality became more than a joke. This does not mean the Committee could not make a judgment, and, indeed, a number of Reports that we prepared gave a clear view of our impressions of the schemes under consideration. It did mean, however, that vital information was lacking. This is a wholly unacceptable state of affairs. It is perfectly possible for Select Committees to take confidential evidence, and they frequently do.

The debate over the PFI suggests that while the methods used in government expenditure and public spending have changed rapidly and significantly, the architecture and powers of parliamentary scrutiny have struggled to keep pace.

3.4 The Audit Commission

The Audit Commission is an independent NDPB although it does not have the same status as the NAO, which is headed by an Officer of the House of Commons. The Audit Commission is responsible for auditing many of the most important public services, including local government, certain front-line and local health services, housing, community safety and fire and rescue services. Its remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year and its role includes providing information on the quality of public services, making practical recommendations and spreading best practice on the quality of public services and how bodies discharge their accountability through financial reporting.

One noticeable feature about the status of the Audit Commission is that, although it regularly makes contributions to select committees on financial management and scrutiny issues, it does not have a formal relationship with a select committee, as is the case with the NAO and the PAC. In 2000, the Environment Transport and Regional Affairs Committee in its report, *Audit Commission*, cited a proposal by the then PAC Chairman, David Davis MP, that a new select committee should be established to consider and report on the work of the Audit Commission.⁴³ The Committee, however, did not endorse this proposal, believing that services provided by local authorities should be accountable to local electorates and that Parliament should not attempt, even indirectly, to hold these accountable.⁴⁴ The Hansard Society Scrutiny Commission did not share the Committee's analysis, arguing that 'Many of the services currently under the remit of the Audit Commission, most notably health and police services, are not directly provided by locally elected authorities and a strong case could be made for parliamentary oversight' and proposed that the Audit Commission should report

⁴³ Environment Transport and Regional Affairs Committee, (1999-2000), *Audit Commission*, HC174-I.

⁴⁴ *Ibid.* para 74.

directly to the relevant departmental select committees. However, this recommendation was not taken forward by the Government.

In evidence to this inquiry, the Audit Commission pointed to weaknesses in the current system including the lack of a requirement for local authorities to have audit committees and to produce annual reports. However, particular concern was expressed over the limited nature of its own remit, 'We are concerned that the effectiveness of our oversight of public expenditure is diminished because we are unable to audit the increasing number of companies that are wholly owned by our audited bodies.' The Audit Commission's submission included a number of proposed changes to address these concerns which will be discussed in our final report to be published in spring 2006.

3.5 Audit and Devolution

As part of the post-devolution constitutional settlement, a number of changes to audit regimes were introduced. For example, a distinct Scottish public audit regime was established under the Public Finance and Accountability (Scotland) Act 2000. The Act created Audit Scotland, set out the powers of the Auditor General for Scotland and placed duties on Scottish Ministers to produce accounts. An Audit Committee of the Scottish Parliament considers reports laid by the Auditor General of Scotland. Also, in April 2005, the Wales Audit Office came into being. The final paper will also look at procedures in the devolved institutions in Scotland, Wales and Northern Ireland.

3.6 Co-ordinating the work of public audit agencies

The need for improved co-ordination has been recognised by the establishment of a Public Audit Forum (PAF) to 'provide a strategic focus on issues cutting across the work of the national audit bodies'. While the forum's main role is consultative and advisory (it does not include the power to direct the various agencies), its twice yearly meetings provide the heads of the various public audit agencies (the NAO, the Northern Ireland Audit Office, the Audit Commission, Audit Scotland and the Accounts Commission for Scotland, the Auditor General for Wales) with an opportunity to consider common problems, disseminate good practice, and thereby enhance the effectiveness of their work. The various audit bodies also make extensive use of private sector financial management and accountancy expertise and private sector companies also have an input into the PAF. The NAO noted in its submission that:

We work closely with other auditors and organisations involved in assessing and improving public services. The NAO are signatories to the Healthcare Concordat which aims to ensure a streamlined and strategic approach to the examination of health services. The NAO is uniquely placed to report to Parliament the results of co-operative work spanning the breadth of public

expenditure. For example, the Comptroller and Auditor General's Report to Parliament in June 2005, *Financial Management in the NHS*, was prepared jointly by the NAO and the Audit Commission.

Nevertheless, criticisms of the divisions between auditing bodies continue, and were highlighted by David Walker in evidence to this inquiry:

The Sharman Report was a missed opportunity to rationalise the audit/Value for Money functions in Government. ...The division of labour between the NAO, the Healthcare Commission and the Audit Commission is unclear. The advent of local area agreements (giving councils more discretion in spending) raises questions about cooperation between the NAO and Audit Commission; though they are doing more joint work, the public remains befuddled over respective responsibilities.

It is essential that, whatever the structure of the bodies which audit and scrutinise government expenditure and the public service, Parliament's central role in seeking accountability of government should not be inhibited or constrained.

Box D: Review of Public Sector Efficiency (The Gershon Review)

In 2003, Sir Peter Gershon, Chief Executive of the Office of Government Commerce, was invited to conduct a Review of Public Sector Efficiency, and identify ways in which the government could release major resources through efficiency savings, and use them to strengthen frontline services.⁴⁵ Building on the review's recommendations, the Government announced a range of measures to increase public sector efficiency in the 2004 Budget, including:

- Setting departmental targets to achieve efficiencies in excess of £20 billion a year in total by 2007-08 (of which £6.5bn was specifically placed on local authorities);
- Requiring each department to publish Efficiency Technical Notes setting out the precise measures and methodologies they would use to assess efficiency gains, scrutinised by the NAO and the Audit Commission;
- Reducing over 84,000 civil service posts, and relocating 20,000 positions out of London and the South East (proposals to relocate civil servants were also outlined in the Lyons review of 2003);⁴⁶
- Reducing departmental administration costs by at least five per cent by 2007-08;
- Setting up an Efficiency Team to implement, measure and monitor the framework of the government's efficiency programme.⁴⁷

⁴⁵ Gershon, P., (2004), *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*.

⁴⁶ Lyons, M., (2004) *Well Placed to Deliver? Shaping the Pattern of Government Service: Independent Review of Public Sector Relocation*.

⁴⁷ HM Treasury, (2004) *Spending Review 2004*.

Since its publication, the review has sparked a range of criticism: from trade union concerns about civil service job cuts, to doubts about whether the proposals would achieve the efficiency gains intended.⁴⁸ For example, the Conservative Party's James Report, issued in January 2005, claimed to identify £13 billion more potential savings than the Gershon Review.⁴⁹ However, the report was dismissed by the Government, which has also claimed that significant efficiencies are already being achieved. For example, in the 2005 Budget Statement the Chancellor pointed to £600 million worth of efficiency gains made by the Home Office in 2004-05, including better use of police time, and improvements in the National Offender Management Service. *The Review of Public Sector Efficiency* is the latest major initiative in this field, but it is of course just one of a wide range of different factors that government uses in determining resource and funding requirements.

⁴⁸ House of Commons Library, (2005), *The Lyons and Gershon reviews and variations in civil service conditions*.

⁴⁹ Conservative Party (2005), *The James Review of Tax Payer Value*.

Chapter 4.

The Role of Select Committees

[The Procedure Committee's 1999 Report] had pointed out the need for constructive engagement by the House in identifying priorities and examining the effectiveness of spending, and said that this is fostered in an atmosphere where party considerations are not paramount. Select committees provide this atmosphere.

Sir Nicholas Winterton MP

Select committees in the Commons have a central role in many aspects of financial scrutiny. As was outlined earlier, select committees consider the estimates for government spending plans and, crucially, play a major role in assessing the effectiveness of the subsequent expenditure. The standing orders governing Commons departmental select committees give them powers to examine the expenditure of relevant government departments and associated public bodies. However, committees have faced criticism in the past for the way they scrutinise government finance. In 2001, the Hansard Society Commission on Parliamentary Scrutiny found that expenditure inquiries came low in their priorities, citing its own study which found that only 34 per cent of select committee inquiries considered any form of expenditure issue, and only nine per cent considered estimates. There were obvious exceptions to this overall pattern, including the PAC and the Treasury Committee, which examines the Budget and the work of the Bank of England's Monetary Policy Committee.

At the start of each financial year, government departments produce annual spending reports, which give the policy background and targets which underpin the requests for resources being made formally through the estimates procedure, and spending plans for the next three years. In the autumn they produce performance reports which set out their activities over the past year, whether they met their targets and the way they have spent their funds. These reports are sent to relevant departmental select committees for more detailed examination.

It is these documents which put some flesh on the bare bones of the estimates and the resource accounts, and provide the material with which select committees can begin to get to grips with the key questions underlying financial scrutiny. It is at this point that select committees have the opportunity to raise the fundamental questions about government expenditure: Is public money being spent effectively in achieving the declared priorities of government policy? Are the intended outcomes being achieved? Is money being used to best effect? It is debateable whether all select committees get to the heart of these basic questions and whether their scrutiny makes a difference to the way that government spends the public's money but there is evidence that select committees' performance has become more thorough and consistent in recent years.

Select committee scrutiny of accounts has been enhanced by the Government's Faster

Closing Initiative, which encourages departments to produce accounts earlier in the parliamentary session (before the summer recess). The initiative is designed to follow accepted commercial good practice and increase the timeliness of the accounts by accelerating the production and audit of departmental resource accounts. The Treasury has announced that in 2005-06 all resources accounts will have to be laid before Parliament by July 2006 – six months earlier than the average laying date for 2001-02 accounts.

4.1 Select committee reform

In May 2002, under proposals taken forward by the then Leader of the House of Commons, Robin Cook, the House of Commons passed a resolution setting down what it considered to be the ‘core tasks’ of its select committees. These tasks included ‘To examine and report on Main Estimates, annual expenditure and annual resource accounts’. Although this was not a new task, new resources were voted along with the redefinition of committees’ duties, with the result that since then, select committee scrutiny of departmental expenditure has become more systematic and more committees now undertake annual inquiries into relevant departmental reports. These inquiries help to build broader knowledge about the expenditure plans and administration of each department and sometimes throw light on details of expenditure. Gwyneth Dunwoody MP noted the collective impact of these changes: ‘Select committees have begun to organise their work in a more structured way which enables them over the course of a parliamentary year to consider various aspects of the work and accounts of the departments that they monitor.’

It is difficult to quantify exactly the increased amount of financial scrutiny conducted by select committees. However, analysis of their work since the introduction of core objectives and the formation of the Scrutiny Unit suggests that the Cook reforms have had a positive impact. In the 2004-05 parliamentary session, a greater number of select committees produced reports on expenditure-related issues than had previously been the case. The following examples give some indication of the work being undertaken:

- **The Education and Skills Committee** produced a report on *Public Expenditure on Education and Skills* which identified ‘financial management and project management problems’, within the DFES.⁵⁰ The committee also conducted an inquiry into the failure of the Government’s UK e-University project, which was terminated with a loss of £50 million.⁵¹

⁵⁰ Education and Skills Committee, (2004-5), *Public Expenditure on Education and Skills*, HC 168.

⁵¹ Education and Skills Committee, (2004-5), *UK e-university*, HC 205.

- **The Home Affairs Committee** acknowledged considerable support from the Scrutiny Unit and conducted an inquiry into *Home Office Target Setting* in 2004. The Committee now sends a questionnaire to the Home Office after the publication of its annual report, and follows this with an evidence session with the permanent secretary and other relevant officials.⁵² Specific questions regarding main and supplementary estimates have also been sent to the department.
- **The Northern Ireland Affairs Committee** conducted a specific inquiry into the *2002-3 Resource Accounts of Northern Ireland Departments*, which expressed serious concern about their financial management and outlined a range of ways in which they could be run more efficiently.⁵³

As described in paragraph 3.1, the most consistent scrutiny of government expenditure is undertaken by the PAC, which is supported by the NAO. The Hansard Society Commission wished to see the reports and expertise of the NAO shared more equitably among select committees other than the PAC, although it did not suggest that it should have a servicing function as it does with the PAC. As noted earlier, following a recommendation in the Sharman Review the NAO has recently increased the support it provides to other select committees. Despite this development, there is a view that the NAO's work could be more effectively used to strengthen parliamentary scrutiny. David Walker argued that weaknesses in scrutiny functions arose from the fact that 'there is no formal relationship between the PAC and other House of Commons committees all of which have, implicitly at least, some responsibility for ensuring public money is well spent.'

4.2 Scrutiny Unit

As part of Robin Cook's package of changes, the Scrutiny Unit was established in the Commons to provide greater assistance to select committees. The Unit contains about 20 staff representing a mixture of specialists and generalists. A considerable part of its work relates to financial scrutiny; for example, during 2003-4 the Unit conducted 87 tasks for select committees: of these, 42 related to expenditure, including an analysis of departmental annual reports, supplementary estimates, departmental resources accounts and 2004 spending review settlements. In its evidence to this project the Scrutiny Unit noted the rise in the number of committees examining estimates and annual reports. The committees' examination of these issues took the form of written correspondence with departments and necessary follow up action, with the Scrutiny Unit performing the majority of this analysis on behalf of the committees.

⁵² The Committee formally acknowledges its support from the Unit in its annual report for 2004. Home Affairs Committee, (2004-5), *Work of the Committee in 2004-5*, HC 280.

⁵³ Northern Ireland Affairs Committee, (2004-5), *Northern Ireland Departments' 2002-3 Resource Accounts*, HC 173.

The establishment of the Scrutiny Unit has been widely welcomed as a tool to improve financial scrutiny. Nonetheless, the question of whether Parliament's support could be further strengthened in this area remains. The Hansard Society Scrutiny Commission proposed that a designated new body, the Parliamentary Finance Office, should be established to provide high quality research, access to specialist advice and expertise, support for collection and analysis of evidence and report drafting. Its remit would be to support all financial functions of select committees, including work on estimates, scrutiny of government expenditure and analysis of spending outcomes. Additionally, Gwyneth Dunwoody MP has argued that 'The simplest and the most effective way of enabling Parliament to scrutinise such work would be for the House of Commons to create the equivalent of the American General Accounting Office.' [now renamed the Government Accountability Office]. Mrs Dunwoody described this body as:

An institution which originally began as an audit of government expenditure, but has developed into an information and support system for both the Senate and Congress, able to study government figures and check the assumptions on which many basic decisions have been made. It is answerable only to Parliament. The creation of such a unit would not only transform the work of Parliament but would enable it to check and evaluate Ministers' decisions more fully.

The success of the (relatively modestly funded) Scrutiny Unit in improving the quantity and quality of financial scrutiny provides a strong case that increased support and resources would improve Parliament's accountability functions yet further.

4.3 Connecting with the public

Select committees can provide a forum for hearing the views and evidence of the public and for those bodies that represent different viewpoints. At a time of widespread concern about a growing gulf between Parliament and the electorate, select committees can provide an important link in the relationship between government and the governed. A very wide range of bodies have an interest in tax and spending issues and their outcomes, and it is important that the views of civil society are able to inform the parliamentary process. One specific example was contained in evidence from the Women's Budget Group which made the case that there should be greater analysis on gender lines of public taxation and expenditure, pointing out that the overall totals frequently disguised significant differences in the impact on men and women. This one example highlights the many different perspectives that the public may wish to raise. To address this need, the process should be as open as possible to taking the views and evidence from those outside government and Parliament.

4.4 Information and Accessibility

It is essential to the health of a democracy that the political process should be as

transparent and understandable as possible and to enable this to happen, there should be easily available, clear information on how the system works. Such information is vital to those participating in the process (MPs, Peers, their staff, civil servants etc) and to the wider public: individuals, civil society, the media and so on. Such information is especially vital in the area of financial scrutiny which is particularly technical and complicated. The Hansard Society Scrutiny Commission report pointed out that there was no single document that provides information on various procedures involved in financial scrutiny and argued that the creation of such a document would help parliamentarians in their work and would explain to the public the avenues to feed into the process.

The Society of Welsh Treasurers, in a submission to this inquiry, pointed to the 'extremely complicated' nature of the financial system, in their case as it affects Wales, and commented 'It is difficult to see how the average Member of Parliament (or Welsh Assembly Member or local authority elected member) can be expected to understand this level of detail and effectively contribute to the debate'. Given that this subject is complex, all those who wish to participate in or simply understand the system should have access to information and resources that make the process as clear and transparent as possible. At present, the system can seem mysterious even to those who have to operate within it.

Conclusion

*Financial scrutiny should be central to the work of the Commons since it underpins all other forms of accountability ... The procedures of the Commons need to be adapted to ensure that all committees, and hence all MPs, have the scope and resources to ensure proper financial accountability.*⁵⁴

Improving financial scrutiny was identified by the Hansard Society Commission on Parliamentary Scrutiny as a central component in enhancing the accountability of government across the board. The Commons, in particular, has a unique financial status in providing the authorisation for government to raise revenue and spend it on behalf of the public. The procedures used in financial scrutiny, therefore, go to the heart of the relationship between government and Parliament and are fundamental to our system of governance. However, in the view of many involved in this field, Parliament punches well below its weight.

By convention one House – the Lords – has an extremely limited role. This leaves the remaining House – the Commons – with an even greater responsibility to make a difference and ensure that government is fully held to account. In the area of audit and scrutiny of past expenditure, the Public Accounts Committee, the National Audit Office and the departmental select committees provide an important level of detailed accountability. However, just because these roles and functions have many positive aspects, this does not mean that there is no room for improvement. On the authorisation of taxation and government spending plans, the procedures such as the estimates and the related acts, it is widely held that Parliament does not seek, much less obtain, any form of exacting accountability.

Reforms have taken place since the Commission reported in 2001, which have, or at least should have, improved government accountability to Parliament in financial matters. Parliament and its committees are better resourced and guidelines issued to select committees have improved their performance in relation to financial scrutiny. Departmental annual reports continue to provide genuinely detailed and valuable information on government expenditure. These reports, in particular, should provide a basis for Parliament to seek real accountability for the way that government spends public money and for what it achieves with that expenditure.

Some minor changes to the estimates procedure, and the acts that give effect to expenditure plans, have enabled Parliament to have greater and quicker access to government spending plans. Developments in government accounting methods have improved the quality of information made available to Parliament and the widening of the NAO's sphere of operation has allowed for more effective analysis and scrutiny of

⁵⁴ Hansard Society (2001), *The Challenge for Parliament: Making Government Accountable*, Report of the Commission on Parliamentary Scrutiny, chaired by Lord Newton of Braintree.

government activity and spending. The changes led McEldowney and Lee to conclude:

*Overall, Parliament and its agencies do more financial scrutiny than ever before. That scrutiny covers a greater range of public expenditure than ever before.... Parliament and the public have a clearer picture than ever before of the Government's overall spending plans.*⁵⁵

However, criticisms of the current system remain, and the call for further reform continues. Proposals for strengthening Parliament's role in the estimates procedure, including ways for the Commons to have genuine input, have not been implemented. Some commentators have pointed to weaknesses in the operation of the PAC and questioned its ability to hold government effectively to account. Crucially, are its reports followed up, are the recommendations acted upon and does it actually make a difference? In short, does Parliament improve government?

Acknowledging the mixed picture and the need for further reform, McEldowney and Lee argue that 'For at least the last forty years the financial procedures of the House of Commons have seemed ripe for reform' and that 'These weaknesses have been only partly tackled in the last forty years'. This paper shares a similar analysis, recognising the strong points as well as highlighting criticisms and perceived defects.

Tax and government spending are at the heart of many fundamental political debates, including the provision of public services, individual and household incomes, and welfare and pension policy to name just a few. This paper has not set out to question the ideological bases for these debates. Instead, it has aimed to shed light on the role played by Parliament in authorising that spending and in checking that the money is properly and effectively spent. Most people will, understandably, have little interest in mastering the technicalities involved but will expect that measures are in place to ensure that this work happens efficiently on their behalf. The final report of this inquiry, which will be published in spring 2006, will identify ways in which this system could be strengthened.

⁵⁵ McEldowney, J. & Lee, C., 'Parliament and Public Money' in Giddings, P. (ed.) (2005), *The Future of Parliament: Chance or Decay?*, London: Palgrave.

Appendix 1: List of evidence received

1. Audit Commission
2. Centre for Public Scrutiny
3. HM Treasury (Evidence received on behalf of all government departments)
4. House of Commons Scrutiny Unit
5. National Audit Office
6. The Scottish Parliament
7. Society of Welsh Treasurers
8. Women's Budget Group
9. Gwyneth Dunwoody MP
10. Rt Hon Lord Wakeham
11. David Walker. (Editor, Public Magazine, *The Guardian*)
12. Sir Nicholas Winterton MP

Appendix 2: Glossary of Terms

Accounting Officer: Individual within a government department (usually the permanent secretary), responsible for the accuracy and propriety of expenditure voted under a particular estimate.

Ambit: Part of the estimate presented to Parliament formally describing the services to be financed from the estimate.

Appropriation Act: The two annual acts that appropriate funds between departments. The 'spring' Appropriation Act arises from the Consolidated Fund (Appropriation Bill). It releases money from the Consolidated Fund and at the same time appropriates supply authorised in earlier acts. The 'summer' Appropriation Act arises from the Appropriation Bill and merely appropriates supply. Main estimates are enacted in the summer act, while supplementary estimates are embodied in both.

Appropriation Bill: See Appropriation Act

Audit Commission: An independent public body which audits a range of public services including certain front-line and local health services, housing, criminal justice, fire and rescue, and local government.

Bank of England: The central bank of the United Kingdom, independent of the government since 1997. It acts as the government's banker and is responsible, among other things, for setting the UK's official interest rate.

Budget: Oral statement made to Parliament by the Chancellor of the Exchequer, usually in March, reviewing national finances, announcing spending plans for the next three years and making taxation proposals. The Budget is preceded by the Pre-Budget Report in November/December.

Chancellor of the Exchequer: Chief financial minister, who heads the Treasury and is responsible for raising revenue – through taxation or borrowing – and for controlling government spending.

Comptroller and Auditor General (C&AG): Independent officer of the House of Commons, who heads the National Audit Office, approves the release of money from the Consolidated Fund, audits

accounts of government departments, executive agencies and other public bodies, and carries out value for money inquiries into the economy, efficiency and effectiveness of government spending. The C&AG reports to Parliament.

Consolidated Fund: The government's account at the Bank of England. Statutory approval from Parliament is usually required to withdraw funds from the account.

Consolidated Fund Bill: A bill passed without debate, giving legislative authority to Commons resolutions approving estimates, and authorising the government to withdraw money from the Consolidated Fund. The bills can cover expenditure for the previous financial year, the current financial year and the year to come.

Consolidated Fund (Appropriation) Bill: See Appropriation Act

Contingencies Fund: Account at the Bank of England for emergency government spending. The amount that can be withdrawn is limited to two per cent of the previous year's total authorised supply expenditure.

Departmental Annual Reports: Reports published by individual government departments, published between March and May each year, setting out departmental aims, objectives and principal activities, spending and achievements, and Public Service Agreement targets.

Departmental Expenditure Limit: The total planned expenditure for a government department (excluding forms of expenditure which are less controllable, such as social security payments).

Estimates: Requests from the government to the Commons for resources required for each area of public expenditure for the coming year. Estimates set out detailed information on the spending plans for each government department.

Estimate Days: Three days allocated in a parliamentary session for approval of estimates. In practice select committee reports linked to particular estimates are selected by the Liaison Committee and provide the subject for debate on these days.

Excess Votes: The retrospective authorisation required when a government department's spending in a financial year exceeds what Parliament has authorised or is used for a purpose that was not authorised in the original request.

Finance Bill: The bill introduced shortly after the Budget speech which gives statutory authority to taxation proposals outlined in the Budget. The Finance Bill is only presented after the Commons votes on and approves a number of motions called Ways and Means.

Gross Domestic Product (GDP): The total value of goods, products and services that are produced in the UK during a specified period.

Leaders Group on Working Practices: A group appointed by the Leader of the House of Lords with the remit 'to review the procedural changes agreed by the House in July 2002 and to make recommendations to the Procedure Committee for their retention, modification or reversal, with any associated changes'.

Main Estimates: The government's principal request for resources to fund public spending in the following financial year. (Also see Estimates)

National Audit Office (NAO): Headed by the Comptroller and Auditor General, the NAO is charged with auditing the accounts of government departments, agencies and other public bodies, and carrying out value for money examinations into how these bodies have spent public money.

Pre-Budget Report: Often known as the 'Green Budget', this report is published in the November or December preceding the Budget, and outlines the government's assessment of the economy, and spending plans.

Public Accounts Committee: Select committee of the House of Commons, responsible for ensuring public spending authorised by Parliament is properly spent and chaired (by tradition) by a member of the Opposition. Considered by many to be the most powerful parliamentary committee, much of its work is based on reports from the Comptroller and Auditor General at the National Audit Office.

Public Audit Forum: An advisory body consisting of members of public audit agencies, which aims to develop and improve the quality of the public audit.

Public Service Agreements: Three year agreements, negotiated between government departments and the Treasury, during the Spending Review process, to indicate what is obtained for money spent.

Resource Accounting and Budgeting (RAB): The commercial style, accruals-based system of planning, controlling and reporting on spending, introduced to Government in 1995 and fully implemented in 2001. It records the economic cost of providing services, and consuming assets (including depreciation, the cost of using capital assets and future liabilities), and replaces the previous cash-based system of accounting.

Spending Reviews: Reviews of government finances which take place every two years, and which result in three year spending plans. The first Spending Review, in 1998, was called the Comprehensive Spending Review.

Supplementary Estimates: These allow the government to request funding, in addition to those set out in the Main Estimates, and may be either included in Appropriation Acts or set out in separate Consolidated Fund Bills.

Supply Process: The process by which government gains authority for its spending from Parliament, and reports back on how it has spent these funds.

Scrutiny Unit: Set up in 2002, the Unit provides specialist support for House of Commons committees on matters of expenditure, draft bills and other areas.

HM Treasury: Government department responsible for formulating and implementing financial and economic policy, headed by the Chancellor of the Exchequer.

Value for Money: The examination of the 'economy, efficiency and effectiveness' of public spending carried out by the Comptroller and Auditor General and staff of the National Audit Office.

Votes on Account: Request for interim spending power for government departments, laid before the Commons each November. They cover 45 per cent of the estimated expenditure of each government department over the coming year, are needed to 'tide' the government over until the main estimates are approved in July.

Ways and Means Resolution: Motions, introduced by ministers, to authorise the raising of a tax or imposition of charge in relation to a bill, the majority of which are passed following the Budget.

Whole of Government Accounts: Due to be first published by the Government for the fiscal year 2006-07, these aim to provide a picture of the activities and financial position of government as a whole, and will comprise accounts of bodies within central government, as well as local authorities, NHS trusts, Foundation trusts, trading funds and public corporations.

Appendix 3: Hansard Society Commission on Parliamentary Scrutiny

The Commission on Parliamentary Scrutiny was established by the Hansard Society in 1999 with a brief to examine 'how Parliament carries out its role as scrutineer of the words and actions of the Executive and assess whether the structure and processes are in need of change'. The Commission's report, *The Challenge for Parliament - Making Government Accountable*, was published in 2001 and set out seven principles to clarify how scrutiny by Parliament should be undertaken. These were supplemented by a series of detailed suggestions throughout the report about how to improve accountability.

The principles and recommendations involved changes to the culture of scrutiny in Parliament, reforms to select committees and the chamber and also changes to the way that Parliament communicates with the world outside Westminster. One of the Commission's central principles for improving scrutiny was that 'financial scrutiny should be central to accountability.'

The Commission identified a number of conclusions and recommendations relating to financial scrutiny:

- The estimate procedures should be changed to allow Parliament to debate and vote for transfers between budget sub-heads. Even if proposed transfers were not successful, the process would help focus the House and Ministers, and hopefully the media and the public, on the scrutiny of spending plans.
- Parliament should provide a clear, publicly available code, setting out the operation of parliamentary authorisation for government finance and scrutiny and audit of government spending.
- Select committees should continue to press the case for early sight of the estimates, and make a formal report back to the House.
- The Commons should monitor and evaluate whether lessons can be learnt from the Scottish Parliament budget procedures.
- Each departmental select committee should pilot and evaluate a new form of committee, a Finance and Audit Sub-Committee. The sub-committee should consider, for example, estimates and departmental allocations, audit and value-for-money inquiries, Public Service Agreements, performance indicators and outcomes. The National Audit Office could provide the necessary extra support along with increased specialist staff designated to each committee.
- Departmental select committees should be willing to conduct further inquiries on recently published NAO and PAC reports, using these reports as the starting point for more detailed examination and deliberation. Furthermore, departmental select committees should monitor the progress of recommendations made by the PAC within their subject area, assess whether the government has acted on its promises and whether such reforms have been effective.
- To provide financial support functions to select committees, and their sub-committees, a new body, the Parliamentary Finance Office, should be established. This body could provide high quality research, constantly updated information, access to specialist advice and expertise, support for collection and analysis of evidence and report drafting. Its remit would be to support all financial functions of select committees, including work on estimates and scrutiny of government expenditure and analysis of expenditure outcomes.
- The Audit Commission should report directly to the relevant departmental select committees.

Appendix 4: Government Finance and Parliament: Selected Key Dates

- 1671 Parliamentary resolution gives the House of Commons 'undoubted and sole' control over financial matters.
- 1694 Foundation of the Bank of England.
- 1789 Pitt the Younger introduces income tax.
- 1833 Establishment of the Treasury department under the Chancellor of the Exchequer.
- 1861 Establishment of the House of Commons Public Accounts Committee.
- 1866 Gladstone introduces the Exchequer and Audit Departments Act, requiring all government departments to produce annual 'Appropriation Accounts'. The same act established the position of the Comptroller and Auditor General (C&AG) at the head of an Exchequer and Audit Department.
- 1896 Reforms introduced limiting parliamentary scrutiny of departmental estimates to set days in the parliamentary calendar, and the application of supply guillotines whereby questions on all outstanding votes are put on the last available day.
- 1921 Exchequer and Audit Departments Act introduces changes to the functioning of the Exchequer and Audit Department, including requiring the C&AG to report to Parliament, and enabling greater co-operation with other government departments.
- 1982 Following Procedure Committee report, the number of Estimate days is reduced from 19 to three - with the remaining being allocated 'Opposition Days'.
- 1983 National Audit Act 1983 passed, making the C&AG an Officer of the House of Commons, with powers to report to Parliament on the economy, efficiency and effectiveness with which departments, agencies and other public bodies have used their resources in discharging their functions. The Act also established the National Audit Office (NAO) to replace the Exchequer and Audit Department.
- 1991 First Departmental Annual Reports are produced, which are laid before Parliament in February or March.
- 1993 Conservative Government introduces a 'unified budget' system - with the Budget Statement being made in November.
- 1995 White Paper *Better Accounting for the Taxpayer's Money* proposes adoption of commercial style accruals based accounts across central government.
- 1997 The incoming Labour Government reverts to the separate approach with the pre Budget report in November. Chancellor of the Exchequer, Gordon Brown, announces the first Comprehensive Spending Review to 'examine departmental spending from zero base', and which will take place every two years.
- 2000 Resource Accounting and Budgeting (RAB) introduced into the central government expenditure system, following the passage of the Government Resources and Accounts Act 2000.
- 2001 Lord Sharman of Redlynch publishes his *Review of Audit and Accountability*, recommending changes including extending the remit of the National Audit Office, many of which are accepted by the Government.
- 2002 Changes are introduced by Robin Cook to bring in common objectives for select committees including: 'To examine and report on main estimates, annual expenditure plans and annual resource accounts.' House of Commons Scrutiny Unit established.
- 2004 Introduction of two Appropriation Acts and various reforms.

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Inside the Counting House

A Discussion Paper on Parliamentary Scrutiny of Government Finance

Alex Brazier and Vidya Ram

The Hansard Society's 2001 Scrutiny Commission identified significant flaws in the system of parliamentary scrutiny of government finance. Since then, a number of reforms such as new rules for select committees and better auditing procedures for government departments have been introduced. But what difference have these changes made? Is government now more accountable to Parliament for the money it raises and spends? Or is further reform needed?

To answer these and other questions, the Hansard Society is currently revisiting the issue of financial scrutiny. As part of that inquiry it has produced this interim discussion paper, which presents an accessible overview of the current system, highlighting areas of strength and weakness, ahead of a final report that will be published in spring 2006.