



House of Commons
Liaison Committee

Parliament and Government Finance: Recreating Financial Scrutiny

Second Report of Session 2007–08



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Report, together with formal minutes

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The Liaison Committee

The Liaison Committee is appointed to consider general matters relating to the work of select committees; to advise the House of Commons Commission on select committees; to choose select committee reports for debate in the House and to hear evidence from the Prime Minister on matters of public policy.

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Publications

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Committee staff

The current staff of the Committee are Helen Irwin (Clerk), Robert Wilson (Second Clerk), Kevin Candy (Committee Assistant) and Catherine Close (Secretary). For this Report they were assisted by Dorian Gerhold, Matthew Hamlyn, Simon Fiander, Justine Matthews and Glenn McKee.

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Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
The purpose of financial scrutiny	7
What is needed	8
2 A short history of financial control and scrutiny	9
Taxation	9
Expenditure	9
Spending plans	10
Accounts	11
Conclusion	12
3 The Government's financial system	13
Complexity	13
Results of complexity	15
Plans for reform	16
Conclusion	17
4 Financial reporting	18
Introduction	18
The problem	18
What is needed	19
Information on revenue	21
Other types of information	21
Language	22
Conclusion	22
5 Making financial scrutiny worthwhile	23
Spending Reviews	23
Select committee activity	25
Co-operation between committees	25
Changes in the structure of committees	26
Financial matters on the floor of the House	26
Estimates Days	27
Proposals	28
Expert assistance and training	29
Training for Members	30
6 Conclusion	31
Annex 1: Reasons for differences between departmental budgets, Estimates and accounts	32
List of recommendations	34

Formal Minutes	38
List of Reports from the Committee during the current Parliament	39

Summary

There is universal agreement that parliamentary scrutiny of the Government's finances (especially planned expenditure) needs to be improved. Recent changes have made the House's financial scrutiny better, but have not transformed it.

The problem is not the House's *powers* in financial matters but the ability and willingness of the House and Members to scrutinise such matters in the degree of detail required to hold the Government to account. The purpose of financial scrutiny is to make the Government's financial decisions transparent, to give those outside Parliament the opportunity to comment, to have the opportunity to influence the Government's financial decisions, and to hold the Government, individual departments and other public bodies to account, thereby contributing to an improvement in financial decisions and management and improved value for money in public services.

Financial scrutiny is not a narrow exercise of poring over figures, but is about ensuring effective management of finite resources to achieve purposes such as better hospitals or better-equipped troops. Knowledge of Departments' or the Government's finances should underlie and inform much of the work of departmental select committees and the House.

The history of financial scrutiny shows that there was never a golden age in which the House rigorously scrutinised every line of the Government's Estimates and routinely rejected or reduced requests for funding.

The complexity of the Government's financial system

The Government's financial arrangements and reporting are extremely complex, mainly because they bring together three different frameworks created at different times for different purposes: departmental budgets determined in Spending Reviews; Estimates, which seek parliamentary authority for spending which Parliament has not authorised in other ways; and resource accounts. Complicated reconciliations are needed to relate one to another.

This has damaging consequences, including the difficulty of understanding the various reporting documents and of following through from planned spending to actual spending and what it has achieved. Also, parliamentary control is based on Estimates, which are the least comprehensible reporting documents and reflect decisions already made in Spending Reviews. Departments themselves struggle to compile and understand the figures.

Following recommendations by the Treasury Committee, the Treasury has established the Alignment Project to improve consistency between spending plans, Estimates and accounts, making it possible to follow the figures from one document to another. The Treasury will consult "key stakeholders", including the House. The Project will probably result in proposals for major changes in the basis of Parliament's financial control and in the ways the Government reports financial information to the House.

Reducing complexity is fundamental to improving financial scrutiny, as well as financial management in Departments. Much will depend on the detail of the Alignment Project's

proposals, but we emphasise the magnitude of the prize potentially available: a comprehensible and coherent system of planning, authorising and reporting government expenditure, making it possible for the House and select committees to scrutinise the Government's finances far more effectively.

Financial reporting

Parliament is not currently receiving the information required for effective financial scrutiny. Better-quality information is needed rather than greater quantity. The Alignment Project may provide some help, but will not be enough on its own.

The principles which should underlie the Government's financial reporting to Parliament are that it should: include the sort of information which a Department's managers use to monitor performance, rather than just financial control and audit information; enable an overall view of planned expenditure; highlight the information which is significant; relate the information to objectives and to what is achieved by spending the money; identify key risks; use graphs; be provided in good time; use plain English; and enable an assessment of the quality of financial management. The Report makes more specific proposals based on these principles, and invites the Treasury to enter into a dialogue about implementing them.

Improved financial information combined with increased scrutiny by select committees would be a powerful influence in raising the quality of Departments' financial management.

Making financial scrutiny worthwhile

Financial scrutiny will not flourish unless Members regard it as a worthwhile use of their time. This requires: a sensible division of tasks between select committees and the House; ability to engage with financial issues before the Government makes decisions; opportunities to debate and vote on financial decisions after the Government has made them; and expert assistance for Members. The recent Comprehensive Spending Review illustrates the scope for improvement.

The only days available on the floor of the House for debating individual Estimates are the three Estimates Days a year, but these have failed to achieve their potential because of the artificiality of the link with Estimates. The House has too many general debates, in which the Government is rarely challenged, and too few opportunities to challenge the Government on specific matters. The House should take back the right to debate and vote on individual government programmes or items of expenditure. The selection of programmes or items should be made by select committees, and more than the present three days a year should be available for this purpose.

Conclusion

Financial scrutiny is a fundamental part of the House's duty. For too long the House has shirked the task of providing itself with the means to carry out that duty effectively, and it needs to be more assertive. The practical steps we have proposed are achievable, and would benefit the Government as well as the House.

1 Introduction

1. There is universal agreement that parliamentary scrutiny of the Government's finances needs to be improved.
2. This has been reflected in two recent documents. The Hansard Society published *The Fiscal Maze: Parliament, Government and Public Money* in July 2006,¹ in which 20 detailed recommendations were made. And the Committee of Public Accounts (PAC) made proposals concerning financial scrutiny in the same month.² These prompted our own consideration of how financial scrutiny could be improved.³ We held a deliberative session on the matter in October 2006 and subsequently appointed a working group, consisting of our own Chairman and the Chairmen of the Environment, Food and Rural Affairs, Public Accounts and Treasury Committees, to conduct a more detailed examination.
3. The working group gathered information on the organisation and reporting of public finances in the UK, on the Treasury's guidance to Departments on financial management, on financial systems and financial scrutiny elsewhere (including in Scotland), and on the way in which boards of private sector companies scrutinise the finances of those companies. The working group wishes to thank the Treasury for helpful discussions at staff level, and Shell UK for explaining to the working group's staff how a major company reports financial information to its Board. Extensive assistance was received from the Committee Office Scrutiny Unit. The working group's examination has formed the basis of our Report.
4. It is of course for the House as a whole to decide how financial scrutiny can best be conducted and what procedures and information are needed. But, with the House's encouragement (for example through the core tasks),⁴ select committees have played an increasing part in financial scrutiny. Any improvement in financial scrutiny is likely to rely heavily on select committees, which, unlike the House itself, have the capacity for detailed examination which can inform debates in the Chamber. We therefore considered it appropriate for us to examine the matter and make proposals for the House to consider. We believe that our proposals would assist not just select committees but also individual Members and the House as a whole.
5. There have been several recent improvements as regards the House's financial scrutiny, as listed in the box. These are all valuable changes, and have improved the quality of that scrutiny, but, even taken together, they have not transformed it.

1 By Alex Brazier and Vidya Ram.

2 Committee of Public Accounts, Press Notice, *Improving financial scrutiny*, 3 July 2006

3 The most recent select committee reports devoted to this subject are Procedure Committee, Second Report of 1997–98, *Resource Accounting and Budgeting*, HC 438, and Sixth Report of 1998–99, *Procedure for Debate on the Government's Expenditure Plans*, HC 295. But see also para 33 below.

4 *Votes and Proceedings*, 14 May 2002

Recent changes

- Designation in 2002 of core tasks for select committees, including examination of spending plans, Estimates and accounts;
- Creation in 2002 of the Committee Office Scrutiny Unit, which has a team of financial analysts providing briefing to select committees on issues identified in documents published by the Government;†
- Improved links between the National Audit Office (NAO) and select committees other than the Committee of Public Accounts (PAC), including short-term secondments for specific inquiries;
- Increased scrutiny of expenditure-related issues by select committees, exemplified by recent work of the Defence Committee on Estimates, the Environment, Food and Rural Affairs Committee on the Department's budgetary controls and the Treasury Committee on the Comprehensive Spending Review 2007;*
- Extension of the NAO's remit in 2001 to more non-departmental bodies and health bodies, an increase in the number of its Value for Money studies from 50 to 60 a year, and more follow-up reports;
- Improvements in the Government's financial reporting, notably (from 2004) making Supplementary Estimates available at least 14 days before parliamentary consideration rather than eight days before, and provision of Estimates Memoranda with explanatory material.

* e.g. Defence Committee, Eighth Report of 2007–08, *Operational Costs in Afghanistan and Iraq: Spring Supplementary Estimate 2007–08*, HC 400; Environment, Food and Rural Affairs Committee, Second Report of 2006–07, *Defra's Departmental Report 2006 and Defra's Budget*, HC 132; Treasury Committee, First Report of 2007–08, *The 2007 Comprehensive Spending Review*, HC 55. See also Liaison Committee, Third Report of 2007–08, *The Work of Committees in 2007*, paras 35–42.

† See www.parliament.uk/scrutiny

6. The Hansard Society's report compared the effectiveness of the scrutiny of the three main aspects of government finance:

- the Budget and the raising of revenue;
- the planning of expenditure (forward-looking scrutiny); and
- past expenditure (backward-looking scrutiny).

It considered the House's financial scrutiny to be most effective as regards past expenditure and weakest as regards planned expenditure.⁵ We agree with this view, and bear it in mind elsewhere in our Report.

5 Alex Brazier and Vidya Ram, *The Fiscal Maze: Parliament, Government and Public Money* (2006), paras 4.1, 15.2

The purpose of financial scrutiny

7. There has been no decline in the financial *powers* of the House of Commons. The House could still, if it chose, reject the Budget or the Estimates. The reason why the House is unlikely ever to do so (except in a hung Parliament) is that rejection of such major parts of a party's programme would be a matter of confidence, leading to the Government's resignation. This applies in any Westminster-style parliamentary system, and is a fundamental difference from, among others, the US system. Moreover, some of the major decisions on tax raising and spending, such as whether to reduce income tax or to spend more on education, have often been proposed by parties in election manifestos and endorsed by the electorate, so it is unlikely that a majority in the House would wish to change them. Improving financial scrutiny is not about finding ways to force through major changes to the Government's overall revenue-raising and spending plans.⁶

8. What improving financial scrutiny *is* about is making the Government, individual Departments and other public bodies accountable for their financial decisions—in other words, requiring them to justify their revenue-raising and spending plans and, later, to explain whether the expenditure achieved its objectives and, if not, why not. **The current problem is not the House's powers but the willingness and (even more) the ability of the House and its Members to scrutinise financial matters in the degree of detail required to hold the Government to account**, as explained below.⁷

9. In the light of this, we define the purpose of financial scrutiny as follows:

- to make the Government's financial decisions transparent, including the relationship between its stated priorities and its funding decisions;
- to engage bodies and individuals outside Parliament and give them the opportunity to comment;
- to have the opportunity to influence the Government's financial decisions;
- to hold the Government, individual Departments and other public bodies to account for their financial decisions and financial management; and thereby
- to contribute to an improvement in the quality of Departments' financial decisions and management and improved value for money in public services.

10. Financial scrutiny matters because the quality of financial decisions and financial management is likely to be higher if they are made transparent and if those responsible for them know that they will be scrutinised rigorously and mismanagement will be exposed. Better financial scrutiny should therefore result in more efficient and effective public services; to paraphrase the late Robin Cook, former Leader of the House, "Good [financial] scrutiny makes for good Government".⁸ **Financial scrutiny is not a narrow exercise of poring over figures on a balance sheet but is about ensuring the effective management**

6 The IMF league table of the powers of legislatures to review and amend budgets is therefore not a useful guide to the adequacy of financial scrutiny.

7 See para 13.

8 Select Committee on Modernisation of the House of Commons, Session 2001–02, *Memorandum submitted by the Leader of the House of Commons*, HC 440, para 2

of finite resources to achieve purposes such as better hospitals or better-equipped troops. Better financial scrutiny would have advantages for the Government as well as for the public and for Parliament.

11. Although we deal only with financial scrutiny in this Report, that does not mean we regard it as necessarily a separate aspect of scrutiny. In select committee work, financial scrutiny is often most effective when conducted in conjunction with analysis of the policies which result in the expenditure and of the outcomes of that expenditure. Finance and performance are inseparable, and examination of performance provides a link to administration and policy. **Knowledge of the Department's finances should underlie and inform much of a departmental select committee's activity, including examination of policy and administration, and knowledge of the Government's finances should similarly underlie and inform much of the House's own work.**

What is needed

12. Our assessment of the factors which make financial scrutiny difficult and unattractive underlies this Report. Those factors are:

- the unnecessary complexity of government finances;
- the fact that the financial information presented by Government to Parliament is often hard to understand and does not provide all the information needed for scrutiny;
- the difficulty of pursuing financial matters on the floor of the House and attracting wider interest among the media, the public and Members in general.

13. **The reason why we question the ability at present of Members to hold the Government to account for its financial decisions is that, as just indicated, several of the fundamental requirements for doing so are missing. These missing requirements are:**

- **a financial system which is coherently organised and comprehensible;**
- **provision to Parliament of information suited to the purpose set out in paragraph 9 above;**
- **the opportunity to debate on the floor of the House specific items of expenditure or the objectives of expenditure and if necessary to vote on them.**

14. There are many other calls on Members' time, and there is no point in exhorting them to devote more time to financial scrutiny unless these basic requirements are met. On the other hand, it is up to Members to ensure that they are. After a brief survey of the historical background, our Report looks in turn at each of the basic requirements and indicates how they could be met.

2 A short history of financial control and scrutiny

Taxation

15. The requirement for Parliament's consent to taxation was of course the basis of Parliament's early development, and more particularly of the origins and development of the House of Commons, which monarchs summoned mainly to agree to taxes.⁹ It was finally established definitively in the seventeenth century that no tax *or other levy* could be imposed without Parliament's consent. Following the Glorious Revolution of 1688–89 the Crown's ordinary revenue was kept short of what was required, and the extra needed, including any required for the army, navy and ordnance, was authorised by Parliament for only one year at a time. At about the same time it became established that requests for expenditure should be initiated only by the Government. But the gradual establishment in the eighteenth and early nineteenth centuries of the principle that Governments must be able to command a majority in the Commons made it unlikely that the House would use its hard-won control over taxation to reject a Government's tax proposals. Nevertheless the existence of that control over taxation continues to underpin the House's relationship with the Government.

Expenditure

16. Control and scrutiny of expenditure required five things:

- establishment of the right of the Commons to “appropriate” money to particular uses;
- effective arrangements for doing so;
- effective arrangements for examining whether the sums requested were reasonable;
- accurate, comprehensive and timely accounts of actual expenditure; and
- effective arrangements for examining that expenditure.

17. Appropriation of the revenues granted to specific uses occurred intermittently in the 1660s and 1670s and consistently from the early eighteenth century. Estimates indicating the sums needed began to be presented systematically in the 1690s, at first only for the army and navy and as a means of justifying the grant rather than controlling expenditure. The Committee of Supply (a form of the Committee of the Whole House) considered the need for supply and the sums to be granted, though apparently not in much detail. But this process was limited in two ways. First, the House had not established a right to examine and control Civil List expenditure (which then covered the ordinary expenses of the Government, as opposed to extraordinary expenses such as wars). Secondly, in the absence of adequate and prompt accounts (some accounts took 20 years to be presented) it was difficult to link a specific tax with the spending it was supposed to have been used for. In

9 This chapter is based on Paul Einzig, *The Control of the Purse: Progress and Decline of Parliament's Financial Control* (1959); Kenneth Mackenzie, *The English Parliament* (1951); Public Bill Office, *Supply Procedure and the Work of the Clerk of Supply* (2005), Appendix A.

practice appropriation applied only to military expenditure, where, for example, the Commons could control the size of the army. Moreover, by 1715 the scrutinising of accounts came to be seen as politically partisan, and was largely abandoned until the 1780s.

Spending plans

18. Control and scrutiny of expenditure was gradually established between the 1780s and the 1860s. In 1782 the Commons established its right to control civil expenditure, and the practice of appropriation was gradually extended to civil expenditure, a process largely completed by 1837. A Consolidated Fund, replacing innumerable separate accounts which were hard to supervise, was created in 1787, but some taxes and loans continued to bypass it until the 1850s, by which time it was accepted that (with few exceptions) all public revenue should contribute to the Fund and all public payments be provided from it. From 1802 an overall statement of receipts into and payments out of the Exchequer was made annually. Estimates became both more comprehensive, as they were extended to civil expenditure, and more detailed.

19. Estimates were considered in the Committee of Supply, which could reduce or reject them, and the Committee occupied an increasing amount of the House's time (231 hours in 1887). However, a body of 600 or so Members was ill-suited to detailed financial scrutiny, and there was no mechanism for selecting for debate those Estimates which raised new or significant issues. As the Chairman of Ways and Means pointed out in 1888, debates were seldom of a financial character, but were concerned mainly with policy. Estimates were sometimes reduced, and 30 instances of government defeats have been listed from 1858 to 1921,¹⁰ but these were sometimes very specific matters, such as refusal to continue provision for a Travelling Agent of the National Gallery in 1858, and refusal of provision for a second bathroom for the Lord Chancellor in 1919. The Committee which examined supply procedure in 1888 concluded that "the actual reductions of the Votes by the Committee of Supply have been apparently slight in proportion to the amount of Parliamentary time occupied in the consideration of the Estimates", though it had no doubt that "discussion in the Committee of Supply has had a considerable effect in preventing increase of expenditure".¹¹

20. The Balfour reforms of 1896–1902 broke the link between the votes on Estimates and debate. On the grounds that the Committee of Supply was in fact used to discuss policy, and that most Members preferred to discuss policy, 20 days known as Supply Days¹² were allocated to discussion of policy, whether or not connected with an Estimate, and votes on the Estimates were to be put without debate at the end of that time. Once the Government had a guaranteed vote, it ceased to be concerned about the subjects of debate, and the days became, in effect, Opposition days, which is how the bulk of them are now described. Even so, it remained possible to have a separate *vote* on individual Estimates until 1982.

21. In 1912 the House began to experiment with select committees as a way of examining Estimates, and an Estimates Committee or similar body has existed almost continuously since then. However, there was no link between these committees' proceedings and Supply

10 Einzig, *Control of the Purse*, pp. 266–75

11 HC (1888) 281, p. iii, quoted in Public Bill Office, *Supply Procedure*, p. 227

12 The successors of these days are the current Opposition Days, Estimates Days and debates on defence.

Days on the floor of the House. The Estimates Committee was subsequently replaced by the Expenditure Committee, which, with its sub-committees, was the precursor of the departmental select committees, set up in 1979 with the role of examining the “expenditure, administration and policy” of each Department.¹³ The latter change has been the most important development in financial scrutiny in the past half-century.

22. In 1998 the Government introduced Spending Reviews, which set budgets for Departments for three years, but these are separate from the Estimates system, contain figures compiled on a different basis, and are not submitted to Parliament for approval.¹⁴

Accounts

23. Examination of actual expenditure was on an *ad hoc* basis until the nineteenth century. Even the annual accounts of all receipts into and payments out of the Exchequer (legislated for in 1802) did not show the actual expenditure made using those funds. In 1857 the Select Committee on Public Monies recommended that annual accounts of each civil department or military service be submitted to Parliament and audited, and that a committee be appointed to consider the audited accounts. The recommendations were eventually implemented and gave rise to the system which continues little changed in its essential features today: the Committee of Public Accounts (PAC) came into existence in 1861 and the Exchequer and Audit Departments Act was passed in 1866, establishing the Comptroller and Auditor General (C&AG) and the Exchequer and Audit Department (the predecessor of the National Audit Office). The first complete audited accounts of the whole of the Government were laid before Parliament in 1869. The accounts were intended to be consistent with the Estimates.

24. The PAC and the C&AG initially concentrated on the *regularity* of expenditure, contributing greatly to improved standards of accounting, but from the late nineteenth century they were increasingly concerned with the economy and efficiency of expenditure. However, it was not until the National Audit Act of 1983 that the C&AG’s value for money work was put on a statutory basis and he was permitted to make such reports independently of audited accounts. Since then, value for money studies have formed the basis of most PAC hearings.

25. The National Expenditure Committee noted in 1917 that the system of Estimates and Accounts was inadequate for any real control of expenditure because they recorded only the cash actually paid and received in a specific year (the so-called “penny notebook” system of accounting). This and the way expenditure was classed under Votes and Subheads made it impossible to determine what the real total expenditure was or would be for any specific purpose. The problem noted by the Committee was resolved only in 2001–02, with the replacement of cash-based Appropriation Accounts by Resource Accounts, compiled on an accruals basis similar to that of commercial accounts.¹⁵

13 Standing Order No. 152

14 See para 27 below.

15 From 2009–10, Resource Accounts will follow international, rather than UK, financial reporting standards, and a set of “whole of Government accounts” will be presented for the first time, bringing together the financial position of central government, local authorities and the National Health Service.

Conclusion

26. Several conclusions can be drawn from this historical survey:

- **There was no golden age in which the House rigorously scrutinised every line of the Government's Estimates and accounts and routinely rejected or reduced requests for funding.** Not long after a proper accounting system was established in the second half of the nineteenth century the House largely abandoned any attempt to debate Estimates in detail.
- The prerequisites for effective scrutiny are the same as they have always been, including comprehensive, accurate and timely accounts.¹⁶
- The hard-won gains of the past, such as comprehensive, accurate and timely accounts and formal control by the Commons over revenue-raising and expenditure, are still fundamental to an effective scrutiny system and should not be taken for granted. Ensuring financial integrity and regularity remains a key role of parliamentary scrutiny.
- **Neither scrutiny on the floor of the House independently of select committees nor scrutiny by select committees without any link to proceedings on the floor is likely to be as effective as combining detailed work by select committees with debate on matters of particular interest on the floor, for example through select committees choosing financial matters for debate.** The House has never achieved this in the past except to a small extent with the Estimates Days established in 1982.
- There is a natural tendency for debating opportunities intended for financial matters to turn into general policy debates, as with the Committee of Supply before 1896 and to some extent Estimates Days more recently. In our view this can be countered by making financial scrutiny less difficult, as discussed in the next two chapters, and making it as far as possible an integral part of scrutiny of policy.
- In devising arrangements for financial scrutiny, it is important to be clear about what the House is seeking to achieve and about the role which the House and Members can usefully perform in financial matters.

¹⁶ See para 16 above.

3 The Government's financial system

Complexity

27. The characteristics needed in the Government's financial reporting are comprehensiveness, clarity and transparency. Unfortunately the UK Government's financial arrangements and reporting are exceptionally complex, resulting in a lack of transparency.¹⁷ This complexity results mainly from the fact that they bring together three different financial frameworks created at different times for different purposes:¹⁸

- Departmental budgets, largely determined in Spending Reviews and used by the Government to control public spending; they are administrative controls rather than giving authority to incur expenditure;¹⁹
- Estimates, which seek (annually) parliamentary authority for expenditure which Parliament has not authorised in other ways; and
- Resource Accounts, which report the expenditure Departments have actually made (the "outturn").

28. Since all these operate on different bases, it is extremely hard to read across from one to another, and complicated reconciliations are needed to relate them to each other. In particular:

- more than a third of government spending included in budgets is not voted in Estimates (for example "standing charges" such as judges' salaries which are authorised by existing legislation and therefore do not need annual approval);²⁰
- conversely, about a sixth of what is included in Estimates is not included in budgets (mainly Departments' grants to Non-Departmental Public Bodies and block grants to the devolved administrations);
- about a quarter of expenditure and income in Resource Accounts is not in Estimates;
- of the 53 types of transaction, 34 fully align across budgets, Estimates and Resource Accounts, but the remaining 19 do not; and
- there are similar misalignments between the capital spending recorded in each framework.

17 For a description of the system (and scrutiny of it) see Committee Office Scrutiny Unit, *Financial Scrutiny Uncovered: How the Government Manages its Finances and how Parliament Scrutinises them* (www.parliament.uk/parliamentary_committees/scrutinyunit/reports_pubs.cfm).

18 A fourth framework is that of the National Accounts, used in fiscal and monetary policy (e.g. for the Chancellor's "golden rule").

19 Spending Reviews determine Departmental Expenditure Limits (DELs), but not Annually Managed Expenditure (AME), such as social security benefits, which the Government does not think it appropriate to subject to firm multi-year limits.

20 In 2006–07, the Estimate for the Department for Environment, Food and Rural Affairs was under-spent by £751 million (12%), while its budget was over-spent by £17 million.

The causes of these misalignments and the reasons for them are set out in Annex 1.

29. The problem is reflected in the contents and the number of documents which report planned or actual expenditure to the House. There are twelve types of reporting document (Table 1). This looks like an embarrassment of riches, but it is not, both because the figures in the different documents cannot easily be compared and because the information is not always presented in a helpful way or adequate for the purposes of scrutiny, as we discuss in the next chapter.

Table 1. Current financial publications presented to Parliament

Publication	Purpose	Type of financial data included	Date published
Spring/summer			
Main Estimates	Seek parliamentary approval for Departments' resource and cash requirements for current financial year	Estimates	April/May (5 weeks after Budget)
Supplementary Budget Information (SBI)	Reconciles between spending plans in Main Estimates and Departmental Reports	Estimates and budgets	April/May (5 weeks after Budget)
Public Expenditure Statistical Analyses (PESA)	Bring together outturn data and spending plans for UK public expenditure as a whole	Budgets	April/May (5 weeks after Budget)
Departmental Reports	Provide an overview of Departments' performance and spending plans	Budgets	May
Summer Supplementary Estimates	Seek parliamentary approval for changes to Departments' in-year resource and cash needs	Estimates	June
Departmental Resource Accounts	Report Departments' outturn for the previous financial year against plans	Accounts	June/July
Public Expenditure Outturn White Paper	Provides provisional outturn data for Estimates and various budgeting controls	Estimates and budgets	July
Autumn/winter			
Autumn Performance Reports	Report Departments' performance against their Public Service Agreements	–	November
Winter Supplementary Estimates	Seek parliamentary approval for changes to Departments' in-year resource and cash needs	Estimates	November
Votes on Account	Seek parliamentary approval for Departments' spending in the early months of the next financial year	Estimates	November

Spring Supplementary Estimates	Seeks parliamentary approval for changes to Departments' in-year resource and cash needs	Estimates	February
Statement of Excesses	Seek parliamentary approval for overspends	Estimates	February

Source: HM Treasury

Results of complexity

30. This situation has damaging consequences for parliamentary scrutiny:

- Even Members with financial or business experience struggle to understand the financial information provided.
- Nowhere is the whole of planned spending by the Government or by individual Departments set out and broken down by objective or otherwise, in a way which would make it possible to see how funding matched the Government's stated priorities.
- Parliament approves the Estimates, but Estimates reflect decisions already made on budgets in the Spending Reviews. These Reviews are the real decision-making process, but they receive hardly any parliamentary scrutiny. Furthermore, little of the information explaining Departments' expenditure proposals relates to Estimates, which are the least informative of the documents.
- It is extremely difficult to follow through from planned spending to actual spending and subsequent examination of what the spending has achieved.
- Performance reporting, based on Public Service Agreements (and now also Departmental Strategic Objectives), does not relate to the expenditure approved by Parliament in the Estimates, but instead to the Spending Review figures.

Had such a system been deliberately designed, it could fairly be assumed that it had been set up with the specific purpose of making it impossible to hold the Government and Departments to account.

31. But the consequences extend beyond parliamentary scrutiny, since Government Departments themselves struggle to compile and understand the figures. The complexity is burdensome and costly to them, makes the control of spending more difficult and weakens the incentives for good financial management and the ability to provide it. As the Government has put it, "the current state of affairs can be confusing for users and consumers; restricts good financial management in Departments; is costly and inefficient for Government; and makes it difficult for the House of Commons to track how resources are being used".²¹

21 Ministry of Justice, *The Governance of Britain*, Cm 7170 (July 2007), para 110. See National Audit Office, *Managing Resources to Deliver Better Public Services*, HC 61 (2003–04).

32. It could be argued that government finances are inherently complex, and will only ever be understood by experts. We reject this view. Undoubtedly the financial processes and the details of financial management are and will remain complex, but **the overall shape of the Government's finances and changes in it are matters which could and should be presented comprehensibly, like the overall finances of any other organisation.**

Plans for reform

33. The Treasury Committee, chaired by a member of the working group, commented in June on the disjunction between the sums formally authorised by the House and those set out in the Comprehensive Spending Review, and recommended:

that the Government set itself the ambition to replace the current system of authorisation based primarily on Estimates with one linked more clearly with the public expenditure planning and control system, so that the House of Commons would eventually be in a position to consider and, should it so choose, authorise Departmental Expenditure Limits and an annual total for Annually Managed Expenditure,²² giving greater relevance to subsequent consideration of expenditure in excess of such limits requiring subsequent approval.²³

34. The Government responded in its *Governance of Britain* Green Paper that it would improve the transparency and accountability of government expenditure, in line with the Treasury Committee's recommendations. In particular it "will ... simplify its reporting to Parliament, ensuring that it reports in a more consistent fashion, in line with the fiscal rules, at all three stages in the process; on plans, Estimates and actual expenditure outturns." It notes that this "will make it easier for Parliament to understand how the Government has used the resources voted to it, and thus to hold the Government to account. It will also mean greater administrative efficiency."²⁴

35. The Treasury has established a project known as the "Clear line of sight" or the Alignment Project. Its objectives are to:

- "align budgets, Estimates and accounts in a way that allows [the Treasury] to control what is needed to deliver the fiscal rules, incentivises value for money, and reduces burdens on government departments.
- "combine and/or align the timing of publication of government financial reporting documents ... in order to avoid duplication and make them more coherent, and simplify the language/terminology used in them to bring it more into line with commercial practice."

36. The Project's "vision" (which awaits approval by stakeholders) is "to create a single, coherent financial regime, that is effective, efficient and transparent, enhances accountability to Parliament and the public, and underpins the Government's fiscal

22 Each Department has a budget – DEL (Departmental Expenditure Limits). This does not cover Annually Managed Expenditure (AME), but the Government's overall expenditure plans encompass aggregate AME.

23 Treasury Committee, Sixth Report of 2006–07, *The 2007 Comprehensive Spending Review: Prospects and Processes*, HC 279, para 110

24 Ministry of Justice, *The Governance of Britain*, Cm 7170 (July 2007), paras 109–111

framework, incentivises good value for money and supports delivery of excellent public services by allowing managers to manage.”

37. The Project is highly ambitious. It is likely to result in proposals for changing the whole basis of Parliament’s financial control, shifting this to a system based on the controls currently used in budgets (Departmental Expenditure Limits, or DELs, and Annually Managed Expenditure, or AME, together with the Net Cash Requirement), and for a recasting and consolidation of the entire range of reporting documents. It may not be possible to remedy all the misalignments, and there are likely to be some difficult issues to resolve. The extent to which the House approves any breakdown within the overall departmental totals and the level of detail which the House is informed of will need to be considered. The Project will take time: detailed project planning took place from January to March 2008, the new system will be designed in 2008–09, implementation planning will take place in 2009–10, and implementation of the new system is intended to begin in 2010–11, subject to resolving legislative and other issues.

Conclusion

38. We regard removing complexity from the Government’s financial system as fundamental to improving financial scrutiny, as well as to improving financial management in Departments. The Alignment Project offers the possibility of achieving this. In revising the basis of Parliament’s financial control and the system of reporting to Parliament, it is potentially a historic development in the long story of Parliament’s scrutiny of government finances.

39. The Alignment Project is still at a very early stage, and much will depend on the detail of any proposals. We cannot speak for the House as a whole in this matter. The Treasury has undertaken to consult “key stakeholders”, including the House, and we would be happy to assist in that consultative process, which needs to extend beyond members of select committees. Any change in the form of the Estimates requires approval by the PAC and the Treasury Committee, but the scope of the changes which may be proposed suggests that approval by the House will be needed. We note that the Steering Committee includes one of the Principal Clerks of Select Committees and a representative of the NAO. We particularly welcome the involvement of the NAO.

40. In the meantime we emphasise the magnitude of the prize which is potentially available: a comprehensible and coherent system of planning, authorising and reporting government expenditure, making it possible for the House and select committees to scrutinise the Government’s finances far more effectively. We commend the Alignment Project to the House.

4 Financial reporting

Introduction

41. Clear, comprehensive, accurate and timely information about the Government's revenue and expenditure is fundamental to Parliament's financial scrutiny. The problem at present is the clarity and comprehensiveness of the information provided. Parliament is not currently receiving the information required for effective financial scrutiny.

42. We emphasise that what we are calling for in this chapter is not necessarily *more* financial information. What is needed is *better-quality* financial information, more suited to the needs of Parliament and in particular to the purposes set out in paragraph 9 above.

43. Some of the problems concerning information may be remedied by the Alignment Project. Reduced complexity in the financial system should make the financial information provided easier to understand, and the Project will also address the number and types of financial document provided (possibly reducing them to two consolidated documents per year in December and June) and the language used in them. But we believe any changes need to be based on a fundamental reconsideration of the character of the financial information needed by Parliament to do its job.

44. Since scrutiny of the Government's finances is fundamental to parliamentary democracy, it is up to the House to determine what financial information it requires to do its job effectively and, if necessary, to insist on that information being provided. But we envisage a process of constructive dialogue with the Treasury over this, in the context of the Alignment Project.

The problem

45. Like the different aspects of the financial system, different aspects of financial reporting have developed to meet specific needs, without much consideration of how they relate to each other. One aspect of this is the sheer number of reporting documents, set out in Table 1 above. Another is the fact that the figures in one cannot easily be related to those in another, for reasons already discussed. But in some cases the information just happens to be presented in an unnecessarily unhelpful way.

46. The prime example of this is Supplementary Estimates. They are of great length (e.g. 536 pages for the 2007–08 Winter Supplementary Estimates).²⁵ The problem is not only that they lack a useful table of contents, index or logical principle of arrangement (such as alphabetical). More seriously, while they show changes in particular sub-heads, it is extremely hard to deduce the significance of these changes and virtually no indication is given of the reasons for the changes. Estimates Memoranda for select committees were introduced in 2004 to explain the changes and how they related to spending limits and departmental targets, and have been a welcome innovation, though in our Report of 2006

25 HC 29 (2007–08). For shortcomings, and recent improvements, in Departmental Annual Reports, see the Committee Office Scrutiny Unit's review of the 2007 Reports (www.parliament.uk/parliamentary_committees/scrutinyunit/reviewofdr2007.cfm).

we sought to ensure that Departments made them more consistently helpful.²⁶ In October 2007 the Treasury issued new guidance on Estimates Memoranda which may result in improved quality.²⁷ Nevertheless, in practice select committees rely heavily on the Committee Office Scrutiny Unit to explain the significance of Supplementary Estimates.

47. There is a more basic reason why some current financial reporting is not helpful for scrutiny, which is that it exists primarily for the purposes of financial control or audit. This sort of information is essential, and effective processes of financial control and audit are fundamental, but it is not the only information needed for scrutiny.

What is needed

48. We set out here the principles which we believe should underlie the Government's financial reporting to Parliament:

- it should include the sort of information which a Department's managers, including ministers, use to monitor the Department's performance, rather than just financial control and audit information;
- it should enable an overall view of planned expenditure;
- it should highlight the significant information, especially major changes within years or from one year to another (since these are usually what is politically significant) and substantial underspends and overspends, rather than cocooning such information in a mass of detail;
- it should present information in such a way that it can be related to objectives and eventually to what has been achieved by spending the money (with commentary in due course on the relationship between the planned and actual outcomes);
- it should identify key risks in relation to the Department's budget and objectives;
- it should present information graphically where this would make it easier to understand;
- it should be provided in time for select committees to scrutinise it before decisions are taken on it by the House;
- it should use plain English as far as possible; and
- it should provide the information needed to assess the quality of financial management.

49. On that basis, the budget for a Department would provide the following at the start of the period covered:

- a clear view of the overall budget and its allocation, including any control totals such as administrative costs;

²⁶ Liaison Committee, Third Report of 2005–06, *Estimates Memoranda*, HC 1685

²⁷ HM Treasury, *Supply Estimates: a Guidance Manual* (Oct 2007), Annex 6.F

- costs presented by objective;
- information on trends (this is already provided, but could possibly be presented as graphs);
- planned outputs and targets;
- unit costs of key activities and outputs where identifiable, with benchmarking if possible;
- highlighting of significant changes from the previous years and anything unusual, with explanations;
- identification of key risks; and
- explanatory notes comparable to the better Estimates Memoranda, drawn up in accordance with clear guidelines.

Most of these requirements also apply to budgets for the Government as a whole.

50. Subsequently, for the period covered by the budget, Departments should provide the following information:

- changes in the budget within the year, identifying the sources of funding for any additional expenditure;
- variances during the year from planned spending profiles (beyond a defined threshold such as 10% or a particular sum), covering under-spends as well as over-spends,²⁸ perhaps quarterly; and
- outturn information which can be clearly related to the earlier plans, with explanations where necessary (which would require some Departments to improve their own financial information systems).²⁹

51. Clear definitions of what must be reported, and consistency between Departments, will be essential. In all cases the commentary is as important as the numbers.

52. In addition, Members should be able to examine how Departments manage their finances, so as to be able to assess the effectiveness of that financial management and to question managers within Departments from a position of knowledge. **We recommend that each Department publish an annual statement in plain English about its internal financial planning processes and control mechanisms.** We note that the annual audit and inspection letters sent by the Audit Commission to local authorities are published,³⁰ and **we recommend that the management letters provided to Departments by the National Audit Office identifying areas of significant weakness in financial control be published by Departments.**

28 See National Audit Office, *Managing Financial Resources to Deliver Better Public Services*, HC 240 (2007–08), para 4.10, for lack of scrutiny of under-spends.

29 *Ibid.*, para 3.7

30 www.audit-commission.gov.uk/asl/lg2007.asp

53. It would of course be inappropriate in 2008 to regard financial control and reporting as a primarily paper-based process. The fact that it is not may offer new opportunities. **We believe that Departments should move towards a system where data in their electronic management accounting and information systems are accessible to Members and Members are able to interrogate that data.**

Information on revenue

54. On the tax side, we believe that, in addition to what is currently provided, the House should receive:

- the forecasts which ministers receive of revenue profiled monthly over the year, which would make it possible to examine whether revenues from particular tax streams were as planned in each month;
- monthly outturn data on individual tax streams (monthly information is made public on the ONS website and annual information in the HMRC Trust Statement, but such data could be made more easily available);
- monthly information on the variance between plans and outturn (this information is currently available only on an annual basis); and
- information on the costs and administrative burden for taxpayers of each tax stream, to supplement data currently produced annually (in HM Revenue & Customs' Autumn Performance Report) on ratios of revenue to cost.

55. We urge the Government to make more consistent use of the Pre-Budget Report as a means of consultation about its revenue-raising plans.³¹

Other types of information

56. Scrutiny of Private Finance Initiative (PFI) schemes is difficult because contracts are regarded as commercially confidential, and select committees have tended to avoid inquiring into them in the expectation that the necessary information will not be forthcoming. Claims of confidentiality can also be a problem as regards financial information on other projects, such as large IT projects. However, we note that the UK Information Commissioner and the Information Tribunal have rejected arguments that contracts between a public authority and a commercial organisation are necessarily wholly exempt from disclosure as commercially confidential and ruled that such contracts should be disclosed in response to Freedom of Information requests unless there would be prejudice to the commercial interests of one of the parties,³² and that Scotland's Information Commissioner has ordered the disclosure of most of the terms of a PFI contract.³³ Special arrangements are made for the NAO to see information about PFI

31 See Treasury Committee, Second Report of 2007–08, *The 2007 Pre-Budget Report*, HC 54, paras 74–6; Treasury Committee, Seventh Special Report of 2007–08, *The 2007 Pre-Budget Report: Government Response to the Committee's Second Report of Session 2007–08*, HC 429, p.10.

32 Information Tribunal, Appeal No. EA/2006/0014 (Derry City Council & The Information Commissioner)

33 Scottish Information Commissioner, Decision 190/2007 (Ms May Docherty & Lothian NHS Board)

schemes on a confidential basis, and **we recommend that provisions similar to those relating to the NAO be made in PFI contracts to enable the Government to pass information to select committees.** It is inherent in the House's right to control expenditure that the House and select committees should have access to sufficient information about PFI contracts to make possible an assessment of whether they offer value for money, of the extent to which public bodies are locked into long-term commitments and of the extent to which risk is transferred to the private sector or retained within the public sector.

57. Similar considerations apply to Efficiency Reviews, in which the efficiencies achieved by Departments under the Gershon programme are assessed. These are regarded as confidential, but we welcome the fact that the Government has been willing recently to let select committees see these in confidence.

58. It need hardly be said that the quality and availability of financial information from Departments' associated public bodies and other recipients of public money should be as good as that from Departments themselves. We received some information, for example in respect of the Culture, Media and Sport Committee, concerning problems in obtaining financial information. A code of practice for Non-Departmental Public Bodies would be worthwhile in due course, based on the standards set for Departments.

Language

59. We welcome the fact that the Alignment Project will examine the language used in the financial information provided to Parliament with the aim of making it more easily comprehensible. We emphasise the importance we attach to this, and our willingness to depart from established terms if replacing them promotes clarity and understanding and does not create new uncertainties.

Conclusion

60. We believe improved financial information combined with increased scrutiny by select committees would be a powerful influence in raising the quality of Departments' financial management. Select committees, the House and the Treasury have a common interest here.

61. We have called in this chapter for a major overhaul of the financial information provided to Parliament and the principles underlying it, in accordance with the aims set out in paragraph 9 above and with the aim of improving the quality of financial information rather than necessarily increasing its quantity. We recognise that much detailed work will be needed on this, and that it will take time, depending partly on the progress of the Treasury's Alignment Project. **We invite the Treasury to enter into dialogue with us about how our proposals should be implemented, and suggest that testing them first on a single Department or several Departments may be the best way forward.**

5 Making financial scrutiny worthwhile

62. Financial scrutiny is unlikely to flourish unless Members see it not only as important but also as a worthwhile use of their time. For that, we consider the following is needed:

- a sensible division of tasks between select committees and the House itself, with the detailed work of select committees contributing to proceedings on the floor of the House;
- ability to engage with financial issues under discussion within Government before decisions are made;
- adequate opportunities to debate and vote on financial decisions, including specific spending proposals, after the Government has made them; and
- expert assistance for Members on financial matters.

Greater interest in the media in financial issues would also be helpful, but as we cannot influence this directly we say no more about it here.

63. We have already stated that improved financial scrutiny is not about forcing through major changes in the Budget and spending plans.³⁴ It is almost universal in parliamentary systems, whether Westminster-style ones or not, that the Government not only proposes the Budget (which in most other countries includes the spending plans), but, regardless of whether the scope allowed for amendments is large or small, has its Budget authorised with little or no change.³⁵ The Budget debate in the Commons is partly symbolic (though an important symbol of the Commons' authority) and partly an occasion for the parties to explain their financial policies, rather than an opportunity to amend the Budget provisions. The quality of a Parliament's financial processes depends much less on whether the tax or spending plans for the next year can be changed than on the extent to which those plans are exposed to scrutiny. The main problem with Estimates, for example, is not that they remain unaltered but that they are not adequately scrutinised.

64. Parliament is more likely to be able to influence tax and spending plans for future years than for the immediately ensuing year, so there would be advantage in focusing financial scrutiny on a somewhat longer period, such as the three years of Spending Reviews.

Spending Reviews

65. These issues are thrown into sharp relief by the Spending Review process, and especially the recent Comprehensive Spending Review (CSR). The CSR encompasses the Government's most important spending decisions, determining Departments' spending for the forthcoming three years. It was intended to be a zero-based review of spending, requiring Departments to justify all expenditure rather than largely rolling it forward from one year to the next. Subsequent Estimates will reflect decisions already made in the CSR.

³⁴ See para 7 above.

³⁵ David McGee, *The Budget Process: a Parliamentary Imperative* (2007), pp. 77–8

And yet only limited information was available about the process. Two documents were published in 2006, described by the Treasury Committee as “one focused principally on departmental efforts to secure improved value for money, and one concentrating on very long-term issues with little direct reference to spending decisions within a three-year timeframe”.³⁶ Some Public Service Agreements and Departmental Strategic Objectives were sent in draft to select committees.³⁷ Decisions on several Departments’ spending totals were announced in advance of the results of the CSR as a whole. The announcement was, as is usual for Spending Reviews, made as a ministerial statement (jointly in this case with the Pre-Budget Report), allowing only an hour and a half of statement and questions and answers on the Government’s main spending decisions for a three-year period. The Government agreed with the Treasury Committee that “a debate on the [Comprehensive Spending Review] should be held in the House of Commons”,³⁸ but no such debate has yet taken place.

66. The CSR is of course a negotiating process within Government, and it would be unrealistic to expect the details of that process to be made public as it proceeds. Nevertheless, there is scope for the House to be engaged in the process. We make the following recommendations:

- **In future Spending Reviews the Treasury and other Departments should publish information about the framework within which the negotiations are taking place, and this should include the draft Public Service Agreements and Departmental Strategic Objectives setting out what the spending is intended to achieve. We note the Treasury Committee’s recommendation, made before the results of the CSR were published and not accepted by the Government, that each Department should inform the relevant select committee about “the Government’s emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation”,³⁹ and we endorse it.**
- **It is absurd that the outcome of the Comprehensive Spending Review was discussed for only an hour and a half in the Chamber, and makes a mockery of the House’s right to scrutinise government expenditure. We recommend that the results of Spending Reviews be the subject of a day’s debate on the floor of the House some weeks following the initial announcement, and that the timing be such that select committees can report on the outcome in order to inform that debate.**
- **Following the completion of Spending Reviews, select committees should consider examining how the Department is allocating its spending total across its various programmes. This will depend on Departments making the necessary information available earlier, well before the start in April of the Spending Review period,**

36 Treasury Committee, Sixth Report of 2006–07, *The 2007 Comprehensive Spending Review: Prospects and Processes*, HC 279, para 97

37 Treasury Committee, First Report of 2007–08, *The 2007 Comprehensive Spending Review*, HC 55, Ev 21–34

38 Treasury Committee, Seventh Special Report of 2006–07, *The 2007 Comprehensive Spending Review: Prospects and Processes: Government Response to the Committee’s Sixth Report of Session 2006–07*, HC 1027, response to recommendation 2

39 HC (2006–07) 279, para 104; HC (2006–07) 1027, response to recommendation 20

instead of committees having to wait for the next Departmental Annual Report in May.

67. The Alignment Project may make further changes necessary, particularly if the departmental budgets determined by Spending Reviews were to form the basis of the House's control of expenditure.

Select committee activity

68. Examination of Departments' finances is already a core task of departmental select committees, and virtually all of them examine the Department's Annual Report, with nearly half producing their own report on it. We believe they have three main roles in financial scrutiny:

- examining the Department's main reporting documents, as most already do. This role may be simplified and made more rewarding by the outcome of the Alignment Project;
- specific tasks, including examining how the Department allocates its spending totals across its programmes, identifying any weaknesses in the Department's financial management,⁴⁰ and examining significant changes made by the Department in its spending plans; and
- taking account of finance and performance in inquiries mainly concerned with policy or administration.

Some of this work can be done at staff level, with only the significant issues identified by staff needing to take up Members' time.

Co-operation between committees

69. The Public Accounts Committee and departmental select committees have different roles: the former examines the implementation of policy rather than the merits of policies, whereas the latter can examine both implementation and merits. Another major difference is that the PAC covers the whole of Government, whereas the departmental select committees focus on a single Department and so can spend more time on an inquiry. We believe there is scope for greater co-ordination between the work of the PAC and the departmental select committees, with each strengthening the impact of the other's work without interfering with the other's remit or its discretion in choosing inquiry subjects. In particular, the PAC could pass on issues of concern to departmental select committees, with commentary, to alert them to such issues, especially if these issues were outside the PAC's remit or current programme or the departmental select committee were better placed to follow up the issue because of its previous work. We note two circumstances when the passing on of issues by the PAC would be particularly beneficial: when lessons drawn from past activity are relevant to a Department's future plans and policy-setting, and when conclusions drawn from the activity of one Department are relevant also to other Departments. The departmental select committee to which an issue is referred could

40 See para 52 above.

request supporting information from the NAO, and could, if it so decided, follow up the issue.

70. In the other direction, it is possible for departmental select committees to refer matters to the Comptroller and Auditor General (C&AG) as possible subjects of inquiry, though we suggest that they copy any such proposals to the PAC. The C&AG has, by statute, absolute discretion in discharging his functions and selecting matters for examination, but is required, in making his selection, to take into account any proposals made by the PAC.⁴¹

71. One of the most important recent changes has been that the NAO now provides assistance to select committees other than the PAC. **We welcome the fact that the NAO is increasingly assisting select committees other than the PAC, and we are keen to see this work develop further.**

Changes in the structure of committees

72. We have not looked in detail at proposals for new types of committee or sub-committee because we do not regard changes in structures as one of the more important or urgent issues. As regards the proposal in the report published by the Hansard Society that finance and audit sub-committees of departmental select committees be piloted,⁴² there are varying views among chairmen, but it is already within the power of those committees to set up finance and audit sub-committees if they wish.

Financial matters on the floor of the House

73. We have already indicated that financial scrutiny is likely to have most impact when the detailed work of select committees is combined with the higher profile of a debate in the Chamber.⁴³ The Modernisation Committee has recently reviewed the use of time on the floor of the House. It noted that “annual set piece debates” (financial and non-financial together) accounted for 45 sitting days a year and were “a pretty eclectic mix”. Although it did not make comprehensive proposals for change, it recommended “rebalancing the current allocation of days and mix of subjects”, including at least a day less for the Budget debate and the addition of a day for the Pre-Budget Report.⁴⁴

74. Two issues are likely to reopen the question of the allocation of days:

- The Modernisation Committee is currently inquiring into the Government’s proposal that “the annual objectives and plans of the major Government Departments” should be debated on the floor of the House, “in order to strengthen further Parliament’s scrutiny of the executive”.⁴⁵ Any such debates will presumably displace other business rather than adding to the number of sitting days.

41 National Audit Office 1983, s.1(3)

42 Brazier and Ram, *Fiscal Maze*, paras 4.18, 5.20, 15.5

43 See para 26 above.

44 Select Committee on the Modernisation of the House of Commons, First Report of 2006–07, *Revitalising the Chamber: the Role of the Back Bench Member*, HC 337, paras 81–2

45 Ministry of Justice, *The Governance of Britain*, Cm 7170 (July 2007), para 108

- In the longer term, changes resulting from the Alignment Project may link the House's approval of expenditure to different types of control total set out in different documents published at different times and with a different frequency. They may also bring together in a single publication a wider range of information than Estimates currently provide, with a consequent impact on Estimates Days in particular.

Estimates Days

75. The only days available on the floor of the House for debating select committee reports are the three Estimates Days a year (introduced in 1982) for debates on specific Estimates chosen by committees.⁴⁶ The Liaison Committee chooses between the bids, if necessary, and makes recommendations to the House. The days are normally divided into two, so that there are six opportunities per year. In practice some debates relate closely to an Estimate and some are more general debates for which the Estimate is a convenient peg. On days when the Estimates are Supplementary Estimates even committees with a recent report on departmental finances may find there is not a relevant Supplementary Estimate.

76. When the Procedure Committee examined the procedure for debate on the Government's expenditure plans in 1999, it noted that:

- Estimates now contained even less information than when the Expenditure Committee in 1978 described them as "of little use as an instrument of either parliamentary scrutiny or parliamentary control";
- Estimates Days tended in practice to focus on policy rather than expenditure;
- tying debate to an Estimate meant that "the House's intervention is placed too late in the Government's expenditure planning process cycle to be effective";
- Estimates related only to a single year's expenditure; and
- the motion was either one to approve the Estimate, in which case the committee concerned had put nothing before the House, or a motion from the committee to reduce the Estimate, which was necessarily confrontational.⁴⁷

77. The Procedure Committee considered that "there should no longer be a requirement that motions on days set aside for the consideration of expenditure plans be linked to the Estimates themselves"; instead the select committee concerned could propose its own motion for consideration by the Liaison Committee, and this might relate to departmental plans or reports rather than the Estimates themselves. It provided examples of the sort of motion which would be acceptable. The Committee also considered that, when motions related to future plans, rather than the Estimates themselves, motions recommending that "in the opinion of the House" increased expenditure or transfers between budgets were desirable should be allowed.⁴⁸ The Government rejected the former proposal because

46 Standing Order No. 54. Occasionally an Estimate put forward by another body, such as the Speaker's Committee on the Electoral Commission, is chosen for debate.

47 Procedure Committee, Sixth Report of 1998–99, *Procedure for Debate on the Government's Expenditure Plans*, HC 295, paras 4, 6, 8, 21

48 *Ibid.*, paras 25, 27, 28

“there is an important linkage between debating and granting Supply on Estimates days”, and the latter because it “would be a radical departure which would serve to undermine the financial initiative of the Crown”.⁴⁹

78. We agree with the points made by the former Procedure Committee. Estimates Days have failed to achieve their potential because of the artificiality of the link with Estimates, which in their present form relate to decisions already taken, are confined to a single year, do not cover the whole of a Department’s expenditure and are in themselves uninformative. The only reason given by the Government for retaining the link is misconceived, because the link with Estimates does not in fact ensure that the debates relate to expenditure and the granting of Supply.

Proposals

79. The Government’s recent proposals relating to debates on Departments’ objectives and plans and the Modernisation Committee’s inquiry into the proposal provide an opportunity for remedying this situation, but not, in our view, if the result is a piecemeal addition to the opportunities for debate without considering the wider context. Also there is a risk that debates on Departments’ objectives will be very general ones, for example on foreign policy. Any debate on a Department’s objectives and plans ought to cover expenditure and performance management as well as policy. Indeed what the Departmental Annual Reports (which would presumably form the basis for the debates) contain for future years’ plans is usually *only* the spending plans. **Therefore we suggest that the opportunities for debating Departments’ future plans, including spending plans and Estimates, be considered by the Modernisation Committee together, with the aim of devising a coherent set of opportunities for debate.**

80. Any parliamentary assembly needs a balance between general debates, in which a range of issues can be raised, and opportunities for more detailed scrutiny. In our view the House of Commons has the balance wrong: it has too many general debates in which the Government is rarely challenged and public attention is usually not engaged at all, and too few opportunities to challenge the Government on specific aspects of its work. In particular, while we would not suggest recreating line-by-line scrutiny of Estimates on an *unselective* basis, **we consider it essential that the House take back the right to debate and vote on individual government programmes or items of expenditure.**

81. We envisage this working as follows:

- Selection of programmes or items of expenditure for debate would be by select committees, which would need sufficient time for this purpose before the debate took place. Committees would not necessarily conduct a full inquiry on each subject: their role would be to identify proposals which required justification and to ensure that enough background information was available to the House.
- Subjects for debate could be spending proposals, programmes or objectives. The select committee concerned would determine what level of detail was appropriate. Debate

⁴⁹ Procedure Committee, First Special Report of 1999–2000, *Government Response to the Sixth Report of Session 1998–99: Procedure for Debate on the Government’s Expenditure Plans*, HC 388, p. iii

could cover future spending within the planning period rather than just a single year. Debate would not need to relate to a decision on an Estimate currently before the House, but it would be possible (as now) to vote on an Estimate selected for debate.

- A motion would be proposed by the relevant select committee. The motion might be that the spending proposal, programme or objective be approved, that spending be reduced, that a programme or objective be altered, or (as discussed below) that spending in future years should, in the opinion of the House, be increased.
- There would be flexibility in the timing: not every matter selected would need three hours or so, as is currently made available for debates on Estimates. The proceedings could have the character of proceedings on a bill, with a series of short debates.
- There would be more than the current three days for debates on Estimates, which would be made possible by reducing the number of general debates.

82. We agree with the former Procedure Committee that “opinion of the House” motions proposing increases in *future* expenditure or transfers between budgets in the future should be permissible. Without this change it will be harder to link the work of select committees (which sometimes propose reducing expenditure and sometimes propose increasing it) with debates on the floor. Such motions would no more undermine the Crown’s financial initiative than similar recommendations by select committees do at present, and we regard any “thin end of the wedge” argument suggesting otherwise as absurd. **We recommend that it should be permissible to put forward “opinion of the House” motions proposing increases in future expenditure or transfers in the future between budgets, in addition to motions proposing reductions in expenditure.**

83. The connection between the subject chosen for debate on an Estimates Day and the figures in the Estimate itself is not always clear at present, even when the subject clearly involves large amounts of public money.⁵⁰ **We recommend that the Government provide an explanatory memorandum for each Estimates Day debate explaining how the figures in the Estimate relate to the subject under discussion.**

84. We note the disparity between the five days used for the Budget and the handling of both Spending Reviews and the Pre-Budget Report as ministerial statements allowing only a short period of questions to the Minister.⁵¹ We endorse the Modernisation Committee’s call for the Pre-Budget Report to have a day’s debate on the floor of the House.⁵² In addition we have recommended above that the results of Spending Reviews be the subject of a day’s debate on the floor some weeks following the initial announcement.⁵³

Expert assistance and training

85. The ability of select committees to conduct effective financial scrutiny has been greatly increased by the establishment five years ago of the Committee Office Scrutiny Unit. We

50 e.g. the Estimates Day debate on 10 March 2008 on Northern Rock and banking reform.

51 See para 65 above.

52 See para 73 above.

53 See para 66 above.

note the view expressed in the Hansard Society report that the Scrutiny Unit's establishment "has improved select committee performance in this area", and the conclusion of the recent review of the Committee Office's resources that the Unit has "played an important role in ensuring that financial scrutiny ... is undertaken by Select Committees".⁵⁴ The Unit is on a very small scale compared to the Government Accountability Office in the United States, but it operates in a completely different system. This Report seeks to increase the amount of financial scrutiny undertaken by select committees, and implementation of its proposals would probably increase the need for specialist advice and also change the nature of the advice required. Less time would be spent merely interpreting what the Government's reporting documents are saying, and more explaining the significance of what they contain. More significantly, greater expertise would be needed in the scrutiny of budgets and budget management, including expertise relating to the setting and profiling of planned expenditure and outcomes, activity-based costing and analysis of variance between planned and actual spending.

86. This points to an enlarged Scrutiny Unit. However, additional demand for its services needs to be demonstrated before extra staff can be justified, and it will be some time before the proposals in this Report, such as better information on departmental budgets, could be implemented. Incremental growth as demand increases is likely to be the best option. But planning for that growth, and particularly for increased expertise in scrutiny of budgets and budget management, should begin as soon as possible, and the Scrutiny Unit should monitor any change in the volume of assistance requested from its financial analysts. The recent review of Committee Office resources will need to be taken into account.

Training for Members

87. Another way of increasing Members' capacity for financial scrutiny would be to make more training available for them. The Scrutiny Unit has done some work in this area, notably its seminars on Resource Accounts, which a number of Members have attended. For more specialised areas such as the Private Finance Initiative, the National Audit Office or the Audit Commission could provide training. The Treasury has made training in government finance available on the internet,⁵⁵ and the Scrutiny Unit has produced a handbook to the financial system and how it is scrutinised, entitled *Financial Scrutiny Uncovered*.⁵⁶ We would like to put training in this area on a more systematic basis, and we call on the Scrutiny Unit to provide a financial scrutiny training plan for 2008–09 for us to consider. The Unit could liaise with the House of Commons Library in developing such a plan, given the Library's commitment to providing training for Members and their staff. We would welcome suggestions in this respect from any Member of the House.

54 Brazier and Ram, *Fiscal Maze*, para 2.14; *Review of Select Committee Resources*, November 2007, para 20

55 <http://lovelearning.nationalschool.gov.uk/>

56 Available online at www.parliament.uk/parliamentary_committees/scrutinyunit/reports_pubs.cfm.

6 Conclusion

88. Financial scrutiny is a fundamental part of the House's duty. Its purpose is above all to hold the Government, individual Departments and other public bodies to account for their financial decisions and financial management, and thereby to promote more effective and economical use of public money. It is not our intention that the time of the House, committees and Members should be dominated by financial scrutiny to the exclusion of all else. Instead it is a matter of restoring the balance, so that financial scrutiny can retrieve its proper place among the House's various activities.

89. There is no doubt that the House currently fails adequately to scrutinise the Government's financial decisions and financial management and to hold it to account for them. **For far too long the House has shirked the task of providing itself with the means to carry out financial scrutiny effectively, and it is time that the House was more assertive in this area.**

90. What is needed is not exhortation but practical steps. We have set out those steps in this Report, in three areas:

- simplification of the Government's over-complex financial system;
- improving the quality of the financial information provided to Parliament, which currently does not meet the House's needs; and
- creating opportunities for Members to challenge the Government in financial matters and hold it to account.

All these changes are achievable, and, as we have argued above, they would benefit the Government as well as the House.

91. Further work will be needed to implement our proposals. And much would depend on how the House and its select committees and Members responded to any new opportunities. But we believe the changes we propose here would provide the basis for a major increase in the effectiveness of the House in scrutinising the Government and individual Departments and holding them to account, and thereby a significant impact on the quality of financial management by Departments and of the services they provide.

Annex 1: Reasons for differences between departmental budgets, Estimates and accounts

(A) Boundary issues: income and expenditure

1. “Non-voted expenditure”: some expenditure which appears in budgets and accounts is not in Estimates because it has standing legislative authorisation and therefore does not need annual authorisation by Parliament (e.g. judges’ salaries and expenditure from funds such as the National Insurance Fund).
2. Different treatment of income in budgets, Estimates and accounts: budgets and accounts are generally net of income (though not necessarily in exactly the same way), whereas retention of that income requires parliamentary authority (as “appropriations-in-aid”) and Estimates therefore limit both net expenditure and income and thereby also gross income.
3. “Departmental Unallocated Provision”: sums not yet allocated to a specific purpose are included in budgets but cannot be included in Estimates until a purpose is determined, when authorisation is requested through a Supplementary Estimate.
4. “Prior-period adjustments”: if a change in accounting policy or an error affects the Department’s accounts for an earlier period, Parliament authorises the necessary changes through the Estimate for the current year, whereas the budgets and accounts are simply corrected for the year concerned.

(B) Boundary issues: different treatment of entities

5. NDPBs and other bodies within central government: NDPBs’ expenditure is included in the parent Departments’ budgets, but only the grant-in-aid paid to them appears in Estimates and accounts. The same applies to some other bodies, such as the BBC.
6. Aspects of the finance of some public corporations: capital grants to and equity withdrawals from them appear as capital expenditure in budgets but as resource expenditure in accounts; and their market borrowings are in budgets but not in Estimates or accounts.
7. NHS Trusts: the revenue and capital expenditure of some types of Trust are in budgets but not in Estimates or accounts.
8. Devolved administrations: the cash block grants to the devolved administrations are not in the budgets of the relevant UK Departments (the Ministry of Justice and the Northern Ireland Office), but are in their Estimates and accounts.

(C) Policy issues

9. Capital grants: these are treated as resource expenditure in Estimates and accounts, but as capital expenditure in budgets in order to comply with National Accounts definitions which focus on the (capital) end-purpose of the grants.

10. “Supported capital expenditure”: this support for local authorities is to cover the authorities’ borrowing costs, and is in central government budgets but not in Estimates or accounts.

11. “Near-cash” and “non-cash” items: in budgets, the resource budget DEL is split into near-cash items, such administration costs and programme costs, and non-cash items, such as depreciation and cost of capital charges, because near-cash items count towards the fiscal rules. However, the distinction is not recognised in Estimates or accounts. This different treatment means that certain financial transactions are dealt with differently under each framework, including provisions (e.g. pension liabilities), depreciation, cost of capital charges and impairments.

List of recommendations

Introduction

1. The current problem is not the House's powers but the willingness and (even more) the ability of the House and its Members to scrutinise financial matters in the degree of detail required to hold the Government to account. (Paragraph 8)
2. We define the purpose of financial scrutiny as follows:
 - to make the Government's financial decisions transparent, including the relationship between its stated priorities and its funding decisions;
 - to engage bodies and individuals outside Parliament and give them the opportunity to comment;
 - to have the opportunity to influence the Government's financial decisions;
 - to hold the Government, individual Departments and other public bodies to account for their financial decisions and financial management; and thereby
 - to contribute to an improvement in the quality of Departments' financial decisions and management and improved value for money in public services. (Paragraph 9)
3. Financial scrutiny is not a narrow exercise of poring over figures on a balance sheet but is about ensuring the effective management of finite resources to achieve purposes such as better hospitals or better-equipped troops. Better financial scrutiny would have advantages for the Government as well as for the public and for Parliament. (Paragraph 10)
4. Knowledge of the Department's finances should underlie and inform much of a departmental select committee's activity, including examination of policy and administration, and knowledge of the Government's finances should similarly underlie and inform much of the House's own work. (Paragraph 11)
5. The reason why we question the ability at present of Members to hold the Government to account for its financial decisions is that, as just indicated, several of the fundamental requirements for doing so are missing. These missing requirements are:
 - a financial system which is coherently organised and comprehensible;
 - provision to Parliament of information suited to the purpose set out in paragraph 9 above; and
 - the opportunity to debate on the floor of the House specific items of expenditure or the objectives of expenditure and if necessary to vote on them. (Paragraph 13)

History of financial scrutiny

6. There was no golden age in which the House rigorously scrutinised every line of the Government's Estimates and accounts and routinely rejected or reduced requests for funding. (Paragraph 26)
7. Neither scrutiny on the floor of the House independently of select committees nor scrutiny by select committees without any link to proceedings on the floor is likely to be as effective as combining detailed work by select committees with debate on matters of particular interest on the floor, for example through select committees choosing financial matters for debate. (Paragraph 26)

The Government's financial system

8. The overall shape of the Government's finances and changes in it are matters which could and should be presented comprehensibly, like the overall finances of any other organisation. (Paragraph 32)
9. We regard removing complexity from the Government's financial system as fundamental to improving financial scrutiny, as well as to improving financial management in Departments. The Alignment Project offers the possibility of achieving this. In revising the basis of Parliament's financial control and the system of reporting to Parliament, it is potentially a historic development in the long story of Parliament's scrutiny of government finances. (Paragraph 38)
10. We emphasise the magnitude of the prize which is potentially available: a comprehensible and coherent system of planning, authorising and reporting government expenditure, making it possible for the House and select committees to scrutinise the Government's finances far more effectively. We commend the Alignment Project to the House. (Paragraph 40)

Financial reporting

11. We recommend that each Department publish an annual statement in plain English about its internal financial planning processes and control mechanisms. (Paragraph 52)
12. We recommend that the management letters provided to Departments by the National Audit Office identifying areas of significant weakness in financial control be published by Departments. (Paragraph 52)
13. We believe that Departments should move towards a system where data in their electronic management accounting and information systems are accessible to Members and Members are able to interrogate that data. (Paragraph 53)
14. We recommend that provisions similar to those relating to the NAO be made in PFI contracts to enable the Government to pass information to select committees. It is inherent in the House's right to control expenditure that the House and select committees should have access to sufficient information about PFI contracts to make possible an assessment of whether they offer value for money, of the extent to which

public bodies are locked into long-term commitments and of the extent to which risk is transferred to the private sector or retained within the public sector. (Paragraph 56)

15. We invite the Treasury to enter into dialogue with us about how our proposals concerning financial reporting should be implemented, and suggest that testing them first on a single Department or several Departments may be the best way forward. (Paragraph 61)

Making financial scrutiny worthwhile

16. In future Spending Reviews the Treasury and other Departments should publish information about the framework within which the negotiations are taking place, and this should include the draft Public Service Agreements and Departmental Strategic Objectives setting out what the spending is intended to achieve. We note the Treasury Committee's recommendation, made before the results of the CSR were published and not accepted by the Government, that each Department should inform the relevant select committee about "the Government's emerging views on those past objectives which have been achieved and those supporting programmes from which spending is potentially available for reallocation", and we endorse it. (Paragraph 66)
17. It is absurd that the outcome of the Comprehensive Spending Review was discussed for only an hour and a half in the Chamber, and makes a mockery of the House's right to scrutinise government expenditure. We recommend that the results of Spending Reviews be the subject of a day's debate on the floor of the House some weeks following the initial announcement, and that the timing be such that select committees can report on the outcome in order to inform that debate. (Paragraph 66)
18. Following the completion of Spending Reviews, select committees should consider examining how the Department is allocating its spending total across its various programmes. This will depend on Departments making the necessary information available earlier, well before the start in April of the Spending review period, instead of committees having to wait for the next Departmental Annual Report in May. (Paragraph 66)
19. We welcome the fact that the NAO is increasingly assisting select committees other than the PAC, and we are keen to see this work develop further. (Paragraph 71)
20. We suggest that the opportunities for debating Departments' future plans, including spending plans and Estimates, be considered by the Modernisation Committee together, with the aim of devising a coherent set of opportunities for debate. (Paragraph 79)
21. We consider it essential that the House take back the right to debate and vote on individual government programmes or items of expenditure. (Paragraph 80)

22. We recommend that it should be permissible to put forward “opinion of the House” motions proposing increases in future expenditure or transfers in the future between budgets, in addition to motions proposing reductions in expenditure. (Paragraph 82)
23. We recommend that the Government provide an explanatory memorandum for each Estimates Day debate explaining how the figures in the Estimate relate to the subject under discussion. (Paragraph 83)
24. For far too long the House has shirked the task of providing itself with the means to carry out financial scrutiny effectively, and it is time that the House was more assertive in this area. (Paragraph 89)

Formal Minutes

Thursday 27 March 2008

Members present:

Mr Alan Williams, in the Chair

Mr Alan Beith	Peter Luff
Michael Connarty	John McFall
Sir Patrick Cormack	Mr Barry Sheerman
Mr Andrew Dismore	Dr Phyllis Starkey
Mrs Gwyneth Dunwoody	Keith Vaz
Mike Gapes	Mr Phil Willis
Mr Michael Jack	Sir George Young
Mr Edward Leigh	

* * *

Draft Report (*Parliament and Government Finance: Recreating Financial Scrutiny*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 91 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

* * *

[Adjourned till Thursday 8 May at 9.30 am.]

List of Reports from the Committee during the current Parliament

Session 2007–08

First Report	Pre-appointment hearings by select committees	HC 384
Second Report	Parliament and Government Finance: Recreating Financial Scrutiny	HC 426
Third Report	The work of committees in 2007	HC 427

Session 2006–07

First Report	Annual Report for 2005–06	HC 406
First Special Report	Annual Report for 2005–06: Government Response to HC 920 the Committee's First Report of Session 2006–07	

Session 2005–06

First Report	Government Reply to the Annual Report for 2004	HC 855
Second Report	A New Publication Order for Select Committee Evidence	HC 1271
Third Report	Estimates Memoranda	HC 1685