Parliament and the Public Purse:
Improving Financial Scrutiny
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Commission on the Scrutiny Role of Parliament

The Commission on the Scrutiny Role of Parliament was established by the Hansard Society in September 1999. Under the chairmanship of Lord Newton of Braintree, it is examining how effectively Parliament scrutinises the Executive and holds the Government to account for its actions.

The Commission is conducting an overarching review of Parliament's scrutiny role. The investigation will concentrate primarily on the House of Commons but will also take into account the role of the House of Lords and the impact of possible reforms on the Second Chamber. The Commission's final report will be published in the spring of 2001 and will endeavour to establish a set of core principles for the scrutiny of Government.

This is the third in a series of discussion papers published by the Commission. The discussion papers are intended to stimulate interest about the reform of Parliament and Government. Those wishing to comment on the paper's conclusions or submit evidence on the Commission should write to Alex Brazier, Commission clerk at the Hansard Society address or at hansard@hansard.lse.ac.uk

The views expressed in the discussion paper are those of the author and do not necessarily reflect those of the Commission or the Hansard Society.
# Parliament and the Public Purse: Improving Financial Scrutiny

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I. Introduction

This discussion paper focuses on scrutiny of financial matters, within the overall context of parliamentary accountability. Financial scrutiny can entail an enormously wide area of activity, including parliamentary authorisation for the government to spend money and oversight of the executive's subsequent expenditure. Oversight of government finances involves audit functions, checks on fraud and corruption, value for money analysis, and whether goals and desired outcomes are achieved. It also extends to the spending central government carries out at arms length; through local government, quangos and grants to public bodies and charities. Increasingly, commercial interests are also involved, most notably through the private finance initiative.

Although Parliament has ultimate authority for holding the government to account, that authority has been weakened in recent decades. Evidence to the Commission suggests that the lack of effective accountability is particularly marked in relation to finance. This paper considers Parliament's authorisation of government spending, looking at the Estimates procedures and new developments such as resource accounting and Public Service Agreements but does not look in detail at how government raises revenue through taxation. On the other side of the equation, it looks at scrutiny and audit of public money after it has been spent, assessing the scrutiny functions of the Public Accounts Committee and the National Audit Office and considers improved roles for select committees. The paper also looks at related issues of scrutiny and accountability, arising from the development of executive agencies. To address some of the weaknesses with financial scrutiny, the paper makes a number of recommendations.
2. Summary of recommendations

- Parliament should provide a clear, publicly available, code, setting out the operation of parliamentary authorisation for government finance and scrutiny and audit of government spending. A code would help improve the transparency of the system and inform MPs, their staff and the wider public.

- The Estimates system means that the House of Commons is called to vote on large sums of money which are rarely subject to any form of detailed scrutiny. To allow Parliament input into government spending plans, the House should be able to propose, and vote for, transfers within budget totals for a particular department. Even if proposed transfers were not successful, the process would help focus the House and Ministers on the scrutiny of spending plans.

- Select committees should continue to press the case for early sight of the Estimates, and make a formal report back to the House, as proposed by the Procedure Committee.

- All select committees should have a formally established, permanent Finance and Audit Sub-Committee. Select committees should conduct a range of important functions including reporting on the Estimates, departmental plans and reports, value for money issues, Public Service Agreements, targets and performance indicators.

- New procedures developed by the Scottish Parliament could provide inspiration for Westminster to develop a more effective role and to involve select committees in the process. Westminster should evaluate whether lessons can be learnt from the Scottish Parliament’s budget procedures.

- Through revised committee structures or new parliamentary powers, the right of Parliament to follow all public money, wherever it may go, should be formally enshrined.

- The Audit Commission should report to a new parliamentary committee, much as the National Audit Office reports to the Public Accounts Committee. Alternatively, Audit Commission reports could be presented to a number of existing select committees.

- A special, ad-hoc committee of the Commons, perhaps jointly linking the Procedure, Liaison and Public Accounts Committees, should inquire into whether the Commons as a whole is being well served by the audit bodies, regulators and other relevant parties and, crucially, whether the Commons itself is making full use of their work. Such an inquiry should use the findings of Lord Sharman’s audit review as a starting point.

- Select committees should have a duty to scrutinise all agencies within their remit on an annual basis or at least once over a certain timeframe.
3. Control and accountability of government spending plans

This section considers both the effectiveness of Parliament's role in scrutinising the forward plans for total government expenditure and the scrutiny of individual departmental spending plans. There are a range of different functions that make up overall scrutiny of forward spending plans. These include:

- controlling public expenditure to ensure that the available resources are adequate to support it;
- improving financial management of the public sector;
- linking explicitly outcomes and goals to forward expenditure;
- providing the opportunity for parliamentary authorisation and oversight.

3.1 Parliament's authorisation of government spending

Formal control over the raising and spending of money by the Government rests with the House of Commons. (Appendices 1, 2 and 3 provide information about control of supply, budget procedures and departmental spending plans.) The Lords does not, as a rule, involve itself in any debate on general financial policy of the government or in matters with expenditure implications. (A reformed Lords may however wish to reconsider the basis for that convention.) The theoretical possibility exists that the House of Commons may refuse the Government supply or reject the Government's budget. Such a possibility is very rarely exercised. The Government's majority ensures that its measures almost always survive unchanged. As a result, motions to reduce an Estimate (of proposed government spending) are rarely tabled.

Theoretically, Commons' authorisation provides the basis of the relationship between the Government and Parliament, although rejection of the Estimates would only occur in extreme circumstances such as a vote of no confidence in the Government. (Appendices 4 and 5 provide an outline of the procedures used by Parliament to authorise the Estimates.) The main criticism of the existing Estimates system is that the House of Commons is called upon to vote on large sums of money which have generally not been the subject of detailed scrutiny. Furthermore, it does so at a late stage in the process, when the Government is extremely unlikely to be willing, or even able, to accept changes. Fundamentally, at present the House is neither able to propose increases to expenditure nor transfers within the departmental budget totals. The principle of financial initiative of the Crown precludes motions recommending increases. The 1999 Procedure Committee Report considered changes to allow the House greater powers in these areas. The Government rejected such changes. This lack of power to increase or change the Estimates, and the political consequences of reducing or rejecting them, ensures that the Estimates process is virtually meaningless.
3.2 Proposing transfers within departmental budgets

If the House were able to propose transfers within budget totals for a particular department, this would give meaning to the debate and any potential division. It would importantly allow Parliament to have a direct input into the priorities of overall government spending. For example, under this proposal the House would not be able to increase or decrease the spending total for an individual department but could propose changes to the allocations within the total (say, to give greater aid to Africa than India, or vice versa). The proposals to change the sub-heads, and the subsequent debate, would focus the House on the particular totals within the Estimates, even if the actual proposed transfers were not successful. It would also involve government explanation of its position. At the very least, this process should lead to greater transparency and debate. At present, departmental totals and sub-heads can be given Commons authorisation without any debate or scrutiny whatsoever. Whereas the Government might argue that parliamentary inspired increases to the Estimates would affect its overall budget and revenue settlement, such arguments would not apply to transfers to agreed departmental totals.

3.3 Estimates Days

The fiction that the House as a whole formally scrutinises the Estimates and gives its sovereign permission to government expenditure is best summed up in the charade of the three Estimates Days. Until 1982 Commons Standing Orders required 19 “Supply Days” each year (days designed to provide Parliament with the opportunity to debate and give authorisation to government expenditure). However these days became increasingly used for debates on issues chosen by the Opposition. This state of affairs was officially recognised by renaming them Opposition Days and introducing three “Estimates Days.”

The subject for debate in these Estimates Days is chosen by the Liaison Committee (made up of select committee chairmen), the intention being that these days should be used for debating select committee reports on particular Estimates. The possibility therefore exists that a committee chairman can table a motion to reduce an Estimate, which could be then be voted on. In fact, as has been widely recognised, the committee reports chosen for debate frequently bear only a tenuous relationship with the Estimate concerned, although the procedural link is maintained by voting on the relevant Estimate after the debate. Therefore what was intended to be 19 Supply Days, designated specifically to scrutinise the Estimates, has ended up as three days discussing select committee reports, with only passing reference to the Estimates.

The scrutiny of government spending is complex. One improvement would be the creation of a document that contains the various procedures and timetables to give members the necessary information about procedures and to explain opportunities for scrutiny. There is no single document that provides all the relevant information and explanation. Such a memorandum would need to be regularly up-dated. It might be published as a Research Paper for the House of Commons Library and should be publicly available. A clear code setting out the operation of parliamentary control and scrutiny of forward government spending plans would help provide
transparency.

3.4 The role of select committees

The Standing Orders establishing the departmental select committees gave powers to examine the expenditure (as well as the administration and policy) of the relevant government departments and associated public bodies. Select committees, rather than the Commons as a whole, might be expected to scrutinise the Estimates before Parliament votes on them. In 1999, the Procedure Committee found that although most committees examined either the Estimates or the corresponding Departmental Annual Report, there was no requirement to do so, and to some extent, little incentive. Departmental select committees have generally been left to set their own agendas (although, for example, the Treasury Committee is expected to examine the Budget and the work of the Monetary Policy Committee of the Bank of England). One reason why select committees fail to give priority to Estimates work is that a committee's recommendations might well be too late to affect that year's Estimates (particularly if the Government considered itself bound by the figures already fixed in the Spending Review). In these circumstances there appears little reason for committees to report on a particular year's expenditure plans rather than looking at a particular policy and considering its costs.

Nevertheless the Procedure Committee recommended that the Main Estimates (and the associated annual reports) should be referred to the departmental Committees, who should be obliged to report on them (although this could be a brief "no comment" report). The Government however rejected this proposal. It is essential that select committees, and their chairmen through the Liaison Committee, continue to make the case for the Procedure Committee's proposals. Improved scrutiny of the Estimates by select committees is an important element in improving parliamentary accountability.

3.5 Looking elsewhere for inspiration: Scotland and further afield

It is perhaps understandable that MPs at Westminster tend to avoid debating forward financial planning matters, especially through the Estimates procedures. The Government always seems to get its way and therefore such effort is likely to be wasted. In some other countries, for example New Zealand and India, Parliaments prioritise pre-budget inquiries, budget proposals are formally submitted to committees and influence can be brought to bear before the budget is a done deal. A report by Edward Davey MP, for the Centre for Reform, described how countries such as New Zealand, Sweden and USA allow parliamentary input to the budget process and contrasted the relative impotence of the British system.

Much closer to Westminster, the Scottish Parliament budget process may provide useful lessons. The budget processes, as devised by the Financial Issues Advisory Group of the Consultative Steering Group which drew up the procedures of the Scottish Parliament, were specifically designed so that they were less dominated by the executive. A powerful Finance Committee of the Parliament plays an important role in shaping the executive's
Yet

budget. There are three main stages:

- Stage 1 involves the Finance Committee looking at the broad shape of the executive’s strategic priorities for the coming year;

- Stage 2 involves the executive publishing a preliminary draft budget;

- Stage 3 involves finalising the budget before the financial year begins.

At all points, the Finance Committee discusses the proposals, consults outside Parliament and is able to propose changes. The budget is expected to reflect the Committee’s proposals. Standing Orders ensure that final authority for the budget must be given by the Parliament. As a result, there is far greater parliamentary, and indeed public, involvement and scrutiny in the budget-making process. The nine departmental committees also feed in their views. It is probably too early to draw firm conclusions from Scotland; all new procedures take time to establish themselves and for evolutionary changes to emerge. Nonetheless new procedures developed by the Scottish Parliament could provide inspiration for Westminster to develop a more effective role and to involve select committees in the process. Westminster should evaluate whether lessons can be learnt from the Scottish Parliament budget procedures.

3.6 Resource Accounting and Budgeting

Following a long period of preparation, the Government is currently in the process of introducing resource accounting and budgeting (RAB) into the central government expenditure system, with resource-based estimates due to be presented for the first time to cover the year 2001–02. The 2000 Spending Review was also conducted on RAB lines. Appendix 6 describes the main changes to accounting methods. Resource Estimates and Accounts will, it is hoped, be accompanied by considerable amounts of extra information, included in the Estimates, in departmental plans (looking forward) and in departmental annual reports (looking back at the previous year). Extra transparency and more meaningful figures are very welcome. Yet improved information could well turn out to be irrelevant if MPs, and the House as a whole, fail to respond positively. The Procedure Committee voiced its concern,

'It will be still more bizarre for the House to ignore the financial documents which will support the resource based Estimates, since they will give far more detail of the Government’s plans than the Estimates themselves.'

Yet based on the evidence of the existing weaknesses of the Estimates process and overall select committee performance in this area, it seems quite possible that this concern is well founded. Unless MPs, and Commons’ staff, are well trained and supported, there is the distinct possibility that all concerned will become even more confused. It is therefore important that MPs and committees have access to briefings and, if required, training about RAB. The Treasury have indicated that they will offer help in training and support. It is however not clear to what extent MPs have availed themselves of these opportunities. The
key to making best use of the benefits of resource accounting is the motivation of MPs, and the priorities they set for themselves, in the chamber and in committee. Improved accounts, more meaningful and open information, training and support resources; all ultimately count for very little if MPs do not engage in the process. If there is to be any truly effective parliamentary role in financial accountability, it is crucial that MPs respond positively to the opportunities provided by resource accounting.

3.7 Public Service Agreements

The 1998 Comprehensive Spending Review heralded the creation of "Public Service Agreements" (PSAs) negotiated between departments and the Treasury, which are intended to indicate what is to be obtained for the money spent. The first of these was published in December 1998. The system was further consolidated in the July 2000 Spending Review. PSAs respond to a widely-held view that scrutiny and control have previously concentrated excessively on the money and resources applied to an activity ("inputs"), rather than what that activity produces ("outputs"), or the results which that activity is intended to bring about ("outcomes"). However, it is far from clear either that what they attempt to measure is always sufficiently measurable, or that information on what has been achieved will have any effect on either policy or future funding. PSAs are undoubtedly a positive step. A scrutinised relationship between policies, resources and outcomes is overdue. The system is in its early days and it is too early to draw firm conclusions. Parliamentary input, especially on an all-party basis through select committees, would help promote and protect the integrity of PSAs.

3.8 Improving scrutiny of spending plans: an overview

The scrutiny process of future spending plans by the House of Commons is generally given a low priority and the procedures in place are weak. In particular, the Estimates procedures are now a formality ensuring that the government is subject to very little effective accountability. This weakness exists despite the fact that it is one of Parliament’s main constitutional roles to grant the government authorisation for the money that it wishes to spend. Partly this low priority reflects political reality. With the enormous growth of government activity over the past century, the process by which revenue is raised and spending programmes are allocated has become ever more politically charged. The government regards getting its spending proposals through the House of Commons, in the form already decided in Cabinet and Whitehall, as essential to its programme. Parliament has only one real sanction; to reject the government’s spending proposals. With a government majority almost always assured, this is extremely unlikely to happen and efforts to achieve this are therefore wasted. As a result of this political reality, future government expenditure is given a low priority in both the Chamber and in select committees.

This political reality is unlikely to change in the foreseeable future. This does not mean however that a more meaningful role for the House of Commons in scrutinising future government spending plans is impossible. The ability of the House of Commons to propose transfers within departmental budgets would allow legitimate parliamentary concerns and priorities to be reflected in the overall settlement. The fact that such changes
were possible would improve the debate on the Estimates and bring some genuine scrutiny where very little currently exists.

Also select committees in particular, possibly through permanently established sub-committees, could conduct a range of important functions:

- Select committees should press to have early sight of the Estimates and make formal reports to the House;
- Ministers should be asked to explain their departmental allocations and the priorities within the individual heads of expenditure;
- At the beginning of the financial year ministers and officials should be asked what outcomes they hoped to achieve and how these were to be measured, through Public Service Agreements, targets, performance indicators and the like;
- At the end of year, there should be a follow-up examination to ascertain what had actually happened and why. This procedure of explanation and assessment would significantly improve scrutiny and accountability, especially if it were a core duty of each committee in every year;
- Greater training for Members, increased staff and specialist support and research resources would help facilitate this work.

4. Scrutiny and audit of past government expenditure

So far this paper has concentrated on the Commons' involvement in the Government's spending plans and forward expenditure. Its role has generally been found wanting; the procedures in place often very weak. The situation regarding the other side of the financial equation, namely looking at what happens once the executive has spent the money, is considerably better. While not perfect, there are well-resourced structures in place to audit public expenditure, assess value-for-money outcomes and make recommendations for improvement. This section discusses the effectiveness of scrutiny and audit of past expenditure and considers possible improvements.

4.1 The current system: the Public Accounts Committee and the National Audit Office

The Committee of Public Accounts, known more usually as the Public Accounts Committee (PAC), was established in 1861. Its remit is to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and ... such other accounts laid before Parliament as the Committee may think fit". Most of the Committee's work consists in examining the reports relating to government expenditure made by the Comptroller and Auditor General and his staff in the National Audit Office (NAO). The primary function of the Comptroller and Auditor General since the Exchequer and Audit Act 1866 has been the requirement to examine accounts on
behalf of the House of Commons. The NAO's primary focus is to assess whether accounts are accurate or whether they would mislead someone relying upon them.

Audit is a potent tool for parliamentary scrutiny, providing a factual basis for informed discussion, analysis and review. Through the PAC the instruments of audit and accountability are available to Parliament.

The PAC in its present form dates from the National Audit Act 1983. This Act placed public audit back with Parliament rather than the executive and added value for money to the existing duties of the NAO, namely financial audit and investigating issues of propriety in government spending departments (although the previous Exchequer and Audit Department had undertaken value for money inquiries). The 1983 Act gave the Comptroller and Auditor General complete discretion in his work and his status as an Officer of the House of Commons confirmed his independence from the executive. The 1983 Act prohibits the C&AG from using his position 'to question the merits of the policy objectives of any department, authority or body in respect of which an examination was carried out.'

By convention, the Chairman of the PAC is a member of an opposition party, currently the Rt. Hon David Davis MP. The PAC produces about 50 reports a year, far more than individual departmental select committees. Its output is based on the work of the NAO, whose 800 or so staff mean that the PAC has support and resources far in excess of all the other select committees added together. The usual method of operation is for the NAO to conduct an inquiry into a government department or programme, then produce a report, which it will first discuss with the relevant department with a view to ensuring that the facts are agreed. The PAC will then normally take oral evidence in public from the department's Permanent Secretary, with questions and briefing provided by the NAO. The PAC then considers the evidence and publishes its own report, referring to the NAO report.

4.2 The PAC's effectiveness – and limitations

'The Public Accounts Committee is generally regarded as the most effective select committee.' Political Power and Democratic Control in Britain, Weir and Beetham, (1999).

The PAC is the most high-status committee in the Commons; its chairmanship is one of the very few prestigious backbench positions. It is also generally considered the committee of which ministers and civil servants are most fearful. Its high profile means that an appearance before the PAC is likely to get noticed. Its reports, based as they are on the detailed work of the NAO, frequently uncover waste or evidence that public money could be better spent. The knowledge that the PAC (and NAO) could launch an inquiry has a deterrent effect, hopefully safeguarding public money and improving performance within government. In fact, this deterrent effect, although unquantifiable, is probably the PAC's greatest strength.

The PAC has an influence not always shared by the other committees, with many of its recommendations accepted by government. However, there is a growing awareness that
there is room for improvement. Even though the PAC already works at maximum capacity, publishes about 50 reports a year and meets twice a week for 25 weeks a year; it is only able to take a very limited look at government expenditure. The PAC's reports vary from the macro to micro. A selection of reports from the 1998-99 session show a wide variation in scope and subject. At one end, reports with extremely wide implications: Getting Value For Money from the Private Finance Initiative and Financial Management and Control in the European Union, compared with detailed problems within individual departments: Managing Sickness Absence in the Prison Service and Arable Area Payment Scheme.

This wide variety must be seen in the context in which the PAC has operated. When the PAC was established in the 1860s the government spent about 4 per cent of GDP; now it spends about 10 times that proportion. The enormous scope of government means that even with the resources of the NAO, the PAC is necessarily highly selective in the inquiries it undertakes. It is also unclear whether PAC reports are adequately followed-up to make sure that recommendations have actually been implemented and, if so, that they have been effective. **The work of the PAC would be enhanced if more systematic follow-up inquiries were built into its programme.**

### 4.3 A changing context

Changes within government in the past decade have placed further limitations on the work of the PAC:

- More central government functions are being put under local authority responsibility or administration and therefore under the remit of the Audit Commission (see below for more on the Audit Commission);
- the increasing use of the Private Finance Initiative has had the same effect (although government audit needs to establish proper guidelines about how closely it should look into the accounts and finances of private companies);
- many new initiatives in Whitehall make no reference to potential input by the NAO/PAC e.g. performance measures can be based on untested assumptions; targets and outcomes are not independently validated.

These changes have compounded one of the fundamental problems with the PAC. It was the intention of the promoters of the 1983 Act that a new NAO should be able to follow public money wherever it went but this did not become the case. It has never been able to delve into all corners of public expenditure; for example many Non-Departmental Public Bodies are outside its remit. Recent changes have meant that increasing amounts of public money are outside its remit. The PAC risks losing influence and status if these trends continue. **Whether through revised committee structures or new parliamentary powers, the right of Parliament to follow all public money, wherever it may go, should be formally enshrined.**
4.4 An Alternative Approach: Finance and Audit Sub-Committee

The high profile of the PAC, and its ability to inquire into subjects in any department, is thought to be one reason why other select committees do not prioritise financial inquiries. One innovation to improve scrutiny of government expenditure would be for all select committees to have a formally established, permanent Finance and Audit Sub-Committee. This sub-committee, chaired by a deputy chairman (ideally a paid position, as should be the full Committee chairmanship), would be charged with a number of financial functions: reporting on Estimates, departmental reports and expenditure totals, value for money issues and so on. Members of departmental select committees can build up considerable expertise on their subject and members of a sub-committee would develop a particular financial knowledge. At present Members of the PAC cannot possibly be expected to become experts on the enormous range of subjects into which they inquire. They are likely to be less well informed on a given subject than a member of the relevant departmental select committee. Regardless of the quality of the briefing provided by the NAO, and the work of Members to master it, oral examination of witnesses is likely to remain superficial. The witnesses will, by definition, work constantly in the field, will have extensively prepared and are often able to smooth over their department's shortcomings. There is less chance that this might happen if members were expert in particular subjects.

The National Audit Office could provide the necessary extra research and report-drafting functions, along with increased specialist staff designated to each committee. At present most committees have a small number of staff; usually between four and six and not all of these are specialists. At present, the substantial resources of the NAO are not sufficiently utilised by Parliament. In Scotland, equivalent reports can be submitted to all relevant committees. Westminster should follow this example. The resources of the NAO should be shared more equitably and, in many instances, these resources would be better utilised by the departmental committees. In order to safeguard the integrity and independence of the NAO audit functions, the NAO should split its audit and committee servicing functions; the audit functions would then be protected from any political partiality. (The same requirements should anyway apply that the NAO would be barred from looking at the merits of policy). If sub-committees of the departmental select committees were charged with carrying out many of the existing functions of the PAC, the PAC could concentrate on fraud, probity, overall accounting issues, and cross-cutting financial matters such as the impact of the Private Finance Initiative. Also the PAC's over-arching role means it would be well placed to take a lead on scrutinising joined-up government and the centre of government.

4.5 Parliament and the Audit Commission

The Audit Commission rather than the NAO, covers the audit of many of the most important public services. These include health, the police service and many local authority functions. These huge areas are therefore outside Parliament's direct audit remit. The Environment, Transport and Regional Affairs Committee recently published a report on the Audit Commission. The Report viewed the Audit Commission as 'generally highly regarded, due in large part to its independence from central government... derived from
the fact that it has not previously received direct funding from central government.' The Report continued 'As a part-sponsored Non-Departmental Public Body, with Commissioners appointed by the Secretary of State, the Audit Commission is accountable to Parliament through Ministers.' but cautioned that 'The danger that the Commission may now be more vulnerable to pressure from the Government must be recognised and guarded against.'

The Report cited the proposal by the Rt. Hon David Davis MP, Chairman of the PAC, that a new select committee should be established to consider and report on the work of the Audit Commission, in much the same way as the PAC relates to the NAO. The Committee however did not see that there was a strong case for establishing a separate select committee to oversee the Audit Commission. Its main reasoning was that the Audit Commission looks at services provided by local authorities, which are accountable to local electorates. It considered that Parliament should not, even indirectly, attempt to hold such authorities accountable. The Committee also considered the possibility of whether they themselves should take on the role but rejected this possibility on workload grounds.

Despite the Committee's rejections of these possibilities, the question remains whether Parliament makes the most of the Audit Commission. The absence of formal links between Parliament and the Audit Commission means that some crucial areas of public expenditure are considered quite differently to others. The Audit Commission has great potential to compare performance across local/health/police authorities and make good practice recommendations. In fact it often has greater potential for this sort of work than the PAC, which often deals with unitary or monopoly services. The most obvious flaw in the argument advanced by the Environment, Transport and Regional Affairs Committee Report was that many of the services currently under the remit of the Audit Commission, most notably health and police services, are not directly provided by locally elected authorities and a strong case could be made for parliamentary oversight. Additionally, a high proportion of all local revenues come from centrally raised taxation. The Audit Commission should report to a new parliamentary committee (or to select committee sub-committees as proposed above), particularly concentrating on services not provided directly by local authorities. Alternatively, Audit Commission reports could be presented to a number of existing select committees.

4.6 Review of Audit and Accountability for Central Government

Who scrutinises the scrutineers? There are a number of different bodies, established specifically to audit and follow government expenditure, with significant resources devoted to them. But do these bodies themselves maximise their efficiency? Do they work together effectively? Does Parliament make the most of their work? Does government learn the necessary lessons? At the time of writing the Government is currently conducting a Review of Audit and Accountability for Central Government. This review, undertaken by Lord Sharman, is considering key questions such as:

- What is public money?
4.7 A culture of blame or constructive scrutiny?

It is alleged that the PAC is only interested in issues where something has gone wrong and that it fails to give praise where it is due or to promote good practice. Some consider this concentration on failure or financial loss responsible for making the public service risk-averse and wary of innovation. It is debatable whether this is solely the fault of the PAC/NAO. Parliamentary democracy in general tends to be risk-averse. The rewards for taking risks in the public sector are not great and civil servants, and indeed ministers, may not wish to take risks that may come back to haunt them. The growth of the regulator-economy has added to this culture. The operation of the PAC may be simply a symptom of the wider culture. Nonetheless the PAC should attempt to challenge this prevailing ethos. Evidence to the Commission suggested that in Scotland the over-riding ethos was that audit should be seen as a tool for making improvements rather than just a way of allocating blame. At Westminster reports showing how well a project was managed or an initiative implemented would balance and complement the traditional focus on criticism and failure. In particular, to counter a risk-averse culture, a distinction has to be made between failures which arise from taking 'justifiable' risks and failures that could not be placed into that category. Inquiries should also look at how well risks were managed.

The culture of Whitehall makes it hard for the PAC to establish whether lessons have truly been learned as a result of its inquiries. It is hard to ascertain whether recommendations have been fully implemented and whether they have been effective. Also with the inevitable time lag between the problem on the ground, leading to NAO inquiry and the publication of the PAC report, the officials in question have often moved and the person appearing before the Committee has had nothing to do with the issue. However, the main rationale of NAO/PAC should be to encourage improvement and make constructive criticism rather than simply conduct a witch-hunt. In that case the official in post at the time of the inquiry would be in the best position to learn the necessary lessons.

Learning from what has happened should be the underlying principle for scrutiny and
accountability work on public expenditure. If things have gone wrong, the reasons for that failure and the consequences arising from it need to be analysed and assessed. Through this process, the chances of the failure being repeated can be minimised, if the lessons learned are widely disseminated. Conversely if something has gone well, the successful methods should be equally widely shared. Credit and praise should be incentives and rewards for getting things right. This culture of improvement is at odds with the current culture of blame and shame. It would be naive to believe that an adversarial political culture would ever wish to eradicate entirely blame and embarrassment. But such a culture should be tempered with a different impulse to analyse, improve and encourage.

5. Agencies

This section looks at the growth in the use of executive agencies and accountability issues arising from this development. These accountability issues are not simply concerned with financial matters but also concern political and ministerial accountability, issues that are not fully resolved.

5.1 The development of agencies

The development of executive agencies was one of the defining characteristics of the Thatcher/Major years. Although the process of transferring departmental functions to separate agencies was set in train by Margaret Thatcher's government, in fact the idea had originally been recommended in the Fulton Report of 1968. Shortly after coming to power in 1979, Mrs Thatcher appointed Sir Derek Rayner to advise on the promotion of efficiency and elimination of waste in government departments. Rayner's work led to the Financial Management Initiative (FMI), which was launched in 1982. Individual departments were encouraged to develop their own FMI strategy within a broad framework. Common features of the departmental FMIs were value for money testing on a regular basis, performance indicators and output measures, and devolved budgeting to accountable line managers. In 1983 Sir Robin Ibbs, who succeeded Sir Derek Rayner as head of the Efficiency Unit, was asked to undertake a further review of options for reform, leading to greater efficiency. The Ibbs Report 'Improving Management in Government: the Next Steps', was published in February 1988. Its main recommendation was that agencies should be created to 'carry out the executive functions of Government within a policy and resources framework set up by a department.'

The agencies, which were established following this report, are each headed by a chief executive and have semi-autonomous status, operating at arms-length from day to day ministerial control. Formally the agencies remain part of their original departments. The chief executives of agencies have the power to make operational decisions, within the limits of publicly available 'framework agreements' set by government ministers. These documents identify the functions for which the agencies are responsible, outline the financial arrangements, and establish performance targets. The first executive agency was established in August 1988. By 1997, there were 145 agencies plus 2 departments acting as agencies (HM Customs and Excise and the Inland Revenue) and they now form three
quarters of central government activity. The agencies vary considerably in terms of size and power; the largest are major enterprises such as the Benefits Agency, HM Prisons Service and the Employment Service.

5.2 Perception and reality

Before discussing the specific issues of accountability of agencies, it is useful to clarify some of the misconceptions that have arisen around this subject. An executive agency is a specific creation of a government department. There are many other bodies, such as quangos, non-departmental public bodies and the like, which are not executive agencies but sometimes are mistaken for them. Agencies are essentially an organisational phenomenon rather than a political one, and were designed as a practical mechanism to make the public sector work more efficiently. But people often read more into them than in fact exists. This may have something to do with the political environment in which they were conceived and born. Many of the public-sector reform programmes of the Thatcher/Major era concentrated on reducing the scope of state activity, most obviously through privatisation of state industries and utilities. Therefore, a programme to place state services at arms length from central government and, in some cases, attempt to introduce more private sector management techniques, was immediately assumed to be a prelude to full privatisation, although this has not happened.

Also, to begin with, the changes were considered relatively minor. Over time the number of agencies has grown steadily. This is mainly because they have worked well and in many cases, for example the large and complex Benefits Agency, they have demonstrably improved the quality and efficiency of the public service. The Public Service Committee noted in 1995, "Agencies are often seen as successfully ensuring that public services are delivered more effectively and efficiently." Only now can they really be seen as the large-scale reform that they have become. The fact that there is now all-party consensus for their retention and expansion also confirms their secure position. Looking at the situation in 2000, it is easy to imagine there was a smooth, almost inevitable, transition from one form of civil service administration to another. But hindsight is a deceptive vision and the development of agencies over the past decade or so was not the inexorable process that it can now appear.

5.3 Accountability of agencies

Since their introduction, governments have maintained that agencies are compatible with existing scrutiny arrangements; in particular, that ministers are still responsible to Parliament for the work of agencies. However, the growth in the number of agencies has obviously had implications for Parliament and its ability to scrutinise government activity undertaken by organisations, which are no longer headed, at least on a day-to-day basis, by Ministers. It is alleged that there is now a tension between the greater delegation of responsibility to agencies and continuing ministerial accountability to Parliament. But a formal change in ministerial accountability was never the intention of the move to agencies.

The I lbs report had originally argued that ministers could not be genuinely responsible
for everything done by officials in their name, given the range of functions undertaken by departments and their agencies. It suggested that the convention of ministerial responsibility should be amended. However this was firmly ruled out by Mrs Thatcher’s government, which stressed that the convention of ministerial responsibility would still apply to the new agencies, which could be scrutinised by select committees, the NAO and Parliamentary Commissioner for Administration.31 On the day of the publication of the lbbs report in 1988, Mrs Thatcher told the House of Commons:

"There will be no change in the arrangements for accountability. Ministers will continue to account to Parliament for all the work of their departments, including the work of the agencies. Departmental select committees will be able to examine departmental agencies’ activities and agency staff in the same way as they examine departments now".

Despite Mrs Thatcher’s assurances, from the outset there has been a debate as to whether agencies have changed the nature of accountability of government to Parliament. Some view agencies as having blurred the lines of accountability with ministers able to distance themselves almost completely.32 For example, Lord Nolan, at the Second Radcliffe Lecture in 1996 voiced concerns:

"...if accountability is only through Ministers, in respect of an agency with hundreds of offices and thousands of clients, the chain is too long, the person who should be answerable – perhaps at local level – remains shielded from public view, and true accountability is weakened…The right people have to be accountable…Eventually, the framework of accountability will have to change, and to follow the new management and organisational structure".

Others maintain that ministerial and civil service accountability to Parliament has actually improved and is more transparent. Certainly the publication of framework documents, targets and annual reports usually makes agencies much easier to scrutinise than the often-impenetrable departmental sections that they replaced. An official review in 1995 also found that agency status clarified the roles and functions of chief executives, agency and departmental officials and thus ‘facilitated accountability’.32 The Public Service Committee considered that in terms of accountability the success of agencies was mixed, commenting:

‘On the one hand, the formal delegation of responsibility to agency Chief Executives can offer better accountability because it makes more transparent the relationship between Minister and civil servant….With the information it now has available in the Framework Document and elsewhere, it ought to possible for Parliament and the public to examine the relationship between Ministers and some civil servants to decide to whom should be attributed praise or blame.”

But its Report continued:

‘the increased transparency of the relationship has done more than anything to reduce the coherence of the convention of ministerial accountability. It has led,
indeed, to suggestions that it renders the traditional convention of Ministerial responsibility unworkable in agencies.14

Agencies appear to have highlighted, and perhaps exacerbated, some of the existing weaknesses in accountability to Parliament but they were not the cause of these weaknesses.

5.4 Problems with accountability: some examples

This is not to deny that agencies have not caused considerable confusion in their theory, their practice and their perception. For example, the roles and responsibilities of ministers and agency chief executives are defined in framework agreements. However, these agreements are based on a rather vague division between policy (for ministers) and administration (for agencies). In many cases it can prove difficult to determine what is operational and what is a policy matter. The distinction between the roles of ministers and agency staff is further blurred by the right of ministers to intervene in operational decisions. One of the ideas behind the Next Steps initiative was to distance ministers from detail and reduce overload. However, there is a tension between this aim and the power of intervention—a tension that can lead to confusion over where responsibility lies. Two specific examples highlight the potential confusion and blurring of responsibilities. Probably the best-known example was the conflict between Michael Howard, then Home Secretary and Derek Lewis, the short-lived chief executive of the Prison Service. The problems within the Prison Service at that time were very evident; where responsibility for those problems lay was much less clear. The Public Service Committee commented:

'the proper responsibility for the difficulties within the Prison Service is not something we can pin down....But the reasons for these difficulties, it has certainly been argued, is the problem of how to separate roles for Ministers and Chief Executive, of deciding what is ‘policy’ (the job of the Minister) and what is ‘operations’ (the job of the Chief Executive).’15

A different example concerned the Child Support Agency (CSA). The launch of the agency led to massive media coverage and intense political and parliamentary controversy. The CSA's first chief executive, Ros Hepplewhite, attempted to explain the agency's shortcomings and in doing so, she appeared to be defending the policy intentions behind the agency. Such was her identification with policy, that some of the media comment after Ms Hepplewhite's resignation appeared to believe that the child support system was close to being scrapped, although this was completely untrue. It seems impossible that this saga would have unfolded in this way if the CSA had not been a free-standing agency and Ms Hepplewhite a high-profile chief executive of such an agency. Five years previously, an equivalent senior official of the Department of Social Security would have been completely unknown. In fact, the Public Service Committee noted that difficulties with accountability were usually confined to agencies that were politically sensitive or high profile, but that most agencies do not fall into those categories.16
5.5 Parliament's Response to Agencies

Parliament itself had little opportunity to examine the Next Steps proposals and their implications for accountability, as the exercise was implemented, in general, without recourse to legislation. Consequently, Parliament did not have the formal opportunity of the legislative process to debate the principle, detail, or pros and cons of the move to agencies. Nonetheless, Parliament has had to try to come to terms with the new agencies. In a debate on the Next Steps Initiative on 20 May 1991 (the first Commons debate on the exercise), Giles Radice MP, a member of the Treasury and Civil Service Committee (TCSC) said: "The next steps changes were far too important to be left to the executive alone, and that there should be parliamentary input...The select committee's close involvement in a major bureaucratic change is, arguably, unique in the relationship between parliament and the executive." In the same debate, Tim Renton, the Minister for the Civil Service praised the TCSC's work: "It is fair to say the development of Next Steps has been a team effort between the Select Committee and the Government." Thus far, both Parliament and government appeared satisfied that Parliament was making an input to the process and that its scrutiny was valuable.

However, a distinction should be drawn between scrutiny of the Next Steps initiative and the individual scrutiny of the many agencies set up under that initiative. The TCSC, and more recently the Public Service Committee, have provided overall scrutiny of the Next Steps initiative, monitoring its development and commenting on the implications for Parliament. Although many individual select committees scrutinise the agencies within their remit, overall scrutiny has been rather haphazard. In general select committees have tended to concentrate more on policy than on administration - the latter not being seen as an attractive or politically interesting option. Advocating greater consistency and coherence for select committees is central to the Hansard Society Commission's work. In order to formalise the system, select committees should have a duty to scrutinise all agencies within their remit on an annual basis or at least once over a certain timeframe.

One avenue of parliamentary scrutiny, which has had significant impact on the work of agencies, is the Parliamentary Commissioner for Administration (PCA) or Ombudsman. The PCA now reports to the Public Administration Committee (which is also the successor to the Public Service Committee). The PCA has the power to investigate complaints of maladministration against departments, quangos and agencies. The PCA's inquiries into the Child Support Agency in the mid-1990s made a real contribution to reform of the agency after its disastrous first year. The Ombudsman reported that maladministration within the agency "could not be divorced", in the words of the PCA committee "from the responsibility of ministers for the framework." This analysis, tying together the ministerial and administrative failings, proves the value of effective external, parliamentary scrutiny and provides a useful model for scrutiny on agencies.
5.6 Accountability of Agency Chief Executives to Select Committees

The role of agency chief executives is represented as something new within the civil service structure and their relationship to Parliament has taken time to settle down. They are appointed for a fixed period and with an individual remuneration package including a substantial element of performance related pay. Posts are advertised openly, but only a minority of chief executives have come from outside the Civil Service. Select committees may call chief executives to appear in front of them. In 1992, William Waldegrave stressed the importance of select committees in holding agencies to account. In a speech, he stated that the chief executives of agencies would act as they would in the private sector, "only, unlike their private sector counterparts, they are also likely to be hauled up in front of a parliamentary Select Committee if they haven't delivered." In giving evidence to Parliament, agency chief executives are subject to the same constraints as other civil servants; they are bound to give information on their ministers' behalf (the Osmotherly rules). They can describe the policy in action but cannot comment on its merits, discuss disagreements with ministers and their departments, comment on the defects of government policy, or discuss how changes in policy might have affected an agency's performance, although inevitably the lines are sometimes blurred. It was recommended by the TCSC in the 1993/94 session that chief executives "should be directly and personally accountable to Select Committees in relation to their annual performance targets". However, the Government rejected this in a 1995 White Paper.

In the 1996/97 session, the Public Service Committee recommended two changes to the Osmotherly rules. Firstly to indicate a presumption that Ministers would agree to requests by Select Committees for agency chief executives to give evidence, and secondly to "indicate that agency Chief Executives should give evidence to select committees on matters which are delegated to them in the Framework Document". The report stressed that Chief Executives would not be able to speak on policy matters without ministerial approval. The Government response accepted the first but not the second recommendation. The distinction between the roles of Ministers and Chief Executives (policy versus administration) tends to be less clear with Agency Chief Executives than with more traditional civil servants. It is right that select committees have a specific responsibility for interrogating chief executives within their field. Their position should make them directly responsible to Parliament for the administration and public money of their agency, although not government policy. It is up to select committees to obtain the best evidence possible from chief executives. As yet, it is not clear whether this has been achieved.

Agency chief executives answer PQs on issues within their areas of responsibility. Since November 1992, following the recommendations of several select committees, their answers have been printed in Hansard. However, ministers sometimes have an influence on these replies. Some agencies, such as the Benefits Agency, send their ministers copies of their answers at the same time as they send the originals to the MPs who asked the PQs. Other agencies however, such as the Prison Service Agency, send answers to Ministers' private offices for approval where the answers can be changed by or on behalf of a minister. MPs may also (and are encouraged to) write directly to the Chief Executives of agencies. Once again, this would very rarely be the case with a more traditional civil
servant and has probably encouraged MPs to regard agencies differently.

5.7 Financial Arrangements

It was originally envisaged that all agencies should have full cost income/expenditure accounts, and that activities which were, or aimed to be, self-financing should operate as trading funds. The Government Trading Act 1990 broadened the original concept as set out in the Trading Funds Act 1973 so enabling more agencies to escape the detailed cash flows passing through Parliament Vote account arrangements. Parliamentary control is retained through the requirement that each fund be established by affirmative order, by scrutiny of statutory annual accounts, and the power to examine the Fund by the National Audit Office. By 1993, 12 agencies were operating as Trading Funds. In addition, all agencies were required to publish commercial style reports and accounts at the end of each financial year. A 1995 efficiency scrutiny found that agencies generally had more sophisticated management information systems than departments, but recommended that there should be a greater move towards resource accounting and budgeting across Government.18

The NAO remains responsible for auditing agencies’ accounts and may also carry out value for money studies of their operations. In her 1988 statement, Mrs Thatcher assured the House of Commons that the normal rules of accountability and audit should apply to agencies and that the NAO should have the same role in relation to them as it had to government departments. In their 1988 report, the TCSC recommended that chief executives should be Accounting Officers for their agencies. The Government accepted this recommendation. The NAO has actively sought from the start to be closely involved in certification audits and value for money reports. The creation of agencies has caused an increase in the number of audits to be undertaken and thus in the volume of work for the NAO. Each agency must submit accounts which have to be individually audited each year. The NAO has a specific function in examining and assessing financial targets and in ensuring that financial performance measures are reflected in published accounts.19 A number of issues have arisen with these arrangements:

- The NAO’s job has been complicated where a framework document does not lay down clear divisions between the finances of an agency and those of its parent department.
- There has also been a conflict between ministers anxious to present agencies’ results in the best possible light and the NAO’s concern to ensure that proper financial measures are adopted and reflected in published accounts.

5.8 Scrutiny of agencies: symptom of parliamentary failing?

Some of the problems with the accountability of agencies to Parliament arise from the weakness of Parliament’s structures rather than anything inherent to do with agencies. Too many parliamentary procedures to hold the executive as a whole to account are deficient. For example, writing in the Political Quarterly in 1999, Kate Jenkins, who led the Next Steps administrative reform, stated that "Tradition asserts that it is to Parliament that the
government accounts... but the reality is a pale and feeble thing.” She added “Parliament is trying to monitor the outcomes and processes of a relatively sophisticated system with tools out of the Stone Age”. Some select committees undertake regular and detailed scrutiny of agencies, others do not. While the introduction of agencies has appeared to blur the lines of accountability or has seemed to confuse some observers, in fact agencies have generally increased transparency and enhanced the opportunities for Parliament to secure accountability. The main concern is that Parliament has failed fully to seize these opportunities.

6. Conclusion

Parliament has a unique role in control and authorisation of supply and scrutiny of expenditure. Along with other aspects of scrutiny, it is failing to perform at anything like an optimum level. In order to ensure effective financial scrutiny, Parliament, and the House of Commons in particular, needs to establish some core principles and reforms. The principles required to improve scrutiny, including financial scrutiny, include:

- Parliament should re-assert and re-define its constitutional role as the ultimate source of scrutiny and accountability of government,
- It should establish and enshrine a structure for parliamentary scrutiny and accountability on financial matters, whether forward spending plans or money already spent,
- It should be established that the constitutional role of Parliament is to follow government money wherever it is spent and government activities wherever they take place.

To improve the effectiveness of the scrutiny role, the House of Commons should:

- Initiate practical changes to procedure and information on Estimates and departmental spending control, including transfers between budget sub-heads and more substantive debates on Estimates,
- Establish a new form of committee, a Finance and Audit Sub-Committee for each departmental select committee to consider finance and audit by subject area and focus on plans, estimates and outturn,
- Consider the best ways that these sub-committees could utilise the work of the NAO and Audit Commission, whilst ensuring that their independence and integrity is safeguarded,
- Provide all MPs and Peers with accessible information about all aspects of government expenditure, including the timetable of government financial plans, and memoranda on parliamentary powers and procedures,
- Assess the training and research needs of MPs to ensure that they are fully equipped to conduct effective financial accountability.

There are two, main, inter-relating forums for financial accountability in the House of Commons; select committees and the Chamber. As with other areas of scrutiny and accountability, detailed scrutiny is best conducted by committees, where small numbers of
MPs can consider issues in depth. Committees are also able to utilise better the work of bodies such as the NAO and the Audit Commission. At present, most committees give financial matters a fairly low priority, preferring to concentrate on policy matters. The overall aim would be to have strong, motivated departmental committees (or sub-committees) with a clear role and effective support. These committees should place a high priority on financial issues, look at plans, targets and outcomes and take the important role of harrying the executive to ensure that lessons are learned. The resources of the auditors are often under-used at present, so committees could be a useful way of pulling together the mass of information that the auditors build up. Ideally more of the committee’s work should concentrate on major developments as they happen rather than following up problems, sometimes years after they have occurred.

The Chamber is not best suited to detailed scrutiny work. Its main strengths are bringing political accountability to bear, most obviously through ministerial statements, oral questions and debate. However, these methods have not produced effective financial scrutiny. Improved performance from select committees may provide better material and information for members to use the Chamber more effectively. Whereas there are limits to the extent that Members can influence the Government’s plans for future spending (although changes should be made in this sphere), few such restrictions exist in improving scrutiny and accountability of past expenditure. It is this latter category that presents the greatest potential for the House of Commons.

Parliament and Whitehall should attempt to strike a more productive relationship around financial matters. Both sides can take some share of the blame for their generally poor relationship. Whitehall’s most usual position on these issues is defensive. Any co-operation tends to be grudging, especially from the Treasury. On the other hand, Parliament appears most interested in a culture of blame and shame; praise and encouragement for good practice are rare. There is little evidence of a culture of working together for mutual and public benefit. Both parties should strive for greater constructive engagement.

Appendix 1: Control of supply

The control of supply, by which Parliament votes specific sums of money for spending on particular services, is the basis of parliamentary control and accountability. Standing Order No. 48 provides that the Crown must recommend proposals for expenditure. Before the Government presents specific proposals to Parliament, however, there is an extensive planning process within government. Inside the Treasury, the Budget and Public Finances Directorate set the agenda between the differing departmental demands for money. A Cabinet Committee on Expenditure chaired by the Chancellor of the Exchequer with the Chief Secretary as a member provides a more formal mechanism of control than in the past. Treasury participation in this process is a key element of control. The pre-eminence afforded to Treasury control though PES is complementary to the overall role of the Treasury in managing and controlling public expenditure. (Appendix 2 outlines the information provided by the Government on the forward spending plans and includes recent changes.) The past decade has seen growing codification of the internal rules and procedures of Treasury control. These may be found in guides such as Government Accounting or in the Treasury Handbook: Supply and other Financial Procedures of the
House of Commons. The Code of Fiscal Stability contains the foundation for future development in this area. Three principles for 'parliamentary control of the purse' (a phrase adopted since Gladstone's reforms) were adopted in Government Accounting 1989:

- The constitutional protection afforded by the principle of statutory authorisation of the expenditure of public funds and for the raising of finance through taxation;

- The principles of propriety and regularity that requires parliamentary approval for departmental activities and services;

- The principle of delegation of considerable authority to the Treasury to approve departmental expenditure, subject to ultimate parliamentary authority.

The responsibilities of departmental Accounting Officers include applying for funds for the purposes authorised by Parliament; being the principal witness on behalf of the Department before the Committee of Public Accounts; and in exercising authority over internal control systems. They are directly responsible to Parliament. In practical terms the effectiveness of the Comptroller and Auditor General depends on his obtaining the cooperation of Accounting Officers and the Government Departments which is crucial to the Treasury system of internal audit.

Appendix 2: Information about the Budget and forward spending plans

At the centre of the system of scrutiny is the need for accurate information. There have been a number of changes in recent years:

- From November 1993, under the previous Conservative Government, until 1997, there was a unified budget containing both taxation and spending proposals. The new Labour Government reverted to the previous practice of a spring budget.

- In July 1997 the new Chancellor introduced a special budget followed in November 1997 with the publication of a Pre-Budget Report (also known as a Green Budget). The Pre-Budget Report contained details of government spending plans alongside the aims and objectives of the government's economic policy.

- The Spring Budget sets out the annual tax burden containing details found in the Treasury's Red Book. Precise details of the national accounts may be found in information published by the Office for National Statistics. The accounts set out in much greater detail the measures of the tax burden accompanied by statistical data. Major changes are planned for the nature of accounts; from the existing cash based system to an accruals basis (discussed in greater detail later). It is widely claimed that the introduction of resource accounting and budgeting by the year 2002 is likely to lead to improvements in the provision of information and in the scrutiny of the Government.
Appendix 3: Departmental spending plans

Until the 1997 General Election, the amount of money a department was intending to spend in any particular financial year was announced in the previous year; usually (since 1991) in the departmental Annual Report, published in the spring. These reports (about twenty each year, one for each major department) contained figures for the following three years, of which the later years were intended to be provisional and subject to change before the next year's annual report. The figures were the culmination of an annual Public Expenditure Survey, which involved negotiations between the department and the Treasury on the amount which was necessary, or could be afforded, for the services that the department was expecting to provide.

The incoming Labour government announced that it would undertake a Comprehensive Spending Review, intended to examine departmental spending "from a zero base", i.e. with no existing spending taken for granted. The results of this review were published in two stages in the summer of 1998, firstly in the Economic and Fiscal Strategy Report, which announced overall totals and the general procedure, and then in the Comprehensive Spending Review itself, which gave more details for each department. A fundamental change in this system is that, for most types of expenditure, the figures are fixed for three years. The Departmental Expenditure Limits (DELs) were further divided into capital and current spending. Limits are placed on the amounts which can be transferred from capital to current spending. Some expenditure cannot reasonably be forecast for three years forward and is designated Annually Managed Expenditure (AME). The main components are cyclical social security benefits (unemployment benefit etc.), debt interest and local authority expenditure. Altogether there are only about ten categories of AME but which between them they account for about half of government expenditure. The scrutiny of this form of expenditure is therefore disproportionately significant.

At the time of the 1998 Review it was announced that the next one would be in 2000, again with a three year timespan (2001–02 to 2003–04), overlapping by a year with the 1998 review. This review has now been called the Spending Review 2000, dropping the
description "comprehensive", as it is not intended to be zero-based. It is planned that successive reviews will continue to occur at two-year intervals, each covering a three-year period overlapping the previous one by a year. It is too early to assess the full effects of this system although announcements made in the 2000 Budget involved significant expenditure increases for 2000–01 and 2001–02, somewhat negating the concept of fixed three-year totals. The figures in the 1998 Comprehensive Spending Review were announced without any previous public consultation, and Parliament was not invited to approve them.

Appendix 4: Estimates; departmental spending

Parliament has an important role to play in scrutinising levels of departmental spending. There are a number of different stages in the process and scrutiny can consist of anything from a fairly mechanical examination of a particular set of figures to the examination of a policy and its outcomes. The parliamentary oversight of this process varies in quality. The occasion when Parliament is asked to approve levels of government spending is on the presentation of Estimates, which cover a particular financial year (April–March) and are presented to the House of Commons at about the beginning of that year. Further ("supplementary") Estimates are presented during the course of the year when necessary. The main Estimates are not usually approved until July, and in the mean time Government expenditure is authorised by 'Votes on Account', which are preliminary estimates generally based on 40 per cent of the previous year's figures (usually approved in March). This system is intended to allow government activity to continue without prejudice to later decisions on the main Estimates. Not all Government spending is subjected to the Estimates process; the main kinds excluded are:

- Consolidated Fund Standing Services, where an Act of Parliament has stipulated that expenditure is to be charged direct to the Consolidated Fund rather than to "money provided by Parliament";
- Spending from the National Insurance Fund on pensions and sickness benefit;
- Local Government self-financed expenditure, raised (mainly) through Council Tax.

Each Estimate consists of an "ambit", describing what the money is to be spent on, a figure for the amount to be granted by Parliament and a figure for "appropriations in aid", where associated income is available which can be spent on the service concerned. There are 85 estimates for 2000–01 (the number varies slightly each year), grouped for convenience into 21 classes. An individual Estimate is also called a Vote, because it is the level at which Parliament can grant ("vote") the money. The figures in each Estimate are disaggregated into subheads, but Parliament is not invited to approve the expenditure at subhead level, and departments can transfer ("vire") expenditure from one subhead to another without Parliamentary approval, although such "virement" sometimes requires the approval of the Treasury. Parliament can reduce an estimate (or refuse it altogether) but may not increase it.
Appendix 5: Estimates; Procedures

The procedure on each of these kinds of Estimate is basically the same:

- It is open to the House of Commons to approve individual Estimates but in practice the vast majority are approved en bloc about three times in each year, usually without any debate or division;

- A bill—the Consolidated Fund Bill—is then brought in to approve the totals, which have been granted;

- Once a year, in July, the bill also lists the ambi of the Estimates and lists the total amounts voted for each since the last such Bill. This process, called "appropriation", provides the legal authority for spending the money on particular services, and this bill is therefore called the Consolidated Fund (Appropriation) Bill and becomes the Appropriation Act. Consolidated Fund Bills are usually passed without debate in either House; in the Commons this procedure is laid down by Standing Order;

- Day by day issuing of the money is authorised by the Comptroller and Auditor General and at the end of the year Appropriation Accounts are produced, showing how much of the money granted by Parliament was actually spent. These contain an audit certificate by the Comptroller and Auditor General. Appropriation Accounts can be scrutinised by the Committee of Public Accounts, although it usually does so only for those accounts where the C&AG's audit certificate is qualified in some way.

Appendix 6: Resource Accounting and Budgeting

The main change involved in resource accounting and budgeting, compared with the current system, is a move to accruals accounting similar to that used in commercial organisations, where expenditure is recognised when the service concerned is provided or received, rather than when the money changes hands. In particular, this means that capital equipment is charged over the useful life of the asset, rather than all at once at the time of purchase. In addition, a balance sheet recognises the value of the assets held as well as cash balances. Departments will also be charged 6 per cent each year on the value of their assets, to recognise that such holdings increase the national debt. The effect of the Estimates system is that each year Parliament will be asked not only to approve a cash total (the amount authorised to be spent in that year), but also resource totals for the amount to be used. There will be one cash total for each of about 58 departments and one or more resource totals (a "request for resources" or RfR). Many departments (44 of the 58) will have only one RfR, but some have up to five: the total number of RfRs planned is currently 84. Each will have its own ambit, and RfRs therefore correspond fairly closely to the existing Votes. The object of the move to resource accounting and budgeting is to allow decisions to be taken on a basis, which reduces distortions between capital and current expenditure and recognises the value of assets.
Footnotes and References

3. "...the House's intervention is placed too late in the government's expenditure planning process cycle to be effective", Procedure Committee, Sixth Report, para 6.
7. Since 1997 the PAC has had 15 Members.
8. HC 583.
9. HC 690.
10. HC 453.
11. HC 306.
12. At present, the chairman of the PAC can allow NAO reports to be taken up by other committees but there are no formal mechanisms for co-operation between them.
15. Ibid, para 74.
16. Ibid, para 75.
21. Weir and Beetham are also critical, stating that the accountability of agencies rests "almost entirely upon the unworkable principle of ministerial responsibility". They continue: "Parliament has no oversight over the government's creations, their interests and processes, as they operate under cover of ministerial discretion. Indeed, even the government itself often has no direct control over them" Weir, S and Beetham, D., Political Power and Democratic Control in Britain, Routledge, London, (1999).
24. Ibid, para 89.
25. Ibid, para 100.

The Government’s rules, named after their original draftsmen, are the rules governing the ways that civil servants may give evidence to Parliament and what they may say in the course of that evidence. In short, the rules confirm that civil servants give evidence on behalf of Ministers and under their directions.

The Civil Service: Taking Forward Continuity and Change, Cm 2748


House of Commons Research Paper, The Accountability Debate: Next Steps Agencies, 97/4

Parliamentary Accountability, Philip Giddings (ed), 2005: Chapter 6, Financial Accountability: Agencies and Audits, by Priscilla Baines

Effective Government and Effective Accountability, Sarah Hogg and Kate Jenkins, Political Quarterly, Vol. 70, Issue 2, April 1999.


Cm 3976, June 1998. Further issues of the EFSR have been published in the same volumes as the 1999 and 2000 Budget Reports.

Cm 4017, July 1998.

Amounts unspent in one financial year can be carried forward to the next. This “end-year flexibility” is intended to relieve the pressure on departments to spend before the end of a financial year on gaps of losing the relevant funding. Unexpected expenditure can be financed through a (small) “DEL margin”, corresponding to the previous Contingencies Reserve, although departments are expected to establish their own margins within their DEL total.

An exception has been made with the health budget, where the overall figures for the next three years were announced in the 2000 Budget and the Prime Minister announced a process of consultation to decide how the money should be spent.

On the comparatively rare occasions when the amount spent during a year is found to have exceeded the amount voted by Parliament, an “Excess Vote” is approved retrospectively following a report by the Committee of Public Accounts.

The main types are interest payments on the national debt, most payments to the European Union, the salaries of judges, MEPs, Speaker of the House of Commons, the Comptroller and Auditor General and various other office holders where annual control by Parliament is thought to imply the danger of political control.

Income which is in a kind not approved for Appropriations in Aid, or which exceeds the figure mentioned in the Estimates, is paid to the Consolidated Fund at the end of the financial year (“Consolidated Fund Extra Receipts”). Each Estimate contains a forecast of such income which is likely to be received in this way.


If the change is particularly significant, the Treasury will present a Supplementary Estimate for a token amount (£1,000) to obtain parliamentary approval for the change.

The expenditure will also usually have been authorised in general terms (i.e. without amounts being specified) in some other Act of Parliament, but it is possible for the Government to spend money solely on the authority of an Estimate and the resulting Appropriation Act; money to be authorised in this way is marked with a solid square in the Estimates.

including six pension funds.

These figures are from Annex C of a Treasury Memorandum of 17 May 2000 published as Appendix 1 to the Liaison Committee, Third Report, Session 1999-2000, Resource Accounting and Budgeting, HC 841.

Parliament will also approve a figure for Appropriations in Aid corresponding to each RFR and also one figure for each department of “non-operating Appropriations in Aid”, where income arises in cash but not resource terms (e.g. the sale of an asset).
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