Finance Committee

Review of the budget process

Submission from the Hansard Society

1. Introduction: The Hansard Society is very pleased to be able to submit evidence to the Finance Committee's review of the budget process. This evidence is based on the themes and conclusions of the Hansard Society report, *The Fiscal Maze; Parliament, Government and Public Money*, published in 2006. Although the report looked at the system of financial scrutiny at Westminster, although we hope that its findings and conclusions will be helpful to the Finance Committee’s inquiry at Holyrood.

2. The central importance of financial scrutiny: *The Fiscal Maze* started from the basis that Parliament’s scrutiny of taxation, expenditure and public services is fundamental to the relationship between Parliament, government and public and to the political system as a whole. Parliament has a unique constitutional role in authorising and scrutinising government finance but, at Westminster, the current system for financial scrutiny does not work as effectively as it could or should.

Our report identified a number of procedural, structural and functional changes which aimed to increase Parliament’s ability to carry out financial scrutiny and also to increase the impact this work makes on government. We argued that effective parliamentary scrutiny should have a number of objectives including that government gives as full as possible explanation for its actions and also leads to more efficient performance. Where the information provided by government is insufficient, it is up to Parliament to demand greater clarity and transparency.

3. The two distinct elements of financial scrutiny: We made a clear distinction between the scrutiny and authorisation of proposed government expenditure and taxation (ex-ante) and the oversight of past expenditure (ex-post). We concluded that at Westminster the first function was extremely weak whereas the second function operated much more effectively.

4. Parliamentary scrutiny of expenditure plans: Of particular concern was scrutiny of government spending plans through the supply process where Parliament is little more than an acquiescent bystander. The analogy we drew was that government decides the amount of the cheque, to whom it is payable and when, and Parliament simply signs it. On estimate days billions of pounds of public spending are authorised without sufficient scrutiny or debate. More opportunities are needed for the House of Commons to be involved in the scrutiny of government spending plans. Recommendations included:

- Departmental estimates and spending plans should also be sent to select committees at the earliest possible date so that committees have the opportunity to examine them thoroughly before they are voted on in Parliament.
- There then should be more opportunities for debate of these committee inquiries in the chamber or Westminster Hall. Select committee work on estimates and spending plans should link to other processes, such as debates and other inquiries.
- Spending reviews provide the ideal opportunity for Parliament to scrutinise government spending plans at both the macro and micro level and Parliament should become fully involved in the process leading up to the Comprehensive Spending Review and should subject the interim report on the CSR to detailed scrutiny, and where appropriate, make recommendations about priorities.
- Previous Hansard Society reports had proposed that Parliament should be able to vote on transfers within departmental budgets.

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1 *The Fiscal Maze* was supported by PricewaterhouseCoopers and CIPFA, the Chartered Institute for Public Finance and Accountancy.
4. Improving parliamentary scrutiny of financial legislation and taxation: Parliament should increase its impact on the Budget process, to secure explanation from government for its priorities and to scrutinise better the legislation that enacts government taxation proposals.

- The advent of the Pre-Budget Report has reduced the need for traditional budget secrecy. The timetable for consideration of both reports by Parliament should allow for thorough parliamentary scrutiny. In the period between the Pre-Budget Report and the main Budget, Parliament should take expert and public evidence on the government’s plans. It should make a case for the priorities it wishes government to consider, and ensure the government provides full information and explanation for its proposals.
- Financial legislation has not benefited from the procedural reforms which now give Parliament an opportunity to comment on and influence many draft bills. The entire Finance Bill should be subject to pre-legislative scrutiny by a parliamentary committee.
- Parliament should also improve the way that it scrutinises tax legislation and administration. Alternative options for reform included the establishment of separate Taxation Committees in the House of Commons or a Tax Administration Committee in the House of Lords.

5. Parliamentary scrutiny of government expenditure: Many individual Parliaments often work more effectively on one element of financial scrutiny compared to other elements. It is inevitable that a Parliament will concentrate on the areas that it can make most difference and downplay those it cannot. The extent of the control of the executive over Parliament at Westminster, which is clear in many areas, means that it unlikely that government will cede much control over tax and spending. However the operation of oversight of past expenditure, where government control is much lighter, is approached much more positively by MPs at Westminster.

We concluded that there should be a move towards a deeper notion of accountability to ensure that individual lessons are translated into general reforms of public institutions that are found to be flawed.

- The work of the Public Accounts Committee should be followed up more effectively through the introduction of a regular trigger for review of recommendations to assess their progress.
- Departmental annual reports should also include a specific section on progress made in implementing recommendations and the outcomes of the changes made.
- To give a higher priority to financial scrutiny within select committees, Parliament should consider piloting finance and audit sub-committees for selected departmental select committees.

6. Developing and enhancing a scrutiny culture: Procedural reforms can only go so far. For real change to happen, the individuals within the system must wish to make the most of the opportunities. Crucially the culture of the institution should facilitate and reward this. Many of the recommendations in the report would only be effective if accompanied by a greater willingness from MPs (and occasionally Peers) to engage in financial scrutiny work.

To enhance the broader scrutiny framework, we recommended that Parliament should adopt a set of best practice guidelines to ensure that its scrutiny methods are fit for purpose, comprehensive and result in improvements in government performance. One model presented in the report is outlined in Appendix 1.

7. Support and Information: Most Parliamentarians are not financial experts and thus need the best possible support if they are to improve financial scrutiny. At Westminster, the work of the Commons Scrutiny Unit, introduced in 2002, provides valuable support to select committees.

- We recommended that this work should be built upon, either through an expansion of its role or through its evolution into a Parliamentary Finance Office to provide
comprehensive support on all financial matters to individual parliamentarians and select committees.

- Parliament has a responsibility to the public to ensure that financial scrutiny is carried out in the public interest and reflective of their concerns.
- Parliament should provide a document which sets out the operation of financial scrutiny which is publicly available.
- The views and experiences of members of the public and interested groups should be sought and should feed into the parliamentary process.

8. Conclusion: The recommendations in *The Fiscal Maze* were mainly directed at Parliament. However, it is essential that government responds and engages constructively with Parliament to improve its work in this area. We concluded that improved financial scrutiny should lead to better government and better public service – which is in the interests of everyone: Parliament, government and the public.

In April 2008, the Commons Liaison Committee issued a report, *Parliament and Government Finance: Recreating Financial Scrutiny* which was influenced by, and referenced the themes and recommendations in *The Fiscal Maze*. At time of writing, the Government had yet to reply to the Committee’s report. Appendix 2 outlines some of the themes and conclusions in the report to provide comparisons and background for the Finance Committee’s inquiry.
Appendix 1: Developing an effective scrutiny process

In order to encourage debate of the principles underpinning the scrutiny process, we included a framework, developed for the report by the financial consultants PricewaterhouseCoopers.

The development of an effective scrutiny process should exhibit the same best practice principles inherent within any robust system or framework. These principles are illustrated in the figure below, showing a simple seven-step approach to developing and maintaining a robust scrutiny process. Each step is explained below.

1. Understand scrutiny objectives: Why is scrutiny important? What is it trying to achieve? How will we know if it has been effective? The scrutiny process must be based on a common understanding of what it is intended to achieve, taking into account the policy context and the requirements of all relevant stakeholders. Without this understanding, it would be impossible to develop robust scrutiny processes, or to analyse the effectiveness of the activities comprising parliamentary scrutiny.

2. Understand constraints: It is equally important to identify the constraints affecting the scrutiny process. These could be political, as well as the common constraints of available resources and time. Established data reporting processes (content, timing etc) might also give rise to constraints in the scrutiny options.

3. Plan scrutiny activities: Planning is the crucial activity that identifies the approach to be taken to meet the objectives identified in step 1, within the constraints identified in step 2. This step can often prove difficult to coordinate, if there is disagreement over the objectives or if there is no natural mandate or authority over all the potential sources of scrutiny.

4. Develop scrutiny framework: The development of the scrutiny framework will require the design of scrutiny processes, and allocation of these to one or more organisations or functions. Scrutiny process design should have regard to the standard elements inherent in any best practice process. These elements include clear objectives, due regard to efficiency,
economy and effectiveness, and with continuous review and improvement cycles embedded at appropriate points. The organisations that will deliver the scrutiny must have sufficient capacity to perform the planned activities, including having appropriate experience, expertise, resources and available time. Where more than one organisation is involved, a key focus will be the integration and coherence of their respective scrutiny activities so that the overall objectives are met.

5. **Perform scrutiny processes:** This step features the implementation and operation of the scrutiny processes or activities identified in the plan. This is likely to include a range of different types of activity. Again, there is a need to ensure that the overall scrutiny processes, once implemented, deliver against the stated objectives.

6. **Monitor scrutiny effectiveness:** Periodically, the effectiveness of the scrutiny framework should be considered, to reassess if it is meeting the original objectives identified in step 1. This could be achieved through activities such as seeking confirmation from stakeholders that their needs are still being met, or by review of any apparent failings in scrutiny and assessment of whether lessons learned indicate a need for changes to the scrutiny process.

7. **Amend steps 1-5 if required:** The scrutiny process should be a constant loop, with appropriate amendments made to any of steps 1-5 if it is not fulfilling the objectives for which it has been designed. Often, reviews to provide assurance that such a process is robust, concentrate only on steps 5 and 6 – analysing processes and their effectiveness, without revisiting and revalidating what these activities are intended to achieve. In addition, planning is often inadequate, especially if there are many different parties involved in the process, each with their own agenda and views on how they should operate. Therefore, to ensure the integrity, coherence and effectiveness of the system of scrutiny, all steps set out above must be examined.
Appendix 2: Selected themes and recommendations of the House of Commons Liaison Committee Report, Parliament and Government Finance: Recreating Financial Scrutiny (HC 426)

1. Principles to assess the quality of financial scrutiny include:
   - In the financial process itself: transparency, simplicity and comprehensiveness;
   - In the scrutiny process:
     - reliable and comprehensible information provided early enough;
     - sufficient time before decisions are made;
     - effective committee and other structures;
     - Members persuaded that spending time on finance is worthwhile;
     - sufficient staff expertise;
     - adequate powers.
   - The reason for scrutinising past expenditure is clear (assessing whether it is regular, proper, economical, efficient and effective).
   - Reasons for scrutinising planned expenditure can include explaining and making transparent, engaging stakeholders and enabling them to comment, testing for consistency (with other aspects of financial planning, over time, and with objectives/targets), testing for efficiency and benchmarking, and testing for equity and inclusiveness.
   - Ways of increasing Members’ interest in financial scrutiny could include: creating stronger links between scrutiny of policy, finance and performance; a simpler system of supply and financial reporting; processes which offer a possibility of influencing government or achieving some other benefit (e.g. increased transparency).

2. Selected conclusions and proposals: 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.

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.

The ability at present of Members to hold the government to account for its financial decisions is that 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 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.

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 overall shape of the Government's finances and changes in it are matters which could and should be presented comprehensively, like the overall finances of any other organisation.

Removing complexity from the Government's financial system as fundamental to improving financial scrutiny, as well as to improving financial management in Departments.

Financial reporting: Each Department should publish an annual statement in plain English about its internal financial planning processes and control mechanisms.
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.

Making financial scrutiny worthwhile: 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. The results of Spending Reviews should 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.

It is essential that the House take back the right to debate and vote on individual government programmes or items of expenditure.

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.