Finance Committee

Review of the Budget Process

Submission from the House of Commons Scrutiny Unit

1. The Scrutiny Unit in the House of Commons Committee Office welcomes the opportunity to contribute to the Scottish Parliament’s Review of the Budget Process, on which the Finance Committee is consulting. The Scrutiny Unit supports the work of committees in scrutinising draft bills and co-ordinates the evidence-taking sessions of Public Bill Committees; and it supports departmental select committees in examining Estimates and Supplementary Estimates, Departmental Annual Reports, Autumn Performance Reports and Resource Accounts, by providing analysis and briefing to those committees. The Unit works with select committees in pressing government departments to improve the quality of the financial information they provide, and the Unit compiles information on best practice in relation to Departmental Annual Reports and departmental Estimate Memoranda.

Introduction

2. The Scottish Parliament’s consultation paper discusses arrangements by which the Parliament and its committees engage in scrutiny of the Scottish Government’s budget proposals. This paper, similarly, discusses the extent of financial scrutiny of budgets or expenditure plans in the House of Commons, rather than scrutiny of outturn after expenditure has been incurred. We make no observations on the procedures or powers of the Scottish parliament or its committees, and offer this memorandum simply as an aid to comparison and a commentary on relevant developments underway in Westminster.

3. The Scottish Parliament’s processes, described in the consultation paper, centre on scrutinising expenditure plans in an annual cycle, usually adjusted for Spending Review years every second or third year. The House and its committees also have a role in scrutinising and approving expenditure plans within such annual and Spending Review cycles. However, the information made available to Parliament, the powers vested in committees and the resources available to support that work, differ markedly.

4. The paragraphs below discuss the scrutiny of Spending Review budgets and annual (and in-year) changes to those budgets between Reviews; the resources available to support the house’s financial scrutiny; and recent developments which may change the way budgets are scrutinised in future.

Spending Reviews

5. There is an inherent difficulty for the House in scrutinising expenditure plans, which is that there are essentially three financial frameworks which overlap but nevertheless have important and significant differences, and that the House’s engagement with each of these frameworks is different. Spending Reviews set budgets for the three year period covered by the Review for each government department, which when aggregated provide the control totals by which the Treasury seeks to manage overall public expenditure in accordance with the fiscal rules. These budget figures reflect international National Accounts totals reported by the
Office for National Statistics, although there are some differences where, for example, the Treasury seeks to impose particular financial management incentives on departments. The House does not vote on budgets, but rather on Estimates which give parliamentary approval for expenditure that would not otherwise have legislative authority. Estimates only cover one year at a time. Departments report to Parliament their outturn expenditures in Resource Accounts, which reflect commercial-style accounting statements compiled using accounting standards, and audited by the C&AG.

6. The House of Commons has no formal role in debating or approving Spending Reviews, whether in draft or in their final state. The results of the 2007 Comprehensive Spending Review were published in October 2007.¹ This presented the financial budgets for each government department for the three years to 2010-11 and their efficiency savings targets, along with the their Public Service Agreement and Departmental Strategic Objective targets. With the CSR coming three (rather than two) years after the previous Spending Review, aspects of the financial settlement had been published beforehand. The overarching spending totals for the CSR period had been published earlier at the time of Budget 2007, and several individual departments’ CSR budgets had been published earlier (five departments at Budget 2006, another six at Pre-Budget Report 2006 and another three at Budget 2007).

7. Neither the House nor its committees were given an indication of individual CSR budgets being negotiated with the Treasury before they were finalised. Indeed, the Treasury Committee acknowledged that “we would not expect departments to be in a position to disclose in advance the likely scale of final settlements”.² The Treasury Committee nevertheless undertook a rolling inquiry into the CSR, publishing reports in June and December 2007.³ It sought information on emerging thinking on likely new departmental performance targets and draft targets to be provided to select committees,⁴ and the Treasury and some other departments did provide drafts before the CSR results were published. For instance, the Treasury targets were provided to the Treasury Committee in June and September 2007.⁵ The Committee also sought information on programmes associated with previous targets that had been achieved, where funds might be potentially available for reallocation, though

¹ Meeting the aspirations of the British people, 2007 Pre-Budget report and Comprehensive Spending Review, HM Treasury, Cm 7227
² The 2007 Comprehensive Spending Review: prospects and process, Sixth report by the Treasury Committee, Session 2006-07, HC 279, para 104
³ HC 279; The 2007 Comprehensive Spending, First report by the Treasury Committee, Session 2007-08, HC 55
⁴ HC 279, paras 102-3
⁵ HC 55, Evidence pages 21 -32
without success.\(^6\) The Treasury Committee also recommended that there be a debate on the results of the CSR, although that has not happened.\(^7\)

8. More recently, the Liaison Committee has made recommendations for increased parliamentary involvement in scrutinising Spending Reviews before they are finalised (para 17 below).

**Annual expenditure plans**

9. The House does not approve the budgets set by Spending Reviews. It considers and approves annual Main Estimates at the beginning of each financial year (published in May and considered and voted usually in July), as well as Supplementary Estimates which increase permitted expenditure in-year (in November and February). At these three points in each year, the House debates and approves the Estimates, but in practice the subject for these ‘Estimate day debates’ are recent reports from one or two departmental select committees, often on policy rather than financial matters.

10. Each government department submits to the Commons select committee which monitors its work an Estimates Memorandum that is intended to explain the figures in the Estimate and the budget changes being made by the Estimate since the most recent Spending Review, or the budget and Estimate changes in the Supplementary Estimate since the Main Estimate was approved. These memoranda are not published by the departments, although the relevant committee may choose to publish it, and many do so. Some committees, notably the Defence Committee, routinely produce a report on the estimates in time for the Estimates day debate, but most do not.

11. When the House debates and votes on the Estimates or Supplementary Estimates, Members may table a motion to not approve the Estimate in question (or all of them as a group) or to reduce an Estimate by a particular sum, but the House cannot vote to increase Estimates or move expenditure from one Estimate to another. Often changes in Estimates since the most recent Spending Review, or changes in-year in a Supplementary Estimate, reflect changes also being made in a department’s budget. To the extent that budget and Estimate changes coincide, the House has an opportunity to express a view on those budget changes. But in the procedures for approving Estimates, the House does not formally vote on changes to departmental budgets. The Scrutiny Unit in the House of Commons supports each committee by providing analysis of and briefing on each Estimate and accompanying Memorandum, including any consequential budget changes (para 14).

12. Nearly all departmental select committees examine their departments’ Annual Report, which, as well as discussing performance against PSA and efficiency targets, sets out budget data in ‘core tables’ whose form is determined by the Treasury. These Departmental Annual Reports therefore provide an annual presentation of the departments’ budgets for the remaining years of the current

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\(^6\) HC 279, para 104

\(^7\) HC 279, para 10
Spending Review period, along with comparative figures for the last five years. The House does not have any formal role in considering or voting on these Reports, although this is the subject of a very recent report by the House’s Modernisation Committee (para 17). Again, the Scrutiny Unit briefs departmental select committees on what these Annual Reports say.

**Assistance for committees**

13. Departmental select committees each have their own permanent staff – generalist clerks, specialist researchers and support staff – and also Specialist Advisers who provide ad hoc advice as and when requested. Few of these staff, however, are financial experts.

14. The Scrutiny Unit was set up five years ago to provide support to committees on financial scrutiny (as well as pre-legislative support). The Unit has 19 staff, including seven staff engaged in financial, economic and statistical support for committees. Most of these staff are qualified accountants. Two of them are on secondments from government departments and another two from the NAO. The Unit undertakes analysis and provides briefing for each departmental committee on Estimates, Supplementary Estimates, Departmental Annual Reports and Autumn Performance Reports. The Unit's briefs are not published.

15. The Scrutiny Unit publishes on its website cross-cutting analyses of Departmental Annual Reports, and has issued guidance on the content of Estimates Memoranda as well as liaising with the Treasury on its own separate guidance. The work of the Unit is discussed in more detail in a recent liaison Committee report.  

16. The National Audit Office produces reports on the value for money of government programmes and the results of its audits of Resource Accounts. These are used by the Public Accounts Committee as the basis of its work. The NAO also provides some assistance to departmental select committees. For more information on its work for departmental select committees, see the recent report from the Liaison Committee on the work of select committees.  

**Recent developments**

17. There are three areas where current initiatives might change the way the House and its committees engage in scrutiny of expenditure plans:

- **The Treasury’s ‘Alignment’ project.** The Alignment project was launched following the publication of proposals in the Governance of Britain green paper to simplify financial reporting to Parliament. It envisages bringing budgets, Estimates and accounts more closely into line, and rationalising the finance-related documents presented to the House in the annual cycle. This potentially would make it easier

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8 The work of committees in 2007, Third Report by the Liaison Committee, 2007-08, HC 427, Appendix 3

9 HC 427, Appendix 4

10 Governance of Britain, HM Treasury, Cm 7170, paras 109-111
for MPs to track a department’s finances from expenditure budgets to in-year spending to outturns more easily and comprehensively. This initiative, still in its developmental stages, was discussed and welcomed in a recent Liaison Committee report, discussed below.

- **Liaison Committee report on *Recreating Financial Scrutiny*.** This recent report commended the Alignment project and the potential benefits for financial scrutiny that it promises. It considered, however, that that would not be enough on its own, and that departments needed to provide committees with more useful financial information, including the sort of information which departments’ managers, including ministers, use to monitor their departments’ performance. The report sought greater scrutiny of Spending Reviews and meaningful debate in the House on their results. It also recommended that committees examine the division of each department’s Spending Review headline settlement between its various spending programmes, a process which would require more information being provided on such plans sooner after the conclusion of the Spending Review.  

- **Modernisation Committee report on *Debating departmental objectives and annual reports*.** This Report discussed the scope for debating Departmental Annual Reports, and responded to outline proposals in the *Governance of Britain* green paper for debates on major departments’ objectives and plans.

Useful documents:


- *The work of committees in 2007*, Third Report by the Liaison Committee, Session 2007-08, HC 427. In particular:
  - Paras 35-45 discuss committees’ scrutiny of expenditure plans and outturns;
  - Appendix 3 describes the work of the Scrutiny Unit; and
  - Appendix 4 describes NAO support for committees.


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12 HC 426, para 66

13 *Debating departmental objectives and annual reports*, Second Report by the Modernisation Committee, Session 2007-08, HC 530

14 Cm 7170, paras 107-108
• *The 2007 Comprehensive Spending*, First Report by the Treasury Committee, Session 2007-08, HC 55