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Options to Improve Parliamentary Scrutiny of Government Expenditure

A Report to the Chancellor

Edward Leigh MP and Dr John Pugh MP

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Introduction

In September 2010, the Chancellor announced that the authors of this report, Edward Leigh MP and Dr John Pugh MP, would act as financial advisors to HM Treasury, providing independent challenge, advice and support to the development of financial management across central government. Edward Leigh had been Chair of the House of Commons Committee of Public Accounts from 2001 to 2010. Dr John Pugh was also a member of that Committee from 2006 to 2010.

The key responsibilities of the financial advisor role set out in the Terms of Reference included the following:

- to provide independent challenge, advice and support to the development of financial management across central government:
 - to input to the long-term strategy for improving financial management;
 - to act as a champion for modernising aspects of the public spending information that Parliament receives so that transparency is improved. This includes the benefits of the Alignment or “Clear Line of Sight” reforms;
 - to advise on the Government’s approach to management of strategic risks in public service delivery and finances. This could include providing challenge on financial performance measures that would be used to assess the effectiveness of financial management by departments; and
 - to provide independent assurance and input to projects as they are initiated and progressed.
- to promote good practice in financial management in government by providing input on the expectations of Parliament;
- to provide an independent opinion on how the Treasury is progressing against its long-term Financial Management Strategy and how well, as a department, it is operating; and
- to be available for ad hoc advice.

Subsequently, Edward Leigh was appointed Chair of the Public Accounts Commission in the House of Commons and as a consequence of this new role, resigned from the financial advisor position in March 2011. Dr John Pugh followed suit. However, the Chancellor requested that the MPs prepare a report on ways to improve parliamentary scrutiny of government expenditure.

Summary

Amongst many Western democracies there is a well documented historical trend for the legislature to cede control of budgets to the executive. The United Kingdom has been identified by a number of commentators as a system where there is generally poor scrutiny by Parliament of Government expenditure before the event with, conversely, an extremely strong system of retrospective scrutiny.

There has, however, been increasing interest by a number of countries in bolstering the legislature's ability to scrutinise the executive's spending plans. Within the United Kingdom there have been a series of reforms over the past decade, both in Parliamentary processes and the management of government financial information, putting in place building blocks for enhanced scrutiny.

These changes, coupled with the current economic climate and the Government's focus on transparency and accountability, mean that there is now an opportunity to take steps to remedy this weakness and improve Parliament's ability to scrutinise Government expenditure prospectively.

The Public Accounts Committee (PAC), with the support of the National Audit Office (NAO), thoroughly investigates expenditure on major government programmes. This model of examining economy and efficiency, rather than policy decisions, should be replicated in a new Parliamentary Committee with the remit of scrutinising the numbers presented by the Government to the House in Supply Estimates and other public spending documents. This "Budget Committee" will also help to reap the benefits of the changes to the Estimates introduced by the Alignment or "Clear Line of Sight" reforms. In order to fulfil its remit, the new Committee will need access to additional specialist expertise, to be provided by a Parliamentary Budgetary Officer.

The introduction of the Major Projects Authority (MPA) to provide greater assurance at the start of high risk programmes should result in fewer large Government programmes ultimately facing stringent criticism by the NAO and PAC in the future. Nonetheless, there remains the prospect of some such programmes being investigated by the NAO and/or the PAC, providing an opportunity to examine the degree of challenge to which the programme was initially subjected, thereby scrutinising the MPA process itself.

In order to achieve the full benefits of the Clear Line of Sight reforms, plans for mid-year reporting should be brought to fruition as soon as possible. In addition, government financial documentation should be accompanied with summaries that make them more accessible to MPs who may not have financial expertise. Similarly, upcoming initiatives to improve government financial information and performance reporting should be made available in a coordinated fashion, such that they are useful for MPs undertaking scrutiny of government spending. At the same time, in order to develop the skills necessary to understand and interpret government financial information, training should be available to all MPs and should also be part of the induction process for new members of Select Committees. To be effective this should have the backing of the Party Whips, so that it becomes a priority for MPs amongst the many competing demands on their time.

Current scrutiny of government expenditure

Each year, the Government seeks approval from Parliament for its planned expenditure. This is achieved through the Supply procedure, which culminates in Supply and Appropriation Acts. Main Estimates are normally presented to Parliament around five weeks after the Budget, usually in April or May, near the beginning of the financial year. Under the Clear Line of Sight reforms, there is a single Supplementary Estimates round in January, as the end of the financial year nears.

The Estimates contain the spending plans of each government department. An explanatory Estimates Memorandum is provided by each department to the House of Commons Select Committee with responsibility for oversight of that department. Each departmental select committee has a set of core tasks which includes "To examine the expenditure plans and out-turn of the department, its agencies and the principal NDPBs".¹ In addition to Supply Estimates, each department presents an Annual Report and Accounts to Parliament before the end of June, setting out its expenditure plans for future years and audited outturn for the previous financial year.² However, there is variation in the consistency with which departmental select committees discharge their core tasks in relation to these documents.

There are currently three days set aside for debate of Estimates by the House, for a normal parliamentary session. The Liaison Committee nominates the subject for debate on these Estimates Days, based on bids from departmental committee chairs, each of whom is represented on the Committee. These debates seldom directly scrutinise the Estimates themselves, but are often used more as an opportunity to question matters of government policy (albeit including any associated expenditure). After the debate on the selected departmental Estimates, a vote is taken, and the remaining Estimates are then voted under the "roll-up" procedure without further debate. Following full implementation in 2011 of the Clear Line of Sight reforms (see below), debates and votes on Main Estimates will usually take place in July and on Supplementary Estimates in February or March.

Constitutional practice relating to financial procedure of the House states that no amendment to a motion for the grant of a sum is in order which seeks to increase the total sum demanded.³ A proposal may in theory be made to reduce an Estimate, although in practice a proposed reduction has not been carried for almost a century. Any rejection of the Estimates would be likely to be seen as a vote of no confidence in the Government.

Many commentators have highlighted the lack of detailed scrutiny by Parliament of the Government's expenditure plans implicit in these arrangements.⁴ This situation is not unique to the

¹ Liaison Committee, *Annual Report 2002*, 1 April 2003, HC 558, para 13.

² As part of the CLOS reforms, it has been agreed with the Liaison Committee that departmental annual reports and accounts should be presented before the summer recess and departments are working towards this.

³ Erskine May, (2011), *Parliamentary Practice*, 24th ed, pp.738-9.

⁴ E.g. Schick, A. (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy?' *OECD Journal on Budgeting*, Vol.1, No.3, pp.15-42, at p.27; Wehner, J. (2006) 'Assessing the Power of the Purse: An Index of Legislative Budget Institutions', *Political Studies*, Vol.54, pp.767-785 at p.778.; Brazier, A. and Ram, V. (2006) *The Fiscal Maze: Parliament, Government and Public Money*, Hansard Society, London, <http://www.hansardsociety.org.uk/blogs/downloads/archive/2007/09/17/the-fiscal-maze-jul-2006.aspx> ;

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UK, being common amongst countries with a Westminster-style Parliament. An OECD international comparison of the legal framework for budget systems concludes that:

“the degree of separation of powers between the executive and the legislature appears to be particularly important for explaining differences in the extent to which law is used to underpin budget processes. Presidential forms of government, where the powers of the legislature and executive are strongly separate, have used law most for controlling the executive in budget matters. Parliamentary monarchies with essentially two-party political systems are at the other extreme. When combined with inherited powers that produce a strong executive, the formal budget powers of parliaments in such countries are particularly weak.”⁵

A recent OECD survey concerning structures for budget approval and oversight stated:

“The general trend appears to be a dominant Budget/Finance Committee responsible for budget review which coordinates varying levels of input from sectoral committees...The UK Parliament is unique among respondents in indicating that sectoral committees in the lower house formally consider appropriations for each respective sector and that no Budget/Finance Committee is in place.”⁶

In stark contrast, the UK’s system of retrospective scrutiny of government expenditure and programmes by the Public Accounts Committee and National Audit Office is regarded as a best practice model.⁷

Bacon, R. (2008) ‘Accountability of Government and Financial Transparency - Scrutiny and monitoring functions of Parliament: the British experience’, *Symposium on The Changing Role of Parliament in the Budget Process -- Afyonkarahisar, Turkey 8-9 October 2008*, p.3 .

http://www.oecd.org/document/2/0,3746,en_33638100_34612958_41822082_1_1_1_1,00.html

⁵ Lienert, I. and Jung, M. (2004) ‘The Legal Framework for Budget Systems: An International Comparison’, *OECD Journal on Budgeting*, Vol.4, No.3, pp.1-254, p.16.

⁶ OECD, (2011) *Parliamentary Budget Officials Network Survey Background Notes*, 3rd Annual meeting of OECD Parliamentary Budget Officials, Stockholm, April 2011, p.3. Responses were received from members of the Parliamentary Budget Officials Network from over 20 countries.

http://www.oecd.org/document/61/0,3746,en_2649_34119_47720893_1_1_1_1,00.html

⁷ Schick, A. (2002) ‘Can National Legislatures Regain an Effective Voice in Budget Policy?’ *OECD Journal on Budgeting*, Vol.1, No.3, pp.15-42, p.34.

Recent reports on parliamentary scrutiny

There have been a series of reports by the House of Commons Liaison Committee and other bodies over recent years calling for greater parliamentary scrutiny of government finances.

In July 2006, the Hansard Society published its report *The Fiscal Maze*,⁸ which stated that:

“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”.⁹

Its recommendations included:

- More scrutiny of government expenditure plans should take place within parliamentary committees, particularly through consideration of Departmental Annual Reports (DARs).
- Select committee reports on DARs should link to the formal processes of the House through debates in the main chamber, to strengthen scrutiny of spending plans.¹⁰

In the same month, the PAC proposed that Departmental Select Committees devote more time to the scrutiny of expenditure plans.¹¹

The House of Commons Liaison Committee subsequently considered this area and published its report, *Parliament and Government Finance: Recreating Financial Scrutiny*, on 21 April 2008¹² stating,

“There is universal agreement that parliamentary scrutiny of the Government’s finances needs to be improved...For far too long the House has shirked the task of providing itself with the means to carry out financial scrutiny effectively, and it is time that the House was more assertive in this area.”¹³

The Liaison Committee highlighted the need for better quality, rather than *more*, financial information, to enable MPs to carry out effective financial scrutiny.¹⁴ The Committee referred to the Treasury’s “Clear Line of Sight” or Alignment project, aimed at creating a single, coherent financial regime. The Committee welcomed the proposed reforms, describing them as “potentially a historic development in the long story of Parliament’s scrutiny of government finances”¹⁵. The Committee added: “We emphasise the magnitude of the prize which is potentially available: a comprehensible and coherent system of planning, authorising and reporting government expenditure, making it

⁸ Brazier, A. and Ram, V. (2006) *The Fiscal Maze: Parliament, Government and Public Money*, Hansard Society, London,

<http://www.hansardsociety.org.uk/blogs/downloads/archive/2007/09/17/the-fiscal-maze-jul-2006.aspx>

⁹ *Ibid* p.2

¹⁰ *Ibid* p.2

¹¹ House of Commons Public Accounts Committee, *Press Notice – Improving Financial Scrutiny*, 3 July 2006

¹² *Second Report of Session 2007-08*, HC 426.

¹³ *Ibid* p.5, p.37

¹⁴ *Ibid* p.18

¹⁵ *Ibid* p.17

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possible for the House and select committees to scrutinise the Government's finances far more effectively."¹⁶

In March 2009, HM Treasury presented a Memorandum¹⁷ to the Liaison Committee (as well as the Treasury, Public Accounts, Procedure and Modernisation Committees) setting out the Government's proposals for achieving better alignment between budgets, Estimates and accounts and simplifying and streamlining Government financial reporting documents. One of the principal aims of the proposals was to improve Parliament's ability to scrutinise planned and actual expenditure.

The Liaison Committee considered and endorsed HM Treasury's Alignment reforms in its report published in July 2009, *Financial Scrutiny: Parliamentary Control over Government Budgets*.¹⁸ The Liaison Committee stated:

"The Committee welcomes the Alignment Project proposals in principle for the greater clarity they will bring and because they will align the controls exercised by Parliament with those exercised within Government. The proposals provide an opportunity to improve enormously the ability of the House to track spending plans clearly as they are translated from plans for future years into precise figures requiring legislative authority for each year."¹⁹

The Clear line of Sight reforms were subsequently approved unanimously by the House of Commons following a debate and vote on the floor of the House on 5th July 2010.²⁰

The Liaison Committee made the following further recommendations in HC804:

- the Procedure Committee should examine how Estimates could be better examined *in committee* (perhaps using a procedure akin to that for European legislation, allowing all Members to participate in scrutinising and debating a department's Estimate);
- the motions which can be debated on the days set aside in the *House* for consideration of Estimates be broadened to include substantive motions expressing the House's opinion on future spending plans;
- the number of Estimates Days should be increased from 3 to 5; and
- there should be debates on Spending Reviews and Pre-Budget Reports.²¹

In its response to HC804, published in November 2009, the Government stated²² that it welcomed parliamentary scrutiny and debate over the outcome of the Spending Review and Pre-Budget Report and would aim to provide adequate time for debate of these issues. In relation to examining Estimates in Committee, the Government noted that this was a matter for the House, and deferred

¹⁶ *Ibid* p.18

¹⁷ HM Treasury, *Alignment (Clear Line of Sight) Project*, March 2009 Cm 7567.

¹⁸ Liaison Committee (2008-09) *Financial Scrutiny: Parliamentary Control over Government Budgets, Second Report of Session*, HC804.

¹⁹ *Ibid* p.42

²⁰ Hansard 5 July 2010 column 108.

²¹ Liaison Committee (2008-09) *Financial Scrutiny: Parliamentary Control over Government Budgets, Second Report of Session*, HC804 pp.3-4.

²² Liaison Committee, (2009) *Financial Scrutiny: Parliamentary Control over Government Budgets, Government Response to the Committee's Second Report of Session 2008-09*, HC 1074.

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to any forthcoming Procedure Committee recommendations. On the number of Estimates Days and the motions debated on those days, the Government stated that it would defer its response so that it might take into account the views of the Wright Committee on Reform of the House of Commons, after its report was finalised.

The Procedure Committee did not make recommendations in relation to examining Estimates in Committee. The Wright Committee made the following recommendation in its report published in November 2009:

“We broadly endorse the Liaison Committee’s proposals for increasing from 3 to 5 the number of Estimates Days and in particular its suggestion that the type of debate on such days be widened to allow substantive opinion motions on expenditure plans for future years. In view of our desire to enhance the relevance of select committee work to the work of the Chamber we consider that these debates on Estimates Days could also usefully cover substantive motions on departmental annual reports, and recommendations in select committee reports which in the view of the Liaison Committee have not been adequately addressed by the Government’s response.”²³

The Wright Committee’s recommendations were debated on the floor of the House in February and March 2010. There were no final conclusions reached in relation to the Estimates Days recommendation.

The Liaison Committee produced a further report *The Work of Committees in Session 2008-09, Second Report of Session 2009-10*, HC 426 16 March 2010. It reiterated its previous position concerning Estimates debates:

“We are disappointed that decisions on this issue were not placed before the House when it considered this [Wright Committee] report in February and March 2010. We welcome the co-operation of the Government in helping to build a more coherent and understandable system for financial reporting, and look forward to the Government responding equally favourably to our suggestions and those of the Reform of the House of Commons Committee to improve the ability of Parliament to use the information to scrutinise and challenge Government expenditure in the future.”²⁴

The House of Commons Reform Committee also returned to Estimates in its report, *Rebuilding the House Implementation: First Report of Session 2009-10*, HC 372, 15 March 2010:

“Estimates Days are an example of business technically initiated by the Government but in fact an opportunity for backbenchers to call Ministers to account on subjects chosen, in this case, by the Liaison Committee on behalf of the House’s select committees. The Liaison Committee is taking forward discussions on the number of such days and the nature of the business to be taken on them. For the purposes of scheduling [i.e. when they are to be] and counting [i.e. calculation of the number of backbench business days] we believe that they should for the time being be regarded as backbench business. Both our Report and the

²³ House of Commons Select Committee on Reform of the House of Commons(2009) *Rebuilding the House, First Report of Session 2008-09*, HC 1117, p.43.

²⁴ P.21

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Liaison Committee have argued that debates on select committee business should be able to take the form of substantive motions and that the expenditure plans of specific Government departments be examined in such motions. The draft Standing Order therefore provides for the recommendations of the Liaison Committee on the matters to be debated to be channelled through the Backbench Business Committee.”²⁵

In August 2010, the new Coalition Government responded to the Liaison Committee’s March 2010 report, noting that:

“The House approved the Government’s proposals for the Alignment (Clear Line of Sight) Project on 5 July. The establishment of the Backbench Business Committee provides new opportunities for the House itself to schedule debates on any aspect of the Government’s spending plans, including debates on non-binding Motions on Government expenditure. The Committee could also schedule debates on the Spending Reviews and Pre-Budget Reports.”²⁶

²⁵ Pp.7-8

²⁶ Liaison Committee (2010) *The Work of Committees in Session 2008-09: Government Response to the Committee’s Second Report of Session 2009-10*, HC 415 p.3.

Trend to increased scrutiny – House reforms, overseas experiences

There has been a discernible trend both in the UK and overseas whereby mechanisms are gradually being put in place to enable enhanced scrutiny of the executive by legislatures.

The House of Commons established departmental select committees, dedicated to scrutinising departments of state, in 1979. These have been described as “one of Parliament’s great success stories”.²⁷

In 2002, the work of these select committees was considered by the Liaison Committee and the Modernisation Committee, resulting in a series of reforms, including the adoption of a set of 10 core tasks for committees²⁸ and the establishment of the Committee Office Scrutiny Unit to assist committees in undertaking their functions.

Further reforms were introduced in 2010, following the Wright Committee’s recommendations. Select committee chairs are now directly elected by the whole House instead of being elected by committee members following a process in practice dominated by party whips. The Chair of the Treasury Select Committee noted that more select committee members were staying “for a long tour”, helping to develop a committee memory and sense of collegiality, and the ability to undertake detailed scrutiny.²⁹

Commentators report growing levels of scrutiny in other countries.³⁰ This is evidenced by increased committee activity in relation to government budgets, the provision of greater resources to legislatures for this purpose and, in particular, the establishment of Parliamentary Budget Offices (PBOs) in a number of countries. In the past decade, their number has more than doubled, and many are also increasing in size. Functions vary but the essence of the role is to assist with budget-related research and analysis.³¹ For example, the position of PBO was created in Canada in December 2006. The role of the Canadian PBO is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from an MP or committee, to estimate the financial cost of any proposal for

²⁷ Brazier, A. and Fox, R. (2011) ‘Reviewing Select Committee Tasks and Modes of Operation’, *Parliamentary Affairs*, Vol.64, No.2, pp. 354-369, p.354.

²⁸ See Annex B

²⁹ Tyrie, A. (2011) *Government by Explanation: Some ideas from the select committee corridor*, Institute for Government, London p.11.

<http://www.instituteforgovernment.org.uk/publications/26/government-by-explanation>

³⁰ Posner, P. And Park, C. (2007) ‘Role of the Legislature in the Budget Process: Recent Trends and Innovations’, *OECD Journal on Budgeting*, Vol. 7 No.3, pp.1- 26; Wehner, J.(2004) ‘Back from the Sidelines? Redefining the Contribution of Legislatures to the Budget Cycle’, *World Bank Institute Working Papers*

³¹ OECD (2011) *Parliamentary Budget Officials Network Survey Background Notes*, 3rd Annual meeting of OECD Parliamentary Budget Officials, Stockholm, April 2011, p.4.

http://www.oecd.org/document/61/0,3746,en_2649_34119_47720893_1_1_1_1,00.html

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matters over which Parliament has jurisdiction. The PBO is supported by 14 members of staff and had a budget of C\$2.8 million for the year 2010-2011.³²

In March 2011 the Australian government announced it intended to introduce a PBO.³³ The PBO's office will be a dedicated independent fiscal body, the purpose of which is to:

- provide a source of high-quality, independent analysis to MPs on budget and related matters and thereby improve the quality of Parliamentary debate and enhance decision making;
- improve accountability and transparency;
- ensure integrity and sustainability of fiscal policy;
- strengthen the credibility of the Budget process;
- undertake election policy costings; and
- enhance Australia's international reputation for good governance.

The PBO has yet to be appointed. Staff numbers are expected to be between 12 and 15 and the PBO's budget is expected to be in the region of A\$6m pa.

Some of the functions of both the Canadian and the Australian PBOs are carried out, in the United Kingdom context, by the Office for Budget Responsibility and the Scrutiny Unit. The OBR produces independent fiscal forecasts and analysis, certifies Budget policy costings, and assesses the Government's performance against its fiscal mandate. The OBR may undertake analysis requested by Parliament, at its own discretion. The Scrutiny Unit provides financial expertise to departmental select committees including systematic reviews of Estimates, departmental annual reports and accounts and Spending Reviews. Nonetheless, there remains further scope in the UK to facilitate more detailed scrutiny of Estimates through the provision of high profile support for this activity.

³² Parliament of Canada, Parliamentary Budget Officer, <http://www.parl.gc.ca/PBO-DPB/AtAGlance.aspx?Language=E>

³³ Hon Wayne Swan, Deputy Prime Minister and Treasurer, Media Release, 'Establishment of a Parliamentary Budget Office' 10 May 2011. <http://www.dpm.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/051.htm&pageID=003&min=wms&Year=&DocType=>

Initiatives to improve financial reporting and scrutiny

A number of initiatives have been put in place over recent years, or are currently in the process of being implemented, designed to improve financial reporting within government in the UK. These reforms aim to empower Parliament to scrutinise Government finances more effectively by making the numbers more informative, meaningful and accessible.

Resource accounting and budgeting

The Government Resources and Accounts Act 2000 formalised the introduction of resource accounting and budgeting (RAB) for government departments. Departments' budgets and accounts are now prepared using commercial style accruals accounting rather than the traditional cash accounting. This gives a more complete picture of the economic costs of government activities:

- by matching costs to the time period in which they were incurred; and
- through better treatment of capital spending that recognises value is obtained beyond the year in which spending takes place (as reflected in the use of depreciation to spread the cost and consumption of capital assets over their useful life).

By providing information that better reflects the cost of government, RAB enhances the potential for improved scrutiny of government expenditure.

Whole of Government Accounts

The Government Resources and Accounts Act 2000 also committed the Government to preparing Whole of Government Accounts (WGA), an audited set of consolidated financial accounts across the public sector. The UK's first consolidated set of public sector financial statements was published in a summarised unaudited form on 13 July 2011.

These accounts represent the largest, most comprehensive and complex public sector consolidation in Europe. The statements cover the whole of UK central government, local government and public corporations, a total of around 1500 public bodies. These commercial-style financial statements for 2009-10 are based on International Financial Reporting Standards as interpreted or adapted for the public sector context. WGA complements the existing statistically based National Accounts, providing additional information in key areas such as unfunded pension liabilities and assets funded by PFI (Private Finance Initiative).

Over time these accounts are expected to drive better decision making, assist in macroeconomic and fiscal planning, improve financial discipline across the public sector and provide greater accountability and transparency in relation to public finances.

The Alignment (Clear Line of Sight) reforms

The Alignment (Clear Line of Sight) reforms, referred to earlier in this report, significantly improve the scope for scrutiny of government spending. The Clear Line of Sight (CLOS) reforms are being fully implemented in 2011-12. Previously, the various spending frameworks – departmental budgets, the Estimates presented to Parliament to approve government expenditure and departmental accounts – were each prepared on a different basis, making it very difficult to reconcile numbers

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between them. The CLOS reforms simplify government financial information by better aligning departmental budgets, Estimates and departmental accounts (aiding read-across between the different frameworks), and by streamlining the government spending documents presented to the House.

Specifically, unlike pre-CLOS Estimates, CLOS-based Estimates:

- are fully consistent with the budgeting numbers agreed in the Spending Review and reflected in the core tables in departments' Annual Reports and Accounts;
- break down spending plans in line with budgetary control limits, with a resource/capital split;
- clearly separate out administration and programme spending within total resource spend – in pre-CLOS Estimates, this distinction was less clear;
- identify all spending in budgets, whether voted or non-voted – in pre-CLOS Estimates, non-voted expenditure in budgets was not included in the Estimate; and
- reduce significantly the number of reconciliations needed to reach totals for operating costs (accounts), budgets and Estimates, and remove entirely the need for any capital reconciliation between the Estimate and the budget, whereas in pre-CLOS Estimates a complex set of reconciliations was required.

The Main Estimates for 2011-12 were presented using the new CLOS-based framework for the first time in April 2011. The Alignment reforms also involve moving to a single Supplementary Estimates round in January each year. This will improve financial management in departments by rationalising the basis on which they agree budgetary changes with the Treasury and gain parliamentary approval for their expenditure into a single opportunity to review their in-year requirements. The reforms also involve combining departmental annual reports and resource accounts into one set of Annual Reports and Accounts presented to Parliament by each department before the end of June.

Alignment therefore means that the budget figures for forthcoming years contained in departments' Annual Reports and Accounts should in effect represent a "draft Estimate" for future years, allowing departmental select committees several months to scrutinise future spending plans (at least at a general level) before presentation of the Main Estimates for the following year.

Transparency and accountability agenda

The Government has instituted a high profile transparency agenda which includes greater release to the public of government data and reporting.

Financial data from the COINS database is made available online.³⁴ The Treasury will continue to publish this data when it replaces the COINS database next year ("Project Oscar").³⁵ The new system

³⁴ COINS = Combined Online Information System. Government departments enter their financial data into this database, which is then used to produce Supply Estimates and other spending documents. Historic data and some current year data are made available online.

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will allow the Treasury to collect and publish more meaningful, consistent and comparable financial data across government, with some increased granularity. This will improve the data available to Parliament and the public, better enabling them to hold the government to account.

Each department publishes its business plan online. From July 2011, reports based on the departments' business plans, and their performance, are being published on a quarterly basis. These Quarterly Data Summaries (QDS) are designed to facilitate comparison across departments. The QDS include sections on:

- spending - an update on departmental budgets, indicators on financial management and the cost of major projects as well as the cost of many common areas of expenditure such as estates, IT and procurement;
- results - an update on the progress of implementing business plans; and
- people - workforce size, attendance, diversity and metrics from the civil service wide staff survey.

The Government has also introduced a new approach to tax policy making,³⁶ "underpinned by greater transparency".³⁷ The Office of Tax Simplification was launched in July 2010 to provide the Government with independent advice on simplifying the UK tax system. The Government has committed to publishing, in most cases, draft clauses for the Finance Bill, for scrutiny, at least three months before the Bill is introduced to Parliament, allowing a period for comments of at least eight weeks. The Treasury Select Committee has indicated it intends to use this opportunity to take a more active role in the scrutiny of tax policy.³⁸

In May 2010, the Government set up the Office for Budget Responsibility (OBR) to provide independent, authoritative analysis of the UK's public finances. The OBR produces forecasts for the economy and public finances, assesses the Government's progress towards its fiscal targets and the long-term sustainability of the public finances and scrutinises the Treasury's costing of Budget measures. Its *Economic and fiscal outlooks*, published twice yearly, have increased the transparency of the official Budget forecasts by providing new information on the economic determinants and forecasting methodology.

NAO's role in improving scrutiny

The role of the National Audit Office (NAO) is to scrutinise public spending on behalf of Parliament. The NAO reports the results of its audits to Parliament, holding government departments and bodies to account for the way they use public money. In addition, the NAO works to help public service managers improve performance and service delivery. The NAO Comptroller and Auditor General is an Officer of the House of Commons. Both he and his staff at the NAO are independent of

³⁵ OSCAR = Online System for Central Accounting and Reporting.

³⁶ HM Treasury and HMRC, *Tax Consultation Framework*, March 2011.

³⁷ HM Treasury and HMRC, *Tax policy making: a new approach*, June 2010 par.1.2, p.5.

³⁸ Treasury Select Committee (2011) *Principles of tax policy, Eighth Report of Session 2010-11*, HC 753, par.80, p.26.

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government. Oversight of the NAO is carried out by a statutory committee, composed of MPs, the Public Accounts Commission.

Departmental Guides

In 2009, the NAO prepared “performance briefings” providing an overview of the work and performance of departments to assist departmental select committees in their scrutiny of departmental annual reports, and examination of Permanent Secretaries. In 2010, the NAO produced Short Guides to Departments (one for each of 17 major government departments) designed to provide Members of Parliament, and particularly select committees, with a quick and accessible overview of the department’s responsibilities and how it spends its money, and the NAO’s recent work. These Short Guides cover the department’s financial management, use of information and service delivery, and case examples from NAO reports. The NAO is planning to merge the short guides and performance briefs from autumn 2011.

Expenditure on Major Projects

In its report *Assurance for High Risk Projects*, published in June 2010, the NAO highlighted the importance of good assurance to managing the risk of large scale projects failing to deliver as planned to time, cost and quality: “In this context an enhanced control environment is a sensible way of reducing the financial risk to the public purse and increasing the chance of achieving value for money for the taxpayer”.³⁹

The NAO’s report acknowledged that there had been improvements in the assurance of large projects - e.g. through the Treasury’s Major Projects Review Group (MPRG). However, it pointed out that there remained an absence of a clear and enforceable mandate for assurance across government, and that there was a lack of integration in the assurance system.

Recognising the concerns raised by the NAO, the Government instituted the Major Projects Authority (MPA) in January 2011, which provides a central, mandatory system of project assurance, bringing greater external challenge to departmental projects.

The MPA has the authority to:

- develop the Government Major Projects Portfolio, in collaboration with departments, with regular reporting to Ministers;
- require Integrated Assurance and Approval Plans for each Major Project or Programme, including timetables for Treasury financial approvals, and validated by the MPA and HMT;
- make a Starting Gate Review, or equivalent, mandatory for all new Projects/Programmes;
- escalate issues of concern to Ministers and Accounting Officers;
- provide additional assurance and direct involvement where Projects are causing concern including the provision of commercial and operational support;
- require publication of Project information consistent with the Coalition’s Transparency agenda;
- work with departments to build capability in Projects and Programme management; and
- publish an annual report on Government Major Projects.

³⁹ National Audit Office, *Assurance for High Risk Projects*, June 2010.

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The MPA is overseen by the Efficiency and Reform Group (ERG) Board (joint chairs being the Chief Secretary to the Treasury and the Minister for the Cabinet Office). The MPA process contains a “whole of life” examination of major projects.

The NAO is supportive of the MPA’s aims and objectives. The NAO receives regular updates from the MPA, which enables it to independently pick up on areas of concern and undertake its own inquiries and reports.

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Conclusions and Recommendations

There have been a number of calls in recent years for increased scrutiny of public expenditure. MPs have, however, faced serious disincentives to engage more actively with the numbers: complex financial data previously prepared on different bases; little opportunity or ability to bring any influence to bear on the spending plans; and, for many, lack of expertise to comprehend the information with which they are provided.

As outlined in this report, a series of reforms have now been put in place, or are underway, to build an environment in which such scrutiny can be more effective. Public spending is under the spotlight more than ever before, given the extent of the fiscal consolidation required to meet the UK's budget deficit reduction. The Government has acted to enable improved oversight and examination of both public spending and revenue measures. The time is ripe to put in place increased parliamentary scrutiny of government expenditure. Accordingly, a number of specific recommendations designed to achieve this are described below.⁴⁰

Budget Committee

We recommend the creation of a new House of Commons Committee to scrutinise Government expenditure plans. This new "Budget Committee" should, like the Public Accounts Committee (PAC), consider economy, effectiveness and efficiency, rather than the formulation or merits of policy. Whilst the PAC provides effective retrospective scrutiny of spending, the Budget Committee should do so prospectively, including:

- scrutiny of Estimates between presentation and Royal Assent;
- taking evidence about the capability and capacity of spending departments and their arms length bodies;
- considering the budget figures for forthcoming years set out in departments' Annual Reports and Accounts;
- advising departmental select committees which areas merit further examination; and
- reporting to parliament generally on the feasibility of the government's plans.

Scrutiny of the government's overall fiscal policy and public spending plans falls within the remit of the Treasury Select Committee (TSC). The TSC undertakes a vital, wide-ranging role encompassing examination of the expenditure, administration and policy of HM Treasury, HM Revenue & Customs, the Bank of England and the Financial Services Authority, including regular public hearings in relation to fiscal and tax policy. It is proposed to complement the TSC's valuable work in these areas by enabling the Budget Committee to systematically undertake thoroughgoing analysis of Estimates and other financial reports on a regular basis. In order to coordinate, rather than duplicate, the work of departmental select committees, and draw on their considerable expertise, **we recommend that the Budget Committee comprises a representative from each of the departmental select**

⁴⁰ These are high level recommendations. We appreciate that a number of the proposals would need to be developed in further detail prior to implementation.

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committees, joined by another two members. In our view the Chair of the Budget Committee should be elected from the whole House, and no Member should be excluded from standing for this role.

We suggest that the Budget Committee has a degree of flexibility in its procedure and processes. Whilst this will be set by Standing Order, we suggest the Budget Committee should have the investigative powers of a select committee, including the traditional powers to question Treasury and departmental Ministers and officials as witnesses. In order to maximise the impact of the Committee's deliberations, we suggest that, it has the power to take forward its examination of departments' spending plans and Estimates by operating additionally in the format of a general committee, i.e. using a procedure akin to that used by the European Scrutiny Committee and European Committees. This might entail:

- a ministerial statement;
- questions to and answers from the Minister;
- a motion moved either by the Minister or another MP;
- debate, allowing all Members (not just those on the Budget Committee) to participate in scrutinising and debating a department's spending plans and Estimates; and
- votes on substantive non-binding motions.

This procedure would increase the influence backbench MPs could bring to bear on government expenditure.

We further recommend that it should be the role of the new Budget Committee to recommend the debates to take place on Estimates Days; this role is currently undertaken by the Liaison Committee. **We also endorse the proposal for an additional two Estimates Days, as previously recommended by the Liaison Committee.** In order to accommodate this, there may be no alternative to the Government business managers scheduling additional sitting days beyond what would otherwise be necessary. The Budget Committee could also recommend debate(s) on expenditure plans following Spending Review announcements. We recognise that the Budget Committee must abide by constitutional convention in relation to Supply procedure, which prevents amendments increasing the total amount sought.⁴¹

Whilst there will be some additional costs associated with the running of this new Budget Committee, we would anticipate that they will be more than compensated for by ensuring that public money is spent more wisely. The Budget Committee should be held to account by demonstrating its value in an annual report prepared for the House.

⁴¹ Erskine May (2011) *Parliamentary Practice*, 24th ed, p.738.

Parliamentary Budget Officer

The Budget Committee would need to be supported with significant technical expertise. Since the inception of the Scrutiny Unit in 2002, there has been recognition of its success in supporting committees in their work examining financial information and legislation.⁴² However, the Scrutiny Unit has no independent voice within Parliament, and its remit limits it to supporting committees. A number of countries have instituted high profile Parliamentary Budget Officer roles to promote the importance of scrutiny, particularly with regard to financial information.⁴³

We recommend the creation of a new position of Parliamentary Budget Officer (PBO) to provide independent expert advice to the Budget Committee, raise the profile of the Scrutiny function within the House more generally, empower MPs to better engage with spending numbers and thereby improve Parliamentary scrutiny of Government expenditure.

The PBO should be a post established under statute: an independent, time limited, non-political appointment agreed by the Government and Opposition, appointed by the Queen on the recommendation of the Prime Minister. The primary task of the PBO would be to advise the Budget Committee on which areas of Estimates and departmental spending plans to review and debate. There would also be scope for the PBO to select cross-cutting themes for closer scrutiny and debate. The PBO would also

- add value to the existing range of statements and reports concerning Government expenditure plans by providing an independent explanation accessible to non-expert MPs;
- raise the profile of the Scrutiny function and the Committee Office Scrutiny Unit; and
- encourage skills development of MPs such that they can better understand financial information and thus discharge their function of scrutinising government spending.

The PBO would be supported by the existing House of Commons Committee Office Scrutiny Unit and could seek some additional support from the NAO. The PBO should be available to provide support to all House committees and, where practicable, individual MPs, and would work closely with select committee clerks, to ensure ongoing coordination between the Budget Committee and the work of the departmental select committees.

The PBO would be accountable to the Budget Committee, and should prepare an annual report detailing the PBO's activities. The PBO's budget should be approved by the Public Accounts Commission.

Scrutiny of Major Projects

The introduction of the Major Projects Authority (MPA) to provide greater assurance in relation to high risk programmes is to be welcomed. It is essential that a Treasury Minister has oversight of the MPA review of projects, and so it is appropriate that the Chief Secretary to the Treasury is a Joint Chair of the Efficiency and Reform Group.

⁴² Brazier, A. and Ram, V. (2006) *The Fiscal Maze: Parliament, Government and Public Money*, Hansard Society, London, par.13.2-13.5, pp.69-70.

<http://www.hansardsociety.org.uk/blogs/downloads/archive/2007/09/17/the-fiscal-maze-jul-2006.aspx>

⁴³ Anderson, B. (2009) 'The Changing Role of Parliament in the Budget Process', *OECD Journal on Budgeting*, Vol.2009/1, pp.1-11, p.8.

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The MPA process should ensure that far fewer large government programmes encounter the problems witnessed in the past. Where such projects are ultimately the subject of investigation by the NAO or the PAC, the NAO or PAC will be able to examine the degree of challenge that the programme underwent, and ascertain the effectiveness of the MPA process. A project review report is prepared following each review of a major project by the MPA. The NAO has access through departments to papers concerning Government programmes, which should include any MPA review reports concerning the project in question. The PAC can call and examine Treasury or Cabinet Office senior officials or Ministers in relation to the project, including its consideration by the MPA. The potential for this external scrutiny should help to ensure that, over time, the MPA process remains robust, stringent and vigorous.

The MPA's remit includes building departmental capability in projects and programme management. Improved transparency and proactive risk management should help to foster a culture of better accountability and innovation in the delivery of public services. Experience has shown that fear about the "blame culture" can lead to sub-optimal choices, to the detriment of good value for money and good accountability. It is to be hoped that the new MPA process, together with the potential for parliamentary scrutiny of that process, will provide an opportunity to move the balance to more proportionate risk management.

Making Financial Information Accessible

Scrutiny of the executive by Parliament is a key part of an MP's role. However, many have no formal background in government finance, and government financial information is inevitably complex, and often confusing, preventing effective scrutiny. Our further specific recommendations aimed at addressing this are outlined below.

Mid-Year Reporting

In endorsing the Clear Line of Sight reforms, the Liaison Committee recommended that the Government take forward plans for developing mid-year reporting by individual departments. This will help to ensure that departmental select committees receive in-year financial data on a timely basis, thereby assisting the scrutiny of Supplementary Estimates, and **we endorse the Liaison Committee's recommendation.**

Under the Clear Line of Sight reforms, the number of spending documents presented to Parliament has been reduced from around 12 separate documents to just three "publication events" each year, centred around the Main Estimates, Departmental Annual Reports and Accounts, and Supplementary Estimates. Once fully implemented, mid-year reports would inform Parliament's consideration of Supplementary Estimates, in the context of the post-CLOS schedule of annual departmental spending documents presented to Parliament, as shown in the following table:

Departments' Post-CLOS Spending Documents Presented to Parliament			
April	June	November	January
Main Estimates	Annual Reports and Accounts	Mid-year Reports	Supplementary Estimates

Presentation of Government Financial Information

There remains potential for key government financial documents to be presented in a more user friendly format. We welcome the NAO's initiative in bringing together performance briefs and short guides. We would hope that a PBO could, with the support of the NAO and the Scrutiny Unit, build on this work. **We recommend that the Government consider how it can present concise accessible summaries alongside (often necessarily) lengthy and complex financial documentation.** Much consideration has been given to best practice in this area, which is set out in Annex A to this report. The PBO could work with Parliament and HM Treasury on initiatives to simplify and modernise presentation of Estimates in the wake of the Clear Line of Sight reforms.

Seamless Reporting

There are a number of initiatives which are being put in place to improve financial reporting and accountability. These include the development of Whole of Government Accounts, Business Plan reporting (the Quarterly Data Summaries (QDS)) and Project OSCAR, as well as the Clear Line of Sight reforms. However, there is a risk that these strands may not be easy for MPs to distinguish or reconcile, thereby diluting their potential impact as tools for more effective scrutiny. It is to be hoped, for instance, that any mid-year reports can be coordinated with the Business Plan and QDS processes. Whilst the PBO, working with the NAO and Scrutiny Unit, should be able to assist in navigating such information, **we recommend that further thought is given to the interrelationship between these various Government products, to ensure that they are presented clearly and in context.**

Financial Training and guidance for MPs

Whilst seeking more user friendly presentation of financial information, there is also scope for MPs to become better equipped to interpret this data. Some financial training is offered to MPs, but course organisers report that attendance is frequently poor. **We recommend that training for new MPs, to assist them in understanding government financial information, is formalised and enforced by the Whips.**

We recommend that induction training should also be embedded in departmental Select Committee procedure, to ensure that new members are able to fully participate in scrutinising their department's financial data.

We further recommend that there be a requirement for new Ministers (and we would encourage this for Shadow roles) to have a core curriculum, such as a modular course covering parliamentary procedure, legislative process and financial management. Officials may be able to assist with the provision of such training. MPs should also have easy access to supporting guidance and explanatory notes to help with their understanding of the financial information provided to parliament on a regular basis.

Summary of Recommendations

1. We recommend the creation of a new House of Commons Committee to scrutinise Government expenditure plans. This new “Budget Committee” should, like the Public Accounts Committee (PAC), consider economy, effectiveness and efficiency, rather than the formulation or merits of policy.
2. We recommend that the Budget Committee comprises a representative from each of the departmental select committees, joined by another two members.
3. We further recommend that it should be the role of the new Budget Committee to recommend the debates to take place on Estimates Days.
4. We endorse the proposal for an additional two Estimates Days, as previously recommended by the Liaison Committee.
5. We recommend the creation of a new statutory, independent, time-limited, non-political Parliamentary Budget Officer (PBO), accountable to the Budget Committee, to provide independent expert advice to the Budget Committee, raise the profile of the Scrutiny function within the House more generally, empower MPs to better engage with spending numbers and thereby improve Parliamentary scrutiny of Government expenditure.
6. We endorse the Liaison Committee’s recommendation that the Government take forward plans for developing mid-year reporting by individual departments, to ensure departmental select committees receive in-year financial data on a timely basis.
7. We recommend that the Government consider how it can present concise accessible summaries alongside (often necessarily) lengthy and complex financial documentation.
8. We recommend that further thought is given to the interrelationship between these various Government products, to ensure that they are presented clearly and in context.
9. We recommend that training for new MPs, to assist them in understanding government financial information, is formalised and enforced by the Whips.
10. We recommend that induction training should also be embedded in departmental Select Committee procedure, to ensure that new members are able to fully participate in scrutinising their department’s financial data.
11. We recommend that there should be a requirement for new Ministers (and we would encourage this for Shadow roles) to have a core curriculum, such as a modular course covering parliamentary procedure, legislative process and financial management.

Annex A - Best practice presentation of financial data

Summary

Good financial reporting is best viewed as a set of principles and concepts rather than rules. It should however always be:

- a relevant and faithful representation;
- targeted towards the needs of the user;
- balanced and focused on key issues; and
- presented in a manner which is clear, easy to assimilate and readily understandable.

Introduction

There is no shortage of views on what constitutes good financial reporting. A significant amount of research is available on this subject. While there is general agreement on what the underlying basic principles should be, there is no universally agreed set of rules. Commentators concentrate on objective concepts which need to be applied depending on the needs of the user, and the quality of financial reporting is often seen as dependent on how these principles are applied. Financial reports are produced for a range of reasons (including legal, regulatory, stewardship and decision-making), for different audiences, both internal and external to the reporting entity. This Annex looks at how good practice reporting could help improve users' understanding of the financial reports produced by government. This paper is structured around three key themes:

- a suggested range of financial reports;
- the characteristics of good financial reporting; and
- examples of good practice.

A Suggested Range of Financial Reports: OECD Best practices for budget transparency

In 1999 an Organisation for Economic Co-operation and Development (OECD) working party commissioned a report on budget transparency best practices⁴⁴. The report, published in 2002, contains a list of suggested financial reports that should be produced by government. The list details the suggested content of the reports and should be viewed as "best practice". It is meant to be helpful, but should not be interpreted as a formal standard. The report acknowledges that different countries will have different regimes and hence different needs. However, the list of reports provides a useful benchmark and many countries have, or are in the process of, implementing the suite of suggested reports.

⁴⁴ "OECD Best Practices for Budget Transparency" *OECD Journal on Budgeting*, Vol.2001-2/3, pp.7-14
<http://www.oecd.org/dataoecd/33/13/1905258.pdf>

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The financial reports that the OECD recommends governments should consider producing are:

- a **comprehensive budget** which includes performance data and medium term projections;
- a **pre-budget report** that states explicitly the government's long-term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term;
- **monthly reports** that show progress in implementing the budget, including explanations of any differences between actual and forecast amounts;
- a **mid-year report** which provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term;
- a **year-end report** should be audited by the supreme audit institution and released within six months of the end of the fiscal year;
- a **pre-election report** explaining the general state of government finances immediately before an election; and
- a **long-term report** assesses the long-term sustainability of current government policies.

All of the above financial reports, with the exception of a pre-election report, are made available to the UK parliament. The reports are produced either by the UK government or by the Office for Budget Responsibility (OBR). The first ever consolidated year-end report (the Whole of Government Accounts (WGA) 2009-10) was published in July 2011 in a summarised unaudited form.

The Characteristics of good financial reporting

In December 2010 the International Public Sector Accounting Standards Board (IPSASB),⁴⁵ which develops and publishes International Public Sector Accounting Standards, issued an exposure draft, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.⁴⁶ The exposure draft conclusions include:

- The objective of financial reporting by public bodies is, in essence, to provide financial information for accountability and decision-making purposes, in particular the allocation of resources and whether resources have been used efficiently, effectively and for their intended purpose.
- The legislature should be viewed as the primary user of the external financial reports produced by the executive.
- The two key fundamental qualitative characteristics are relevance and faithful representation, supported where practical by the further attributes of understandability, timeliness, comparability and verifiability. In theory all of the supporting attributes should be reflected in a "good financial report". However, there will be times when this may not be possible and a trade off needs to be made. Issues such as materiality and cost-benefit may act as pervasive constraints and affect any such trade off.

⁴⁵ IPSASB is an independent standard-setting body within the International Federation of Accountants.

⁴⁶ IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1: Exposure Draft*.

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- Concepts such as “true and fair view”, “credibility” and “transparency” have not been included as characteristics in their own right as they are in effect outcomes of the qualitative characteristics listed above.

The Audit commission issued a discussion paper⁴⁷ in November 2005, which looked at the importance of financial reporting in developing “world class financial management”. The paper does not attempt to set standards, but rather stimulate a best practice debate. It acknowledges that mandatory reporting requirements must be included within financial statements and reports, but identifies that the key purpose of financial reports is to help stakeholders make decisions. It also expresses the views that timely reporting is a pre-condition of proper accountability and that “world class organisations” integrate and use both financial and non-financial indicators to measure and report performance on an up-to-date and timely basis. The key principles of good quality reporting detailed within the paper are:

- **Tailored to needs of users** - carefully consider the needs of the user, the purpose of the reports and the types of decisions that users may be using the report for. Reports should contain the appropriate amount of relevant and reliable information.
- **Timely presentation** - Information should be up to date, timely and accurate. While reports provided for decision making purposes need to be accurate and quickly produced the Audit Commission acknowledges that there needs to be a trade off between these principles.
- **Open clear and concise** - It is the responsibility of the report producers to ensure that information is provided in a manner which can be easily understood and assimilated by the user. Key messages can be further reinforced through the use of graphs, tables or diagrams.

Building Public Trust Awards

One of the main contributors to the Audit Commission’s discussion paper was PricewaterhouseCoopers (PwC). PwC hosts the annual Building Public Trust Awards which recognise trust and transparency in corporate reporting. There are three award categories, including a public sector award, which aim to recognise excellence in reporting. Excellence in reporting is viewed as being achieved when these three key elements are in balance:

- **Content** - Is it open and honest? Are key messages clear and do they provide an objective assessment of the operational performance of the organisation?
- **Quality** - Is qualitative information supported by quantitative data, benchmarks and targets? Does the reporting cover past, present and future?
- **Linkage** - Are the report’s messages clear and consistent? Are they reinforced throughout the report? Do the messages relate back to strategic themes and critical success factors?

⁴⁷ Audit Commission, *World class financial management A discussion paper*, November 2005.

The public sector award is assessed and presented by PwC and the National Audit Office (NAO). The evaluation criteria used to assess entries for the public sector award (2010) included:⁴⁸

- concise, honest, well-structured and accessible reporting;
- an explicit statement of the long-term direction of the organisation, supported by key strategic priorities that underpin their mission. Actions and specific targets to support the strategies are clearly used;
- an understanding of stakeholders and their concerns and interests;
- a clear explanation of the impact of trends and factors that have shaped the organisation to date;
- comprehensive analysis of the impact on current operations and services of the government spending review and austerity measures, supported by a discussion on its plans to manage the associated risks;
- clear analysis of the principal risks the organisation faces in meeting its strategic aims;
- an insight into the key resources and relationships managed by the organisation in order to fulfil its strategic objectives, supported by insight into the organisation's plans in respect of delivering increased efficiency in the current public sector climate;
- an explanation of key performance measures that are used to demonstrate progress against strategic priorities and clear reporting of performance against these including prior period results and future targets;
- a consistent message or story running throughout based on the stated strategic themes; and
- value-for-money for the taxpayer. The level of information and the quality of documentation, to be balanced against the costs of production.

The Winner of the public sector award 2010 was the Olympic Delivery Authority. The panel judged it to be "A visually-engaging report with case studies, milestones and photographs to review performance and communicate momentum. Future challenges are highlighted up-front".

The panel commented that "much public sector reporting remains too formulaic and rarely strays beyond regulatory requirements".

Board Reporting Self Assessment tool

In 2008 the NAO developed a "Financial Management and Governance Practice - self assessment tool". The self assessment tool is aimed at departmental boards. Its purpose is to assess the standard of financial management information provided to the Board. It sets out the following five concepts of good financial reporting:

- the scope of the information provided clearly matches the requirements of the Board;
- financial information presented to the Board meets the level required to effectively run the organisation;
- financial information is of sufficient quality to be trusted by the Board;
- the presentation of financial management information is easily understood by the Board; and
- the financial information presented engages the members of the Board.

⁴⁸ http://www.bptawards.com/excellence_reporting_in_public_sector.html

Examples of good practice

There are many examples of good financial reporting though there is no one size fits all. As the OECD stated (see above) there is no fixed standard, different regimes have different needs. The following examples are best viewed as illustrations of good practice taking account of the environment and context in which they are set.

Local Authorities

Local Authorities (LAs) are required by law to communicate with taxpayers on a range of financial issues. For example the information that must be reported to those in receipt of a council tax demand notice is specified in Schedule 2⁴⁹ of the Council Tax (Demand Notices) (England) Regulations 2010. LAs also produce statement of accounts (End year resource accounts) in accordance with Chartered Institute of Public Finance & Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the UK.

Statements of account cover areas such as Statement of accounting policies, core financial statements, notes to the statements and Auditor's opinion. These reports can be over 100 pages long and full of technical jargon, notes and cross references. However, some councils also provide a summary of accounts which is much shorter and easy to understand, containing a mix of graphics⁵⁰, charts, figures and brief explanations.

There are many examples of good reporting practice throughout the Local Authority environment. A few examples are listed below.

Wychavon District Council

Wychavon District Council (WDC) is recognised for its sound financial management and for providing good value services. In 2009/10 it scored the top score of four for "Managing Performance" under a Comprehensive Area Assessment conducted by the Audit Commission, and a score of three out of four for "Use of Resources". WDC has taken steps to improve its reporting processes for example in addition to producing a statement of accounts in 2007-08, the council also produced a summary of accounts⁵¹, covering areas such as what it spent its money on, how it paid for its services, what it's worth and how it performed against three key priorities. The summary is, colourful, written in plain English and contains a mixture of tables, charts, and pictures. Wychavon has taken steps to make access to financial information easy. It has an easy to navigate website which has a page entitled "finance at a glance" which provides a single point of access to a wide range of reports and financial information such as senior officer salaries, councillor's allowances claims and payments to creditors over £500.

Royal Borough of Kensington and Chelsea (RBKC)

RBKC provides online access to a range of useful, clear and well signposted reports. For example its Report to Taxpayers⁵² describes the Council's major achievements and initiatives during the past

⁴⁹ <http://www.legislation.gov.uk/ukxi/2010/2990/schedule/2/made>

⁵⁰ Factors that can help with the design of graphics to convey quantitative data have been identified by WS Cleveland (*The Elements of Graphing Data* Rev.Ed., Hobart Press, 1994) & Edward Tufte (*The Visual Display of Quantitative Information*, Graphic Press, 2001).

⁵¹ <http://www.wychavon.gov.uk/cms/pdf/wdc-about-finance-summary2007-08.pdf>

⁵² <http://www.rbkc.gov.uk/councilanddemocracy/howthecouncilmanagesmoney.aspx>

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year, covers the Council's performance in areas important to residents, and outlines the Council's spending and funding. The council also provides access to additional financial reports which provide for greater transparency and public scrutiny such as:

- Its Standard and Poors credit rating report. This provides an independent view of the creditworthiness of the council based on objective evaluation and areas of risk.
- A bubble diagram "council expenditure visualised" which provides a pictorial representation of the relative amount spent on different services.

Birmingham City Council

Birmingham City Council produces a wide range of useful summary level financial reports such as a summary level business plan⁵³. This eight page document highlights key messages, the economic challenges, priorities and principles and the council budget (where its money comes from and where it is spent). The summary also signposts where the full business plan can be accessed, so that readers can access further detail.

Guidance for Users of Financial Reports

In addition to good quality financial reports, guidance to help primary users understand and interpret financial information is available. For example, CIPFA produces *A brief guide to local government Finance for Councillors* which aims to provide Councillors (the primary users of Local Authority generated financial reports) with an insight into key areas such as revenue expenditure, funding value for money, scrutiny and reporting.

Overseas Experiences

Many overseas governments have taken steps to improve parliamentary scrutiny of the financial reports produced by the executive. Actions include:

- implementing the good practice reports recommended by the OECD (see above);
- reviewing and where possible simplifying financial reports;
- providing summaries of complex reports;
- providing guidance, training or expert support to help parliamentarians better interpret financial reports; and
- providing easy online access to a comprehensive range of reports and guidance.

Some examples of good practice are listed below.

⁵³<http://www.birmingham.gov.uk/cs/Satellite?c=Page&childpagename=Policy-and-Delivery%2FPageLayout&cid=1223355099945&pagename=BCC%2FCommon%2FWrapper%2FInlineWrapper>

USA

The US government produces *A Citizen's Guide to the Financial Report of the U.S. Government*⁵⁴ The Guide to the Fiscal Year 2010 presents the financial position and condition of the US Government and discusses key financial topics, including continuing economic recovery efforts and fiscal sustainability. This 12 page document is significantly easier to understand and navigate than the full report which is over 260 pages in length.

The US Treasury has also launched an enhanced website⁵⁵ focusing on the annual Financial Report of the US Government, which includes links to associated information including reports of the significant reporting agencies as well as information on Government Trust Funds and Economic Recovery efforts.

The Financial Report site includes access to a Government Accountability Office (GAO) document entitled *Understanding the Primary Components of the Annual Financial Report*⁵⁶. The guide is prepared by the GAO and aims to help readers understand the significant information provided in the Annual financial report, especially the financial statements. The guide explains the purpose of each component and provides illustrative financial information to focus readers on the kinds of significant information found in the various parts of the Annual financial report.

The US Treasury has an easy to use website – which includes a single page providing a complete index to their reports, financial statements, guidance and publications.⁵⁷

Australia

In 2005 the Australian government implemented a reform agenda, "Operation Sunlight", an aim of which was to provide greater accountability and transparency by improving financial reporting by government. Operation Sunlight resulted in a number of improvements such as the redesign of a range of financial reports to improve readability and provide greater performance information. New reports such as a Resource Statement on the funds available to an agency were also introduced.

The Australian government produces a wide range of other reports and statements to help Parliament discharge its duties of effective scrutiny. These include:

- Fiscal Strategy Statement;
- Mid-Year Outlook Statement;
- Pre-Election Economic and Fiscal Outlook Report; and
- Costings of publicly announced election policies, on request of the Government or Opposition.

Although Operation Sunlight has given rise to a considerable number of improvements, concerns remain about the helpfulness of government financial reports for Parliamentarians in discharging effective financial scrutiny.⁵⁸

⁵⁴ <http://www.fms.treas.gov/fr/10frusg/10guide.pdf>

⁵⁵ <http://fms.treas.gov/fr>

⁵⁶ <http://www.gao.gov/new.items/d05958sp.pdf>

⁵⁷ <http://fms.treas.gov/publications.html>

⁵⁸ The Parliament of the Commonwealth of Australia, *Inquiry into the proposed Parliamentary Budget Office. Joint Select Committee on the Parliamentary Budget Office*, March 2011, Par. 2.36 to 2.40.

New Zealand

In New Zealand the two key documents for Parliamentary scrutiny and debate are the Statement of Intent and the Annual Report, which includes the audited financial statements. To improve the presentation of these documents and ensure that they help promote a better understanding of what departments do with their resources the New Zealand Treasury has issued good practice guidance:

- Preparing the Statement of Intent: Guidance and Requirements for Departments;
- Preparing the Annual Report - Technical and Process Guide for Departments.

To help with user accessibility, each department publishes its Statement of Intent and Annual Report on its website.

Additionally, to help authors produce better reports, the Office of the Auditor General has a website page on Performance Reporting, which includes examples of good practice. The Audit Office also prepares Model Financial Statements. The Auditor General issued a report *Reporting Public Sector Performance*⁵⁹ in January 2002, which provides valuable insights into what makes a good report and covers areas such as reporting well, reporting in a complex world and maximising the quality and minimising the quantity.

To help parliamentarians better understand the financial reports and budgeting cycle they are presented with the Treasury-produced *A guide to the Public Finance Act*.⁶⁰ The guidance includes explanations of appropriations, fiscal responsibility, Crown reporting, departmental reporting, financial powers budgeting and reporting. The report includes easy-to-understand charts and tables showing the budgeting and reporting document in a typical year and the budgeting and reporting cycle.

Canada

As part of the Treasury Board of Canada secretariat's efforts to improve reporting to Parliament, it has set up a website⁶¹ of tools and resources for Parliamentarians. The website provides Parliamentarians with quick access to both financial and non-financial planning and performance information from individual departments and the Government of Canada as a whole.

The Canadian Parliamentary Budget Officer's mandate includes providing parliamentarians with expert advice and analysis of financial issues that fall within the remit of parliament. The PBO is supported in the discharge of his responsibilities by a small number of staff with expertise in the areas of government finance, policy development and economics.

Overview of Good practice reporting

There are many examples on how financial reporting has been improved. While there is no size fits all, common themes include:

⁵⁹http://www.oag.govt.nz/2002/reporting/docs/reporting.pdf?bcsi_scan_18C5E7506144CFE2=h9YQL6bzy1A3C6gLEJFO7EF7Mn4VAAAAaXljAg==&bcsi_scan_filename=reporting.pdf

⁶⁰ <http://www.treasury.govt.nz/publications/guidance/publicfinance/pfaguide/guide-pfa.pdf>

⁶¹ <http://www.tbs-sct.gc.ca/tbs-sct/audience-auditoire/parliamentarian-parlementaire-eng.asp>

Options to Improve Parliamentary Scrutiny of Government Expenditure

- detailed financial statements (e.g. estimates, annual reports) must be presented in line with statutory or regulatory requirements;
- provision of short concise summaries of detailed financial statements, including key information trends graphs and easy to understand tables and/or graphics;
- easy to navigate on-line access to data, reports and guidance;
- the development and publication of good practice guidance to help report producers to report in a consistent and helpful manner and to help users of reports understand the information with they are presented.

Comparing Public and Private Sector Financial Reporting

It is important to remember that all sectors, both public and private, need to improve financial reporting if they are to meet the growing demands and increased expectations from users with regard to better information. The PwC report '*Insight or Fatigue – FTSE 350 Narrative Reporting*'⁶² contains these survey findings:

- 74% of FTSE 350 companies provide some forward looking information, but just 13% give substantive explanations;
- 40% explain strategic priorities, but just 12% use strategy to underpin their reporting; and
- 75% provide some insights into how risks are mitigated but only 35% of these give comprehensive explanations for each risk.

⁶² For full report see - http://www.bptawards.com/narrative_survey_insight_or_Fatigue.pdf

Annex B - Select Committees' Core Tasks

On 20 June 2002, the members of the Liaison Committee agreed a set of Core Tasks for Select Committees, shown in the table below.

OBJECTIVE A: TO EXAMINE AND COMMENT ON THE POLICY OF THE DEPARTMENT	
Task 1	To examine policy proposals from the UK Government and the European Commission in Green Papers, White Papers, draft Guidance etc, and to inquire further where the Committee considers it appropriate.
Task 2	To identify and examine areas of emerging policy, or where existing policy is deficient, and make proposals.
Task 3.	To conduct scrutiny of any published draft bill within the Committee's responsibilities
Task 4	To examine specific output from the department expressed in documents or other decisions.
OBJECTIVE B: TO EXAMINE THE EXPENDITURE OF THE DEPARTMENT	
Task 5	To examine the expenditure plans and out-turn of the department, its agencies and principal NDPBs.
OBJECTIVE C: TO EXAMINE THE ADMINISTRATION OF THE DEPARTMENT	
Task 6	To examine the department's Public Service Agreements, the associated targets and the statistical measurements employed, and report if appropriate.
Task 7	To monitor the work of the department's Executive Agencies, NDPBs, regulators and other associated public bodies.
Task 8	To scrutinise major appointments made by the department.
Task 9	To examine the implementation of legislation and major policy initiatives.
OBJECTIVE D: TO ASSIST THE HOUSE IN DEBATE AND DECISION	
Task 10	To produce reports which are suitable for debate in the House, including Westminster Hall, or debating committees.