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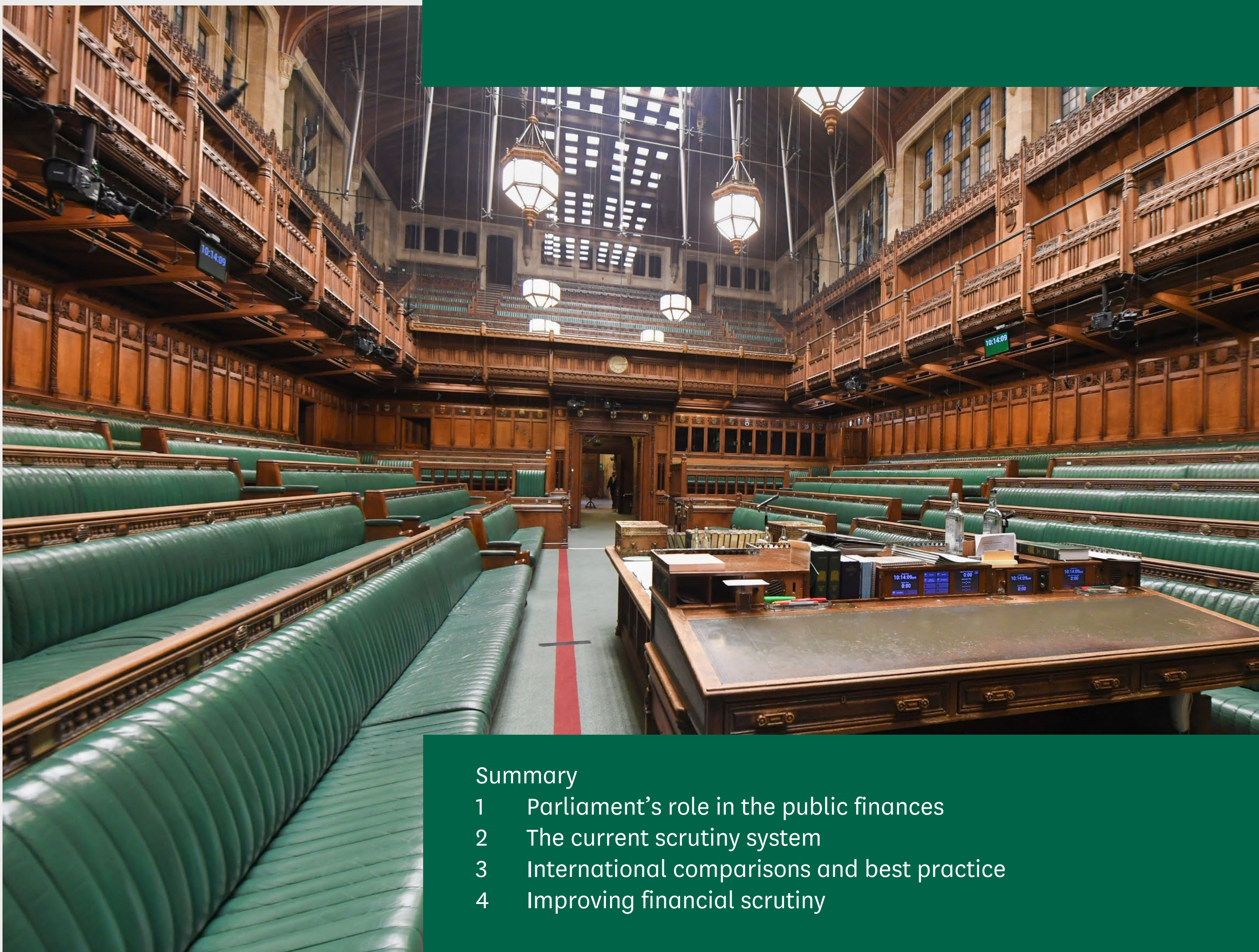
Financial scrutiny in Parliament



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Summary

One of Parliament's most important constitutional roles is to control and scrutinise the government's taxation and spending. It does this in several ways, which have changed over the years. Parliament does not perform well compared with international best practices when it comes to financial scrutiny, although there have been some recent attempts to improve the system.

Parliament's role in the public finances

Parliament has been involved in controlling the supply of money since before it was even called "Parliament". A mixture of legislation and long-standing constitutional convention allows it to grant or deny the government the right to levy taxes and spend public money.

However, these powers have also changed over time, and at present they are far weaker in practice than their history would suggest.

The current scrutiny system

Scrutiny of taxation and spending by legislatures is typically broken down into two main categories: scrutiny before the money is spent ("ex-ante") and scrutiny after it is spent ("ex-post").

Parliament's scrutiny before spending is somewhat limited. It takes place at three main groups of events:

- Spending Reviews, at which the government lays out its spending plans for the next few years
- Budgets and other financial statements, at which taxation measures are announced and spending plans are updated
- The Estimates process, in which Parliament approves spending for the current financial year.

The system of scrutiny after spending in the UK Parliament is generally regarded as more effective. This takes place through:

- Scrutiny of annual reports and accounts published by government departments

- Reports by the National Audit Office
- Inquiries and evidence sessions carried out by Parliamentary committees, in particular the Public Accounts Committee and the Treasury Committee

International comparisons and best practice

The Organisation for Economic Co-operation and Development (OECD) published a report in 2023 which summarised best practices in financial scrutiny across the legislatures of its members (including the UK). The report outlines nine categories of practices, including fiscal responsiblity, legislative approval of the national budget, and organisation of committees.

The UK Parliament’s performance against the OECD’s recommendations is very mixed. In some areas (such as financial audit) it rates highly, but in others (such as having a dedicated budget committee, or meaningful influence on the implementation of the budget) it falls well short of international best practice.

Improving financial scrutiny

There have been some attempts in recent years to improve Parliament’s scrutiny. One significant change has been to the Estimates process, such that Parliament is encouraged to debate the contents of Estimates themselves rather than simply the policy ideas surrounding them. This has resulted in attempts to amend the government’s spending plans, something that had not happened in the previous two decades.

The House of Commons Procedure Committee looked into the possibility of setting up a dedicated Budget Committee in 2019. It recommended that such a committee be set up, but neither the government at the time nor any subsequent administration has taken the recommendation forward.

1 Parliament's role in the public finances

1.1 A brief history of Parliamentary financial scrutiny

Controlling the supply of public money to the government has been one of the main functions of Parliament since its earliest days. The first version of Magna Carta, issued in 1215, made it illegal for the king to levy taxation without the "general consent of the realm", to be obtained by summoning "archbishops, bishops, abbots, earls, and greater barons" to come together and decide whether to assent to it.[1]

The 1215 version of Magna Carta was annulled by the Pope within months, and although later versions were issued by other kings, they did not include the same phrasing as the 1215 version.[2] Nevertheless, the precedent had been set, and according to the History of Parliament Trust, "from the 1260s, no general tax was levied without the consent of the representatives of local communities specifically summoned for the purpose of giving their consent".[3] These representatives eventually became known as the House of Commons.

Although the Commons was rarely able to outright deny the king's requests to levy taxation, it could (and did) negotiate over the scope of these requests. One of the most significant examples of this was in 1376, when the "Good Parliament" (as it later became known) refused to grant taxation until its grievances had been addressed. The king agreed to these demands, which went as far as imprisoning some of his courtiers.[4]

The principle of Parliamentary control of taxation was placed into legislation in the Bill of Rights of 1689, which remains in force today. This states that levying money for the Crown "without Grant of Parlyament" is illegal, and that Parliament can place limits on the time and manner in which a tax can be levied.[5]

Parliament is also able to control public spending. This was recognised in a decision of the Judicial Committee of the Privy Council in 1923, which held that "it has been a principle of the British Constitution now for more than two

1 National Archives, Magna Carta, 1215, retrieved 15 August 2024
2 See, for example, the 1225 version, also in the National Archives.
3 The History of Parliament Trust, Middle Ages: Parliament and politics before 1509, retrieved 15 August 2024
4 National Archives, The Good Parliament of 1376, 29 April 2016
5 Bill of Rights 1689

centuries…that no money can be taken out of the Consolidated Fund…excepting under a distinct authorisation from Parliament itself".[6]

Two things are of particular note about this decision. The first is that the principle was recognised in 1923 as having existed for "more than two centuries", which places its origin around the same time as the Bill of Rights. The second is that the word "distinct" implies that it is not sufficient for Parliament to give blanket authorisation for the government to spend money; rather, Parliament must approve each object of spending.

1.2 Parliament's current powers

Although Parliamentary procedure and conventions have changed over the past few centuries, Parliament does in theory retain its power to amend (or deny) the government's requests for taxation and spending. The full system of scrutiny is explained in greater detail in the next section, but in summary, the level of control that Parliament has over both taxation and spending is very limited in practice.

Allen Schick, a professor of political science, argued in the OECD Journal on Budgeting in 2002 that Parliament accidentally set the conditions for its own loss of control, by insisting that Crown money be separated from public money and by only approving taxation near the end of a Parliamentary session (so that the Crown would spend its own money first before coming to Parliament to demand more). This was intended to force the monarch to exercise caution in spending (because he could not be certain that he would receive the rest of the money he needed from Parliament). However, in practice, because the spending plans had already been made, Parliament gave up the opportunity to control them; this resulted in Parliament effectively rubber-stamping spending that had already occurred.[7] Even today, spending plans are presented to Parliament for approval only in their final form, and in some cases when much of the spending has already taken place.

The same article also suggests that the 'financial initiative' of the Crown also contributed to Parliament sidelining itself. Because the purpose of the Commons was to restrain the spending of the Crown, it made no sense for Parliament to request money on its own initiative. As a result, the Commons adopted a standing order in 1706 that meant it would not consider any request for increases to taxes or spending unless brought in by a minister of the Crown. The same rule currently remains in force as Standing Order No 48.[8]

6 The Auckland Harbour Board (Appeal No. 31 of 1922) v The King (New Zealand) [1923] UKPC 92 (18 December 1923)

7 Allen Schick, "Can National Legislatures Regain an Effective Voice in Budget Policy?", OECD Journal on Budgeting, vol. 1/3, 16 May 2002

8 House of Commons, Standing Orders – Public Business, 2024, 23 May 2024, HC 829 2023–24, Standing Order No 48

This rule was initially created when the Crown was effectively separate from Parliament, but in the modern system where power lies in an executive that is itself drawn from Parliament the rule serves to remove Parliamentary control.

Another factor reducing Parliament's ability to control spending is that financial matters are often treated as matters of confidence. In other words, amending or voting down any measure of taxation or spending could be seen as so important that it would cause the government to fall.

In practice, governments in the past have remained in office even when defeated on financial matters – for example, Prime Minister Arthur Balfour remained in office in 1905 after his government was defeated on an Estimates motion.[9] However, the assumption that financial matters are indeed matters of confidence leaves MPs in a position where they have to decide between two options: accepting government spending and taxation plans in full, or potentially bringing down the government. This naturally results in almost all financial legislation passing without amendment.

9 HC Deb 24 July 1905 vol 150 cc49-124

2 The current scrutiny system

Financial scrutiny across most legislatures can be divided into two main areas: scrutiny before the money is raised through taxation or spent (this is sometimes known as “ex-ante” scrutiny) and scrutiny afterwards (“ex-post”). The two have different aims – before spending has happened, scrutiny is about planning and control, whereas afterwards it is about evaluation in order to inform future spending plans.

As a result, there are very different mechanisms in place for each type of scrutiny. We consider each in turn in the following sections.

2.1 Scrutiny before spending (“ex-ante”)

In the UK Parliament, there are three main mechanisms by which financial scrutiny takes place prior to spending. These are Spending Reviews (which set spending plans for the medium term), Budgets (which set taxation policy and update the spending plans), and Estimates (which provide Parliamentary authorisation for spending in each year).

Spending Reviews

Most government spending is planned for the medium term in Spending Reviews. In the past these have typically taken place every two to four years, although the Chancellor now intends to hold them every two calendar years and to plan spending for at least the next three years at each one.[10]

The usual process for a Spending Review is that they are announced in advance, and the Chief Secretary to the Treasury then asks all government departments to prepare bids for their spending settlement.[11] Over the following months, departments negotiate with the Treasury to come up with a final allocation. Eventually, the Chancellor announces the results of the Review, usually in an oral ministerial statement.[12]

Each Review sets out Departmental Expenditure Limits (DEL) for each department. DEL spending is the part of public spending that can reasonably

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10 HM Treasury, Fixing the foundations: public spending audit 2024-25, 29 July 2024

11 For example, this took place in early August 2024 ahead of spending plans being presented in the autumn of the same year. See The Guardian, UK ministers warned to prepare for tough decisions on spending, 11 August 2024.

12 For example, see HC Deb 27 October 2021 vol 702 cc 273-287, for a Spending Review statement delivered as part of the Budget.

be planned in advance, and it accounts for about 43% of total public spending. The other 57% is Annually Managed Expenditure (AME), which consists of demand-driven spending such as social security payments.

There is no formal role for Parliament in the Spending Review process, beyond questions on the oral statement, and the plans hold no legal weight in and of themselves. A Spending Review can therefore best be thought of as an internal governmental planning exercise that takes place between HM Treasury and all other government departments.

Budgets and other Statements

The Budget is the government's main annual statement setting out its economic policy. Despite its name, it is not primarily intended to set levels of spending, generally focusing much more on economic forecasts and taxation measures. However, the Chancellor often does announce some changes to spending, and the plans set at the previous Spending Review are usually updated.

Much like Spending Reviews, Budgets are delivered as an oral ministerial statement. However, they are then followed by several days of debate in the House of Commons Chamber. The subject of the debate is (at least nominally) the "ways and means" resolutions that underpin the tax changes included in the Budget statement. These resolutions then form the basis for the Finance Bill, which goes through the House of Commons like other pieces of legislation.[13]

Limited scrutiny of the Budget

Compared to the process around Spending Reviews, Parliament has significant opportunities to formally scrutinise Budgets and their subsequent Finance Bills, and can in theory amend or vote them down (although this may be seen as a matter of confidence and may therefore result in the resignation of the government). However, as explained further in section 3, this level of scrutiny is low by international standards; in particular, the UK Parliament is unusual in having no role at all in shaping the Budget before it is officially presented. Parliament's scrutiny is also primarily focused on the tax-raising powers in the Finance Bill rather than any spending announcements.

Successive governments have further limited Parliament's ability to amend Budget resolutions in recent years by choosing the order of resolutions in the debate following the Budget statement. The Standing Orders of the House of Commons provide that only the first resolution presented is amendable.[14] Historically, the first resolution has been an "amendment of the law" resolution, which offers a wide scope for amendments to be offered. Since 2018, however, governments have instead tabled a resolution about charging income tax as the first resolution, which severely limits the scope of

13 For more details, see the Library research briefing The Budget and the annual Finance Bill.

14 House of Commons, Standing Orders – Public Business, 2024, 23 May 2024, HC 829 2023–24, Standing Order No 51(3)

amendments. This has the same limiting effect on the scope of amendments to the subsequent Finance Bill.[15]

OBR forecasts

Since 2010, Budgets have included economic forecasts produced by the Office for Budget Responsibility (OBR). The OBR's Charter, which sets out its role and responsibilities, says that it must produce two economic and fiscal forecasts each financial year. These forecasts are commissioned by HM Treasury and must cover at least the next five years.[16]

The Chancellor, like other ministers, can make other financial statements during the year. The most significant, other than the Budget, is typically the statement that accompanies the OBR's second round of forecasts. This has tended to take place in either the spring or the autumn, depending on when that financial year's Budget was presented. Such statements usually do not introduce taxation changes and therefore are not followed by debates on ways and means resolutions, but this is not always the case.[17]

Changes to Budgets and the OBR

The government has said that it intends to hold only one major fiscal event per year, so the importance of statements other than the Budget may diminish. It has also said that it will give the OBR the power to produce forecasts without the Treasury commissioning them whenever "fiscally significant" announcements are made.[18] While this would not directly give Parliament any further control over spending, it would provide more information for scrutiny.

Estimates

Government spending is approved by Parliament through the Estimates process. This takes place in two stages over the course of the financial year:

- The Main Supply Estimates list the amount that each government department expects to spend over the year, and what they intend to spend it on (in broad terms). These are usually published in May and approved by the Commons in early July.

- In February (towards the end of the financial year), departments then submit Supplementary Estimates which update the totals from the Main Estimates. These are also approved by the Commons in February. At the same time, the Commons approves the Vote on Account, which authorises departments to spend up to 45% of the previous year's

15 This issue is explained in further detail in the Hansard Society's guide Can MPs amend the Budget?
16 HM Treasury, Charter for Budget Responsibility: Autumn 2022 update, 26 January 2023, paragraph 4.9
17 For example, the 2022 Autumn Statement was followed by two days of debate on resolutions, starting on 21 November 2022.
18 HM Treasury, Fixing the foundations: public spending audit 2024-25, 29 July 2024

spending during the next year, to tide them over until the next round of Main Estimates.

If departments urgently need more money that was not included in the most recent round of Main Estimates, they can request an advance from the Contingencies Fund (a pot of money put aside for this purpose), or if they need particularly large amounts they can submit an out-of-turn Supplementary Estimate. The latter procedure is now extremely rare; the most recent occasion was in 2022, when extra money was required to fund energy bill support and payments related to the Bank of England's quantitative easing programme.[19]

Parliament has very little opportunity to scrutinise or amend Estimates before they are approved, and generally does not exercise the powers it does have. Although over 50 Estimates are presented in each round (covering government departments and some other public bodies), no more than four or five are debated in the Commons. The remaining Estimates are voted through in a "roll-up" motion without debate, and cannot be amended.[20]

This means that for an Estimate to be amended, the following things must happen:

- The Estimate must be one that is selected for separate debate (the selection process has been carried out by the Backbench Business Committee in recent years – see section 4.1 for more detail).
- The amendment must propose to reduce spending, so as not to infringe on the financial initiative of the Crown (see section 1.2), and must not propose any other conditions.[21]
- The amendment must be selected by the Speaker for debate and approved by the House in a vote.

These requirements are sufficiently onerous that amendments are rarely even proposed. When an amendment was voted on in the Supplementary Estimates in March 2024, this was the first time that this had happened in over 20 years; no such amendment has been approved since 1921.[22]

19 For more information, see the Library's research briefing Out-of-turn Supplementary Estimates relating to HM Treasury and BEIS. Section 1.2 explains emergency Parliamentary approval of public spending in more detail.

20 Erskine May, Voting the remaining Estimates under Standing Order No 55, paragraph 34.33

21 Erskine May, Form of amendments, paragraph 34.30

22 The proposed amendment in the March 2024 Supplementary Estimates was moved by Alison Thewliss MP. It sought to reduce the resources available to the Home Office by around £741 million, which represented an estimate of the cost of several government schemes related to asylum and migration. See HC Deb 14 March 2024 c517.

Even this limited scrutiny generally does not happen in general election years, because it takes time for committees to be set up after the election, and the committees are needed to organise the debates.[23]

Although the Estimates are technically put into legislation through a Supply and Appropriation Bill, these bills go through Parliament with a purely formal procedure that does not allow for debate.[24]

2.2 Scrutiny after spending ("ex-post")

How is public spending reported?

In the UK central government context, individual departments report spending in their annual reports and accounts. Wider public sector spending – including local government and the NHS – is consolidated and reported in the Whole of Government Accounts.

Annual Reports and Accounts

The primary mechanism for reporting the outturn of public spending (spending that has already happened) is through Departmental Annual Reports and Accounts.

At the end of each financial year, each government department must produce a consolidated Annual Report and Accounts, which sets out the spending in the financial year just ended and balance sheet position at year end (similar to a company's profit and loss statement and balance sheet). These are prepared in line with International Financial Reporting Standards (IFRS) which have been adapted for the public sector.[25] They are normally presented to Parliament in July.

The Annual Report and Accounts includes three core elements:

- A Performance Report, which summarises overall performance, spending and delivery of objectives. This section includes management commentary and performance analysis, usually including updates on key performance indicators and delivery against targets.
- An Accountability Report, which gives reports on corporate governance, remuneration and a comparison of actual spending against the amounts approved by Parliament the previous year (known as the Statement of outturn against Parliamentary Supply).
- Financial Statements, which include a statement of comprehensive net expenditure (similar to a profit and loss account or income statement), a

23 See Commons Library Insight post Public spending: What's unusual about this year's Main Estimates?, 23 July 2024
24 Erskine May, Proceedings in the Commons, paragraph 34.39
25 HM Treasury, The Government Financial Reporting Manual, December 2022

statement of financial position (balance sheet) and a cash flow statement, along with notes giving further detail and narrative information.

The senior civil servant in each department – usually the Permanent Secretary – is designated its Accounting Officer and must personally approve the accounts, which are audited by the National Audit Office before being published. Annual Reports and Accounts should also set out how spending aligns with the intended priority outcomes and objectives set out in departmental Outcome Delivery Plans.

Whole of Government Accounts (WGA)

In addition to independent departmental accounts, the UK government also produces an annual set of consolidated financial statements covering the whole of the public sector. These are known as the Whole of Government Accounts (WGA).[26]

WGA includes many bodies: central government funds, departments and agencies, Non-Departmental Public Bodies, trading funds, the NHS, devolved administrations, local authorities, fire authorities, police authorities, waste authorities, passenger transport authorities and academies. Parliamentary bodies (including the House of Commons, the House of Lords and the National Audit Office) are not included.

As with departmental accounts, WGA follows the Financial Reporting Manual and complies with International Financial Reporting Standards adapted for the UK public sector context by the Financial Reporting Advisory Board. The accounts are audited by the NAO.

Whereas departmental accounts tend to be published the July after the end of the financial year-end to which they relate, WGA publication lags significantly. The 2020-21 WGA was not published until July 2023, 27 months after the end of the financial year. These timeliness issues, along with concerns about its accuracy, led the Public Accounts Committee to criticise the transparency of WGA.

The role of the National Audit Office

The National Audit Office (NAO), headed by the Comptroller & Auditor General (C&AG) is independent of government and the civil service. The C&AG has statutory authority to conduct two distinct functions to support Parliament in holding government to account over how it spends public money:[27]

1. Financial audit: audit and report on the financial accounts of all government departments and other public bodies; and

26 HM Treasury, Whole of Government Accounts, first published 2 August 2013
27 See https://www.nao.org.uk/about-us/

2. Value for money audit: examine and report on the value for money of how public money has been spent.

Financial audit

Financial audit has a very specific purpose: it is designed to support an “audit opinion” on whether or not the accounts are “true and fair” (that is, whether they reflect reality) and whether they are free from “material misstatement” (that is, mistakes that are big enough to matter to the reader). Its purpose does not cover the value for money of government spending or the merits of government policy, which are assessed in other ways.

Broadly speaking, if the accounts are judged to be true and fair and free from material misstatement this will result in an unqualified or unmodified opinion.

The auditor may give a modified opinion if they identify issues with the accounts. There are broadly three types of modified opinion.

1. Qualified opinion (effectively “these accounts are mostly accurate except for one or more specific issues”). The auditor may give a qualified opinion on the accounts if they have been unable to obtain sufficient appropriate audit evidence on a specific matter, but the accounts otherwise give a true and fair view. Similarly, they may give a qualified opinion if they have identified material misstatement in a specific area, but except for the effects of this issue, the accounts give a true and fair view.
2. Disclaimer of opinion (effectively “there is not enough evidence to say these accounts are accurate”). The auditor may give a disclaimer of opinion if they are unable to form a view as to whether the accounts are true and fair. This may be because they are unable to obtain enough appropriate audit evidence.
3. Adverse opinion (effectively “there is enough evidence to say that these accounts are not accurate”). The auditor may give an adverse opinion if they determined that the accounts do not give a true and fair view. This could happen if they have obtained enough evidence of material and pervasive misstatement in the accounts.

A modified opinion on a department’s accounts will tend to reflect badly on the department and its management. It will usually be regarded as an indication of weakness in financial management, its seriousness depending on the cause and nature of the modified opinion.

More information can be found in the Institute for Chartered Accountants in England & Wales (ICAEW) explainer on understanding audit reports.

Value for money audit

The National Audit Office defines value for money as “the optimal use of resources (economy, efficiency and effectiveness) to achieve the intended outcomes.”

- Economy (spending less): minimising the cost of resources used or required (inputs);
- Efficiency (spending well): the relationship between the output from goods or services and the resources to produce them; and
- Effectiveness (spending wisely): the relationship between the intended and actual results of public spending (outcomes).[28]

The NAO publishes around 60 value for money reports each year, many of which are used as the basis of Public Accounts Committee inquiries.

The NAO does not question government policy objectives, but rather assesses how government has spent money delivering those policies, and if that money has been used in the best way to achieve the intended outcome.

Other work

Although financial audit and value for money audits form the core of the NAO's ex-post scrutiny work, they also produce a range of other products such as:

- Insight reports, capturing lessons learned on cross-cutting issues.
- Departmental overviews, which are designed to assist Parliamentary select committees in their examination of spending and performance. The overviews look at the structure, remit, plans and budget of the departments.

Scrutiny in the House of Commons

Scrutiny of ex-post spending takes place primarily through House of Commons select committees.

The Public Accounts Committee

The Committee of Public Accounts (PAC) is a non-departmental select committee that examines the value for money of government projects, programmes and service delivery, holding government officials to account for the economy, efficiency and effectiveness of public spending. It can be considered the primary source of 'ex-post' financial scrutiny in the House of Commons.

The PAC, like other Parliamentary committees, holds inquiries, receives evidence and publishes reports making recommendations to government. Unlike other committees, its inquiries tend to be based on value for money reports published by the NAO (however not all NAO reports result in a PAC inquiry).

28 National Audit Office, Successful commissioning toolkit: Assessing value for money, accessed 16 September 2024

Another key difference between the PAC and departmental select committees is that the PAC usually takes oral evidence from departmental officials rather than ministers, because the PAC does not generally question policy. Instead, it examines the way in which policy is implemented.

The PAC also examines some accounts where the C&AG has qualified his audit certificate or made a specific report to the House.

Treasury Committee

The Treasury Select Committee has a particular role in scrutinising the work of the Treasury, HM Revenue and Customs, the Bank of England, the Financial Conduct Authority, the Prudential Regulation Authority, the Office for Budget Responsibility, and the government's overall fiscal policies and management of the economy. It holds regular inquiries and evidence sessions following fiscal events, including the Budget, which consider government spending plans.

Much of the Treasury Committee's work involves 'ex-ante' scrutiny. Its remit covering fiscal policy means that in practice it regularly scrutinises government spending and policy across multiple departments (not just the bodies within its immediate departmental remit). For example, its 2022 report on cost of living payments considered spending by the Department for Work & Pensions and the Department for Business, Energy and Industrial Strategy.[29]

Departmental Select Committees

The House of Commons has departmental select committees for each of the main government spending departments and associated bodies.

The primary purpose of select committees is to examine the expenditure, administration and policy of government departments.[30] Committees scrutinise spending in a variety of ways. This includes conducting inquiries and writing reports which often make recommendations to government. Recommendations often relate (directly or indirectly) to decisions on spending or taxation, or which potentially have financial implications. Although departments do not have to implement the recommendations, they must respond to the committee, and reports often receive press coverage and are a crucial mechanism by which Parliament can influence government.

Many select committees conduct an annual accountability inquiry, which considers the Annual Reports and Accounts of the departments within its remit. Typically, they will take evidence from the Accounting Officer and/or the Secretary of State.

29 House of Commons Treasury Committee, Autumn Statement 2022 - Cost of Living Payments (PDF), 14 December 2022, HC 740

30 See https://www.parliament.uk/about/how/committees/select/

The Scrutiny Unit

Select committees receive staff support from a range of procedural, policy and administrative professionals. For scrutiny of spending, specifically, they also receive specialist financial support from a central “Scrutiny Unit”. The Scrutiny Unit was established by a resolution of the House of Commons in 2002 to assist the departmental select committees in their scrutiny function, particularly in the areas of finance and draft legislation. The financial scrutiny team provides a wide spectrum of support to select committees and the House of Commons more generally. This includes:

- producing regular briefings and managing specific inquiries for select committees on matters of public spending and finance;
- liaising with central government to maintain and improve standards of financial transparency; and
- responding to ad hoc requests from select committees for specialist expertise.

Unlike many other OECD countries, the Scrutiny Unit does not constitute an independent or statutory Parliamentary Budget Office, but instead forms part of the House of Commons administration.

Scrutiny in the House of Lords

The House of Lords also has a role in parliamentary financial scrutiny, though this is restricted as a consequence of the Commons' assertion of “financial privilege”. The House of Lords scrutinises spending primarily through Lords Select Committees. Unlike most House of Commons committees, which are generally responsible for overseeing the work of specific government departments and agencies, Lords committees tend to examine issues on the basis of policy themes. The Economic Affairs Committee, in particular, is active in scrutinising financial matters.

Joint committees

There are a number of bicameral ‘joint’ committees in the UK Parliament, where membership consists of members of both the Commons and the Lords. These committees also have a role in scrutinising government spending, though, as with Lords Committees, this tends to be based around thematic policy. For example, the Joint Committee on the National Security Strategy (JCNSS) holds an annual evidence session based around the annual report of the cross-departmental Integrated Security Fund (previously known as the Conflict, Stability and Security Fund (CSSF).

3 International comparisons and best practice

3.1 International practices in financial scrutiny

In 2023 the Organisation for Economic Co-operation and Development (OECD) published a paper setting out a framework for best practice in Parliamentary budget scrutiny, drawing on the work of OECD legislatures.[31] It focuses on developments in the work of Independent Fiscal Institutions (IFIs) and parliamentary committees to scrutinise and amend spending plans.

Across OECD countries (which includes the UK), the approach to financial scrutiny varies significantly both in ability to influence/amend budgets and the institutional arrangements to support parliamentary scrutiny of spending. Some of this derives from a nation's legal system and some through historical and political tradition.

Budget influencing vs budget-making

The OECD broadly categorises legislatures as being either "budget influencing" or "budget making":

> ...the vast majority of OECD legislatures can be termed budget influencing, that is having the authority and capacity to amend or reject the executive's budget proposal. The United States falls at one end of the spectrum with the Congress able essentially to rewrite the budget. OECD legislatures with a Westminster heritage tend to fall on other end, with a strong focus on ex post oversight but with limited influence in the approval phase and a near inability to use amendment powers in practice as this is equated with a confidence vote.[32]

Institutional structures to support scrutiny

In recent years, there has been an emerging trend of legislatures establishing Independent Fiscal Institutions (IFIs) and other institutional structures to support budget scrutiny.

For example, many OECD nations have established Parliamentary Budget Offices (PBOs), which provide information, analysis and advice to parliamentarians to assist in fiscal oversight. They may or may not be

31 OECD (2023), "OECD Best Practices for Parliaments in Budgeting", OECD Journal on Budgeting, Vol. 23/1.

32 As above, page 2

operationally and legally independent of the Parliament they support. For example, the Irish PBO forms part of the Oireachtas research service, whereas the Italian PBO was established in 2014 as an independent body.

Many nations have also established independent fiscal councils, which provide independent analysis and forecasts of public finances. These are sometimes known as "fiscal watchdogs" and the UK's OBR is an example of this. Unlike PBOs, which report to parliament, fiscal councils are often established with independent statutory authority. In some cases these IFIs are attached to the relevant supreme audit institution. As of 2021, only three OECD member countries had placed their IFI team within the supreme audit institution: Finland, Lithuania, and France.[33]

3.2 OECD Best Practices for Parliaments in Budgeting: how does the UK compare?

The OECD outlines several best practices for legislatures to enhance their role in the budget process, providing guidance for legislative engagement across the full budget cycle, and to promote legislatures that are both empowered in the budget process and fiscally responsible. These are split into the following categories:

1. Fiscal responsibility
3. Budget approval
4. Committee organisation
5. Budget implementation
6. Audit
7. Analytical support
8. Citizen participation
9. Budget of the legislature

Not all of the OECD's recommendations are directly relevant to scrutiny that takes place within Parliament, specifically.

The UK's financial scrutiny system within Parliament has evolved over time to include many of best practices outlined by the OECD. In general, though, legislatures based on the Westminster system of budget scrutiny are considered by the OECD to have weaker institutional arrangements for ex-

33 OECD, OECD Review of Finland's Independent Fiscal Institution, OECD Journal on Budgeting, Volume 2021 Issue 3

ante budget scrutiny, with more emphasis on ex-post oversight. That said, many legislatures which are based on a Westminster-style system have made improvements to ex-ante scrutiny that the UK Parliament has not. Some of the areas where the UK system departs from OECD best practice reflects the specific political and constitutional traditions of the UK.

Fiscal Responsibility

The OECD identifies four recommendations for legislatures to support fiscal responsibility:

1. The legislature should have the opportunity to review and approve the national fiscal framework or major changes to the framework, in particular the fiscal rules and the medium term-budgetary framework.[34]

2. The legislature should examine long-term fiscal sustainability analysis in order to debate risks faced by society in an open and informed manner and report on them to the public.

3. The legislature should debate budgetary priorities and trade-offs in a structured manner to inform preparation of the executive's budget proposal.

4. To demonstrate a commitment to fiscal responsibility, the legislature should review and approve the budget's totals, providing a strict frame for the subsequent debate on allocative choices and potential amendments in the annual budget proposal.

How does the UK compare?

The UK House of Commons ultimately has control over the fiscal framework through the Standing Orders. It has powers to propose, amend and pass legislation in respect of the procedures and institutions that underpin the budget process. However, such proposals tend to be introduced by the government. For example, in 2024 the government introduced to Parliament the Budget Responsibility Act and published a draft update to related provisions of the Charter for Budget Responsibility. The Act amended the 2011 Budget Responsibility and National Audit Act to require that any fiscally significant measures announced by the government must be accompanied by an independent assessment by the OBR, except in certain circumstances.

UK Parliament has access to long-term fiscal sustainability and risk analysis, produced by the OBR. The OBR also regularly gives evidence to the Treasury Committee as part of its regular budget scrutiny evidence sessions, which are held in public.

Where the UK Parliament departs from best practice is in the extent to which it is able to inform the executive's budget proposal. Budget proposals are

[34] The fiscal framework is defined here as the set of rules, procedures and institutions that underpin the budget process.

prepared by government and presented to Parliament with limited involvement from Parliamentarians. Budget proposals may take account of, for example, select committee report recommendations. However, it is often difficult to attribute Parliament's influence to what is seen in government spending plans.

The UK Parliament does have some limited powers to review and approve budget totals, as described in section 1. However, there are significant weaknesses in these arrangements when compared with most other OECD legislatures.

Budget Approval

Parliaments play a key role in scrutinising, debating, amending and approving government spending plans. The OECD makes the following recommendations in respect of budget approval:

1. The legislature should have the opportunity, time and resources to effectively review, debate, and approve the executive's budget proposal.
2. The budget documentation submitted to the legislature should be comprehensive, encompassing all government revenue and spending, to facilitate realistic debate.
3. The legislature should be empowered to make amendments to the executive's budget proposal.
4. The annual budget should be approved prior to the start of the new fiscal year.

How does the UK compare?

In many OECD countries, parliaments have and regularly make use of significant powers to amend budget proposals before they are approved. For example, in Norway it is commonplace for initial budget proposals to be changed due to the intervention of Parliament.[35] One of the most significant differences between the UK parliamentary system and OECD best practices is in the limited powers of the UK Parliament to amend the budget. In fact, no such amendments have been approved in the UK House of Commons in the last century.[36]

The UK Parliament's formal ability to propose changes to spending plans is present but extremely limited, as described in section 2.1. In practice, this ability is further limited by constitutional and political norms in Westminster, which mean that budget votes are generally seen as a form of confidence

35 OECD, Budgeting in Norway, OECD Journal on Budgeting, Volume 6, issue 1, 2006

36 The last time this happened was in June 1921, when a Supplementary Estimate was reduced by £2,500 in order to eliminate the salary of a minister. See HC Deb 23 June 1921 vol 143 cc1593-653.

vote. This acts as a disincentive for many members to propose changes (particularly if they are members of the governing political party).

The House of Commons Procedure Committee therefore argued in its 2019 report that the procedures for budget approval are "in their essence, very long-standing, but have, in the course of successive procedural reforms, been reduced to mere formalities."[37]

The UK Parliament does have access to government budget documentation that covers spending and revenue. This includes:

- independent analysis produced by the OBR;
- HM Treasury documents released at fiscal events such as Budgets and Supply Estimates;
- departmental Estimate memoranda, published in line with guidance produced by the House of Commons Scrutiny Unit;

One notable feature of UK government supply estimates is that they contain relatively few individual budget lines when compared to OECD counterparts. In the UK Government 2024/25 Main Estimates there were around 440 individual budget lines, which compares to several thousand in other legislatures.

Committee organisation

The OECD recommends that legislatures maintain a Budget Committee to oversee the budget scrutiny process. Sectoral committees, which focus on specific areas like health or education, should review relevant portions of the budget in their portfolios and make recommendations to the Budget Committee.

In addition, the OECD highlights the benefits of appointing opposition members to chair the Budget or Audit Committees to enhance non-partisan oversight and strengthen the parliament's role in holding the executive accountable.

How does the UK compare?

As set out in section 2, budget oversight in Westminster is carried out by committees. Responsibility for this is spread across the Public Accounts Committee (PAC), the Treasury Committee and individual departmental select committees.

A notable difference from OECD best practice in the UK is the absence of a Budget Committee. The Treasury Committee, arguably, fulfils some of a Budget Committee's functions. It holds public evidence sessions after

[37] House of Commons Procedure Committee, Should there be a Commons Budget Committee? (PDF), 9 July 2019, HC1482, para 2

significant fiscal events, such as Spending Reviews and Budgets, and often (but not always) publishes a report setting out recommendations to government. However, unlike many OECD Budget Committees, it lacks formal powers to propose amendments to budget proposals and present these to the Parliament as part of a plenary session. Although the Procedure Committee has looked into the question of whether the UK should have a Budget Committee, this has not resulted in any change (see section 4.2).

UK Parliament has sectoral "select" committees responsible for scrutinising individual government departments. However, it is not common practice for departmental select committees to conduct detailed scrutiny of budgets and make detailed recommendations to the Treasury Committee.

Although the Public Accounts Committee is, under the Standing Orders, chaired by a member of the opposition party, the Treasury Committee is chaired by a member of the governing party.[38]

Budget Implementation

The legislature's oversight responsibilities should continue throughout the budget implementation process. The OECD states that any significant in-year changes to the budget, such as reallocating funds or adjusting spending levels, should be subject to parliamentary approval. Supplementary budgets should be presented to parliament and its relevant committees, and formal processes should be in place for reviewing interim financial reports throughout the fiscal year.

How does the UK compare?

In line with OECD recommendations, adjustments to spending plans are subject to Parliamentary approval through the Supplementary Estimates process. Supplementary Estimates are typically presented to Parliament in February, towards the end of the financial year ending 31 March.

The amount of time Parliament has to consider Supplementary Estimates before they require approval is typically very short. In April 2024 the Chair of the House of Commons Liaison Committee wrote a letter to the relevant government minister, the Financial Secretary to the Treasury, to raise concerns that Parliament did not have sufficient time to scrutinise these spending plans. It highlighted that to ensure timetables were met, the Scrutiny Unit were required to analyse and brief MPs on £974 billion of spending plans within two days of the Estimates being published.

> A consequence of the Supplementary Estimates being laid at such a late point in the process in effect gave Members only two working days to consider the Scrutiny Unit's analysis, draft an [Estimates Day Debate] application, gain cross-party support and submit the application to BBCOM. It did not provide

38 House of Commons, Standing Orders – Public Business, 2024, 23 May 2024, HC 829 2023–24, Standing Order No 122b (8f); UK Parliament, Select committee Chair elections, 11 September 2024

> time for select committees to consider the relevant departmental spending plans before the application deadline had passed.
>
> I hope it is evident that the timescales set out above are unacceptable and undermine the House's vital role of scrutinising government expenditure. Unfortunately, it has been the case that a similarly constrained timetable has been followed for the last few years.

Audit

Supreme Audit Institutions (SAIs) play a critical role in helping legislatures oversee public finances. The OECD recommends that parliaments should review audit reports produced by SAIs and use them to scrutinise government performance.

How does the UK compare?

The UK has a well-established SAI – the National Audit Office – which produces a range of audit products and reports its findings to Parliament. It primarily reports to the Public Accounts Committee of the House of Commons, but also supports other select committees.

Analytical Support

One of the OECD's core recommendations is that parliaments should have access to specialist analytical support, such as independent Parliamentary Budget Offices (PBOs), Scrutiny Units or other IFIs that offer non-partisan, independent advice. As of 2019, the OECD estimated that around one-third of OECD countries have set up specialised budget research or scrutiny units within parliaments, and around two-thirds have established an independent fiscal institution.[39]

How does the UK compare?

The House of Commons established a Scrutiny Unit in 2002, which forms part of the House of Commons Select Committee Team secretariat. The Scrutiny Unit is responsible for supporting committee inquiries into specific financial issues as well as providing briefings and regular fiscal events. It is not a fully independent PBO, as seen in many OECD countries and as recommended by the OECD. Instead, it forms part of the House of Commons Administration within the Select Committee Team.

A 2019 Procedure Committee report highlighted the relative lack of resource available in the Scrutiny Unit when compared with other Parliaments, stating that "it should be of great concern to the House that its central committee financial scrutiny resource is so limited relative to other Parliaments". It recommended that the House authorities examine how the financial scrutiny

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39 OECD, Budgeting and Public Expenditures in OECD Countries 2019, 2019

function of the Scrutiny Unit could be enhanced and developed into a Commons Budget Office.[40]

Citizen Participation

The OECD recommends that parliaments engage the public in the budget scrutiny process, drawing on mechanisms such as public hearings or citizens' panels or assemblies.

How does the UK compare?

In line with most OECD legislatures, UK Parliament committees rely largely on the traditional participatory mechanism of holding evidence sessions in public. Select committee inquiries will also generally allow opportunity for the public and external organisations to submit written evidence.

There are limited examples of more innovative practices to facilitate public engagement in financial scrutiny. For example, the Treasury Committee crowdsourced questions from the public as part of its Student Loans inquiry. However public participation in scrutiny of the Chancellor’s budget or the Estimates does not take place as a matter of course.

Budget of the Legislature

The OECD states that legislatures should have control over their own budgets to ensure that parliaments have the necessary resources to carry out their budgetary scrutiny responsibilities effectively.

How does the UK compare?

The UK House of Commons administration prepares an Estimate each year setting out its funding requirement, which is subject to parliamentary approval. Spending is disclosed in its Annual Report and Accounts.

There is a separate Estimate covering the cost of Members’ salaries, allowances and other related spending. This is borne in the main by the Independent Parliamentary Standards Authority (IPSA) Estimate, which is also subject to parliamentary approval.[41]

As such, the UK House of Commons meets the OECD’s best practice recommendation of having control over its budgets.

40 House of Commons Procedure Committee, Should there be a Commons Budget Committee? (PDF), 9 July 2019, HC1482

41 House of Commons, Annual Report and Accounts 2023-24, 12 September 2024, HC 236, page 44

4 Improving financial scrutiny

Parliament has made attempts in recent years to improve its systems of financial scrutiny and to allow MPs to understand and debate spending more effectively. Many of these efforts have come about in response to two inquiries by the Procedure Committee: Authorising Government expenditure: steps to more effective scrutiny, published in April 2017, and Should there be a Commons Budget Committee?, published in July 2019.

4.1 Changes to Estimates procedure

Estimates days – days on which the Commons debates whether to approve spending in the Supply Estimates – have been a regular feature of the Parliamentary year for a very long time. The way in which they have been used has changed significantly, however. In an Estimates day debate in 2018, Sir Edward Leigh MP quoted from several reports showing that Estimates days since at least the 1960s had effectively been used by the opposition to "discuss topics of their choice" rather than actually debating the amounts of money being granted to the government.[42]

Between 1982 and 2018, the subjects for debate on Estimates days were chosen by the Liaison Committee.[43] Because the bids for debates were submitted by select committees, the ensuing debate inevitably centred on a recent committee report, rather than necessarily having anything to do with the Estimates themselves.[44]

Following the Procedure Committee's 2017 report, the system was changed in 2018. Under the new system, the Liaison Committee agreed informally to let the Backbench Business Committee select subjects for debate on Estimates days. The Backbench Business Committee required bids to be on one of the following three subjects:

- the spending of [name of Department]

42 HC Deb 26 February 2018 vol 636 cc 568-569

43 Procedure Committee, Authorising Government expenditure: steps to more effective scrutiny, 18 April 2017, para 33

44 Some MPs, in particular Sir Edward Leigh, have argued that under the 1982-2018 system it was effectively impossible to debate the content of Estimates on Estimates days, and that MPs would be ruled out of order for attempting to do so. However, looking at what has actually happened in the past (for example, HC Deb 1 March 2016 vol 606 cc 847-850), it seems clear that MPs could debate the contents of Estimates during Estimates day debates, but could not use the debate as an opportunity to discuss the Estimates procedure as a whole.

- the spending of [name of Department] on [name of programme/name of arms length body/name of activity]
- [name of Department] spending and its consequences for grants to the devolved institutions

As a result, debates did indeed begin to focus on the amounts of money being granted to Parliament, and in March 2024 an amendment to a Supplementary Estimate went to a vote. The amendment did not pass, but if it had, it would have reduced the funding granted to the Home Office by nearly £741 million.[45]

This arrangement continued until the end of the 2019-24 Parliament, and it is not yet clear whether it will continue or whether an alternative arrangement will take its place.

Several other recommendations from the Procedure Committee's report were also implemented:

- The format for Estimates memoranda submitted by government departments was improved to make them more understandable. The guidance for doing so was updated by the House of Commons Scrutiny Unit, which also compiles the memoranda for each round of Estimates.
- The Scrutiny Unit and the House of Commons Library now work together on producing briefings for each round of Estimates. One briefing covers the Estimates as a whole, while others are produced for each specific Estimates day debate.[46]
- Detailed breakdowns of the block grants provided to the devolved administrations of the UK were published, starting in 2017.[47]

However, many of the report's other recommendations were not put into practice. In particular, the report recommended that the calendar of Estimates should be reworked so that the Main Estimates would be approved ahead of the start of the financial year to which they relate (this would remove the need for a Vote on Account), and so that Supplementary Estimates would be laid at least five weeks before debate (so that the House would have time to scrutinise them). The government's response highlighted some potential problems with doing so, arguing that this would make the Estimates less accurate and harder to produce.[48]

The report also recommended that the government should publish all Estimates information in spreadsheet format. Although the government

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45 Order Paper for 14 March 2024. Context for this debate can be found in the Library's debate pack Estimates Day debate: The spending of the Home Office on asylum and migration.

46 For an example of the overall briefing, see Commons Library research briefing Main Estimates: Government spending plans for 2024/25.

47 HM Treasury, Block Grant Transparency: December 2017 publication, 20 December 2017

48 Procedure Committee, Government Response to the Fifth Report of the Committee, Session 2016-17, Authorising Government expenditure: steps to more effective scrutiny (PDF), 12 January 2018, HC 739 2017-19

started publishing some information as a spreadsheet from 2019 onwards, the level of detail provided has varied significantly, and has never gone down to the level of individual line items.

4.2 The proposed Budget Committee

The Procedure Committee's 2019 inquiry built on the recommendations of the 2017 report, and looked specifically at whether a dedicated budget committee would be beneficial for Parliament's scrutiny of public spending.

The committee said that although select committees are supposed to be examining the contents of their relevant departments' Estimates as a matter of course, in practice very few do, and none do so in any great detail. When coupled with the lack of any formal mechanism to scrutinise Spending Reviews, this means that the committee system performs very little scrutiny before money is spent (although committees do carry out the job of scrutiny after spending very effectively).

The report therefore concluded that a dedicated budget committee would be a valuable addition to the House of Commons, and that it could examine the allocation of money to different departments without straying into questioning policy decisions (as this function is covered by existing committees). The report also suggested that possible roles for such a committee could include annual scrutiny of Estimates, scrutiny of Spending Reviews, and comparisons between the amounts of spending proposed in Estimates and those reported in annual reports.

The government was opposed to the committee's proposal, and argued that this role should be carried out by existing committees (particularly the Treasury Committee).[49] The government therefore did not propose the creation of a new committee, and subsequent administrations did not do so either.

Resourcing of the Scrutiny Unit

The 2019 inquiry report also said that the resources available for financial scrutiny in the House of Commons were "limited relative to other Parliaments", and suggested that the Scrutiny Unit could be enhanced to bring its function more in line with the Parliamentary Budget Offices seen in other legislatures.[50] Examples cited in evidence to the committee included Australia, Canada, South Korea and the USA, whose budget offices employed

49 Procedure Committee, 10th Report - Should there be a Commons Budget Committee?, 9 July 2019, HC 1482 2017-19, para 74 onwards

50 As above, paras 115-120

"40, 27, 138 and 235 staff respectively"; at the time of the report, the House of Commons Scrutiny Unit employed five staff working on financial scrutiny.[51]

These recommendations echo those from earlier years. For example, written evidence provided to the Liaison Committee in 2012 highlighted that "with only 15 staff [the Scrutiny Unit's] capacity to support 19 departmentally related select committees across all the areas outlined in the core tasks is obviously limited".[52]

[51] As above, para 114

[52] Liaison Committee, Select committee effectiveness, resources and powers (PDF), 25 October 2012, HC 697 2010-12, ev 14, para 6