



The Clear Line of Sight (Alignment) Project

Standard Note: SN/EP/5617

Last updated: 1 July 2010

Authors: Larry Honeysett (Scrutiny Unit) and Dominic Webb

Section Economic Policy and Statistics Section

This note explains the background to, and purpose of, the Clear Line of Sight Project (or Alignment Project) which aims to improve the way the Government publishes information about public spending.

The note has been prepared by the Scrutiny Unit of the Committee Office for the House's consideration of this matter on Monday 5 July.

Contents

1	Summary	2
2	Background	3
3	The problem	3
4	The Clear Line of Sight (Alignment) Project	4
5	What is Parliament's role in this?	5
6	House of Commons processes for conducting financial scrutiny	7
7	Subsequent steps and endorsement of the proposals	8
8	Implementation	8

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1 Summary

The Clear Line of Sight Project, also known as the “Alignment” Project, aims to simplify the way government public expenditure information is presented and published. The project will better align the measures of government spending used for various purposes, including those used, and voted upon, by Parliament - in particular the departmental Budgets set by Government, the Estimates approved by Parliament, and the Accounts prepared by the National Audit Office.

There has long been criticism that the present arrangements are confusing and unhelpful. Different publications use different measures, and Parliament approves expenditure controls that bear little relation to those used internally within Government. The Hansard Society and the Treasury Committee are among those who have been critical of the present arrangements, and have argued that they obstruct understanding and effective scrutiny of public spending.

In June 2007, in its *Governance of Britain* Green Paper, the Labour Government announced the establishment of the new project.¹ The Treasury set out in a memorandum in November 2008 the Government’s emerging thinking on how it might best deliver its commitment in the June 2007 Green Paper. These proposals were more fully developed and published in detail by the Treasury in a paper, *Alignment (Clear Line of Sight) Project*, which asked for comments and views.²

These ideas were considered by the House of Commons Liaison Committee, which welcomed the proposals for simplification, and suggested further ways in which scrutiny could be improved, in its response, *Financial Scrutiny: Parliamentary Control over Government Budgets*.³ The Government’s *response* to this was in turn published in November 2009.⁴

Most of the proposals did not, and do not, require changes to legislation. The one aspect of them which did - the consolidation of Non Departmental public bodies within Departmental Resource Accounts - was included within the Constitutional Reform and Governance Act passed by the House in the “wash-up” period before the May 2010 General Election.

The new coalition Government continues to support the proposals. Some small preliminary changes to the budget and Estimates process have already been made as a result of the Alignment Project, but the main implementation will take place from 2011-12 as planned.

The Liaison Committee had commented in its report in July 2009 that “the proposals are of major significance and require the endorsement of the House as a whole”. The new Government continues to support the plans and has now tabled a motion for debate on 5 July to give the House the opportunity to discuss and debate issues arising from the proposals on the floor of the House.

¹ CM 7170, July 2007

² HM Treasury, *Alignment (Clear Line of Sight) Project*, March 2009, Cm 7567

³ House of Commons Liaison Committee, *Financial Scrutiny: Parliamentary Control over Government Budgets*, 3 July 2009, HC 804, 2008-09

⁴ *Financial Scrutiny: Parliamentary Control over Government Budgets: Government’s response to the Committee’s Second Report of Session 2008-09*, 2 November 2009, HC 1074, 2008-09

2 Background

Currently there are a number of differing ways of measuring and controlling public expenditure, used for differing purposes and appearing in various official documents. In particular, at present:

- **Treasury Budgets** - announced in Spending Reviews and published in Budget documents and Departmental Annual Reports, and used by Government to control public expenditure;
- the **Estimates** laid before Parliament - which Parliament is required to approve before spending can take place; and
- **Resource Accounts** - which account for Government expenditure after it has been incurred

each currently measure and report expenditure in different ways.

For example, around one third of expenditure within budgets is not Voted in Estimates, while around one sixth of Estimates is not in budgets. Capital budgets are disclosed within Estimates, but are not voted on.

This is illustrated in the table below, showing the position before any changes:

		Not in, £bn		
		Budgets	Estimates	Resource Accounts
In, £bn	Budgets		129	58
	Estimates	86		0
	Resource Accounts	82	67	

Source: 2008-09 Plans as at August 2008 excluding expenditure by the devolved administrations

3 The problem

There has long been criticism that the present arrangements for reporting and controlling public expenditure are confusing and unhelpful. Different publications use different measures, and Parliament approves expenditure controls that bear little relation to those used internally within Government. The Hansard Society and the Treasury Committee are among those who have been critical of the present arrangements, and have argued that they obstruct understanding and effective scrutiny of public spending.⁵

The nature of the current differences between the expenditure frameworks are due to a number of factors. These include:

⁵ *The Fiscal Maze: Parliament, Government and Public Money*, Alex Brazier and Vidya Ram, Hansard Society, 2006. Treasury Committee, *The 2007 Comprehensive Spending Review: Prospects and Processes*, 25 June 2008, HC 279, 2006-07, para 110

- **Timing.** e.g. expenditure by Non-Departmental Public Bodies (NDPBs) is included in departmental budgets, but Estimates include instead the grants paid by departments to the NDPBs (which may subsequently support NDPB expenditure). Also, some departments keep back part of their budget in reserve – ‘Departmental Unallocated Provision’ – which is only presented in Estimates when the department allocates it to specific lines of expenditure.
- **Coverage.** e.g. central government expenditure funded directly from other sources (such as the National Insurance Fund under separate legislation) is not funded through Estimates.
- **Classification.** e.g. Estimates and Resource Accounts show grants which are made for capital investment as ‘Resource’ spending; budgets count such grants as ‘Capital’ expenditure.
- **Gross v net expenditure.** Departmental budgets are set in terms of net expenditure, whereas Estimates provide for the House to approve separate figures for gross expenditure and income appropriated-in-aid of that expenditure. As a result, while higher-than-expected income effectively provides additional funds for departments’ budgets, departments cannot use that additional income unless a Supplementary Estimate is approved which includes that additional income. Typically, such Supplementary Estimates will also increase the gross expenditure figure by the same amount, not because additional expenditure is anticipated but simply to preserve the budgetary net expenditure position.
- **Control totals:** separate Departmental budgets are set for DEL (Departmental Expenditure Limits) and for AME (Annually Managed Expenditure) and for resource and capital; Estimates totals are set in terms of resource expenditure and cash.

4 The Clear Line of Sight (Alignment) Project

Recognising the problems which the current arrangements cause, the then Labour Government announced, in June 2007 (in its *Governance of Britain* Green Paper), the establishment of the “Clear Line of Sight” (also known as the “Alignment”) Project. The project aimed to align the different measures of public spending and simplify arrangements for reporting and controlling public expenditure in the future.

The Treasury set out in a memorandum (also referred to as the ‘First’ memorandum) in November 2008 the Government’s emerging thinking on how it might best deliver the commitment it had made in the Green Paper . These proposals were more fully developed and published in detail in *Alignment (Clear Line of Sight) Project* in March 2009 (the ‘Second’ memorandum), which asked for comments and views.⁶ This document set out detailed proposals some of which are quite technical in nature. However there were some key changes proposed which can be summarised below.

The main changes which have been proposed are that:

- Estimates should be configured so that Parliament would, in future, vote the same control totals as the Treasury uses to control spending within Government;

⁶ HM Treasury, *Alignment (Clear Line of Sight) Project*, March 2009, Cm 7567

- Parliamentary controls over expenditure to be on a net basis, with appropriate safeguards; rather than both gross and net. Information on income would still be provided, and the types of income used in support of spending would remain restricted;
- Non Departmental Public Bodies' expenditure - already within Treasury budgets - to be incorporated into Estimates and Resource Accounts of the sponsoring Departments. NDPBs' status and accountability would be unaltered;
- Parliament to approve capital spending plans of Departments, rather than just being made aware of them. Capital grants and capital spending of NDPBs would also be brought into the capital plans which Parliament votes;
- The format of Estimates to be amended to reflect the alignment changes, and simplified. The opportunity could be taken to make some further improvements; and
- Financial publications to be rationalised into three annual publication events. There would (normally) be only one set of Supplementary Estimates each year.

As a result, Estimates, Departmental Annual Reports and (with one or two exceptions) Resource Accounts would include figures on the same basis throughout. This would make it easier to compare figures and track trends in the future.

This is demonstrated by a revised table showing the extent of misalignment after the proposed changes.⁷

		Not in, £bn		
		Budgets	Estimates	Resource Accounts
In, £bn	Budgets		0	0
	Estimates	0		0
	Resource Accounts	19	19	

5 What is Parliament's role in this?

The then Government asked Parliament for its endorsement of the proposals last year in *Alignment (Clear Line of Sight) Project*, published in March 2009.⁸

In considering the proposals, the Liaison Committee built on work it had already carried out in the preceding session leading to its report, *Parliament and Government Finance: Recreating Financial Scrutiny*.⁹ The Liaison Committee took the lead in responding on behalf of all the select committees and published a formal response to the Government proposals on 3 July in its report *Financial Scrutiny: Parliamentary Control over Government Budgets*.

⁷ The £19bn figure shown in the table has subsequently been revised to £22bn.

⁸ HM Treasury, *Alignment (Clear Line of Sight) Project*, March 2009, Cm 7567

⁹ House of Commons Liaison Committee, *Parliament and Government Finance: Recreating Financial Scrutiny*, 21 April 2008, HC 426, 2007-08

In respect of the Alignment proposals themselves, the Committee broadly endorsed the Government's approach, concluding:

51. Overall, we believe that the alignment proposals would achieve the objective of bringing together, in a single, simpler system, the mixture of different expenditure measures that currently exist. And they would do this while safeguarding Parliament's position, offering opportunities for improved scrutiny and debate in the future and without sacrificing or weakening the levers of control of public expenditure

52. The Committee supports the package of detailed proposals put forward for achieving the technical alignment between Estimates, Budgets and Accounts totals and commends them to the House.¹⁰

In coming to this conclusion, the Committee looked specifically at the major issues raised by the proposals and considered each in turn:¹¹

- **Non Departmental Public Bodies (NDPBs)**¹² Estimates and Accounts currently do not include spending of NDPBs (only cash grant in aid payments by departments to them), whereas Budgets treat spending by an NDPB in the same way as spending by a Department, dividing it into capital and resource. The Government proposes consolidating NDPB expenditure and income into departments' Estimates and Accounts in the same way as budgets. The Committee considered that the change would not alter accountability for expenditure, and was necessary to achieve alignment and consistency with departmental spending.
- **Gross and net expenditure:**¹³ Parliament currently votes on both net and gross controls¹⁴ on expenditure through Estimates, whereas Treasury budgets operate on a net control basis. The Government proposes moving to net controls throughout, but with safeguards. These include continued disclosure of expenditure and income separately in Estimates and Accounts; and controls on the types of income which can be used by departments in support of expenditure (such as excluding taxes and fines). The Committee considered that the removal of separate controls on levels of income which can be used in support of spending¹⁵ was necessary for the achievement of alignment and was acceptable, in view of the safeguards in place.
- **Voted and non voted expenditure:**¹⁶ Certain items of spending currently in budgets do not appear in Estimates or Accounts, and are hence "non voted" - because separate legislation governs such spending. The Government proposes including all items which are in budgets within Estimates for information purposes, but identifying those which are not to be "voted" separately. The Committee supported this proposal, which would give a complete rather than partial presentation of departmental spending.

¹⁰ House of Commons Liaison Committee, *Financial Scrutiny: Parliamentary Control over Government Budgets*, 3 July 2009, HC 804, 2008-09, paras 51-52

¹¹ *Ibid*, paras 22-48

¹² *Ibid* paras 22-26

¹³ *Ibid* paras 27-33

¹⁴ A net control is one which operates on the sum of expenditure and income. Where income rises, expenditure may rise also, providing the net figure is not exceeded. Gross controls require neither expenditure nor income individually to be exceeded - so increased income is surrendered and cannot be used to support increased spending.

¹⁵ Income which can be used in support of spending is currently known as "Appropriations in Aid"

¹⁶ House of Commons Liaison Committee, *Financial Scrutiny: Parliamentary Control over Government Budgets*, 3 July 2009, HC 804, 2008-09, paras 34-35

- **Departmental Unallocated Provision:**¹⁷ Departments are encouraged by the Treasury to hold small reserves, known as Departmental Unallocated Provision (DUP), so as to meet unforeseen pressures while remaining within budgets. DUP is currently not shown in the Estimate, but is within the Departmental budget. The Government proposes including DUP within the Estimate. The Committee supported this proposal, in order to provide a complete picture.
- **capital expenditure (including capital grants):**¹⁸ Capital expenditure, including grants to support capital expenditure, is identified separately in budgets, but within Estimates is split between grants - shown as Resource - which are voted on, and direct capital expenditure - shown as Capital - which is not voted. Capital expenditure of NDPBs is not identified separately. The Government proposes treating capital expenditure, including capital grants and capital spending of NDPBs, in Estimates in the same way as budgets bringing consistency, completeness and greater control to Parliament over capital spending. The Committee welcomed these proposals.
- **provisions:**¹⁹ Departments are required, under accounting rules, to make provisions for current obligations arising from past events, where it is probable that payment will need to be made in the future, and such payments are measurable. Departments are currently required to fund most provisions from their Departmental Expenditure Limits when created or increased, and include within Estimates, although the impact on public expenditure arises when paid. The Government proposes treating creation of provisions as Annually Managed Expenditure in future - and continuing to include them in Estimates; and scoring cash payments when they arise within Departmental Expenditure Limits (with a credit to AME to avoid double counting). Although complicated, the Committee felt this was the best solution available.
- **reductions in Estimates:**²⁰ Reductions to Estimates are currently only permitted as part of a Machinery of Government change. The Government proposes allowing reductions to Estimates to be presented where appropriate in other cases also, in order to align with changes to budgets, which can go up or down. The Committee endorsed this approach.

The Government's [response](#) welcomed the Committee's report, and its support for the measures proposed.²¹

6 House of Commons processes for conducting financial scrutiny

However, the report noted that the alignment project was "in itself not enough" for improving financial scrutiny over government spending and said that the opportunities for committees and the House to debate and influence Estimates needed to be developed further. The Committee recommended that:

- it should be standard practice for there to be debates both on Spending Reviews and on the annual Pre-Budget Report;

¹⁷ *Ibid* paras 36-37

¹⁸ *Ibid* paras 38-41

¹⁹ *Ibid* paras 42-44

²⁰ *Ibid* paras 45-48

²¹ *Financial Scrutiny: Parliamentary Control over Government Budgets: Government's response to the Committee's Second Report of Session 2008-09, 2 November 2009, HC 1074, 2008-09*

- the Treasury take forward the plan for developing mid-year reports;
- Main Estimates should be published as closely as possible to the beginning of the financial year to which they relate;
- the Procedure Committee should examine the possibility of departmental select committees being able to refer an Estimate or spending plan for examination in a general committee, under a procedure comparable to that for European legislation;
- the motions which can be debated on the days set aside in the House for consideration of Estimates should be broadened to include substantive motions expressing the House's opinion on future spending plans; and
- the number of Estimates Days should be increased to five (from three).

The Government, in its October 2009 response, also made positive commitments in response to some of the Liaison Committee's other recommendations on the reporting cycle, such as allowing adequate time for debate on Spending Reviews and Pre-Budget Reports.²² In respect of the recommendations relating to House procedure the Government stated in its response that the matters were either for the Procedure Committee to take forward or to be considered in the context of the forthcoming (at that time) report of the Select Committee on Reform of the House of Commons, chaired by Dr Tony Wright MP.

7 Subsequent steps and endorsement of the proposals

In a further [memorandum](#) of February 2010 (the 'Third' memorandum), the Treasury updated the Liaison Committee on certain detailed issues relating to the impact of negative Estimates for supply legislation; Estimates formats; a protocol on changes to definitions; terminology; PFI projects treatment; and nuclear decommissioning costs.²³

Minor legislative changes required to implement some aspects of the changes were put before the House and approved as part of the Constitutional Reform and Governance Act 2010 (see Part 5 of the Act) in the wash-up period before the General election.

The Liaison Committee had commented in its report in July 2009 that "the proposals are of major significance and require the endorsement of the House as a whole".²⁴ The new Government continues to support the plans and has now tabled a motion for debate on 5 July to give the House the opportunity to discuss and debate issues arising from the proposals.

8 Implementation

Following the Liaison Committee's support for the proposals, the detailed work necessary to prepare for implementation with effect from April 2011 is already under way within Government, pending the approval of the House. The first Estimates to be prepared on the new basis are expected to be published in spring 2011.

²² A debate was held on the 2009 PBR on 7 January 2010

²³ *Alignment (Clear line of Sight) Project*, Memorandum by HM Treasury to the Liaison Committee of the House of Commons

²⁴ House of Commons Liaison Committee, *Financial Scrutiny: Parliamentary Control over Government Budgets*, 3 July 2009, HC 804, 2008-09, para 19