House of Commons
Liaison Committee

Financial Scrutiny: Parliamentary Control over Government Budgets

Second Report of Session 2008–09

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Financial Scrutiny: Parliamentary Control over Government Budgets

Second Report of Session 2008–09

Report, together with formal minutes

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The Liaison Committee

The Liaison Committee is appointed to consider general matters relating to the work of select committees; to advise the House of Commons Commission on select committees; to choose select committee reports for debate in the House and to hear evidence from the Prime Minister on matters of public policy.

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Work and Pensions – Mr Terry Rooney MP (Labour, Bradford North)

Powers

The powers of the Committee are set out in House of Commons SO No 145. These are available on the Internet via www.parliament.uk.
Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/liaison_committee.cfm.

Committee staff

The current staff of the Committee are David Natzler (Clerk), Robert Wilson (Second Clerk), Kevin Candy (Senior Committee Assistant) and Lee Chiddicks (Committee Assistant). For this Report they were assisted by Crispin Poyser, Matthew Hamlyn, Chris Stanton, Larry Honeysett, Ann Williams and Su Panchanathan.

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Summary

This Committee, together with other committees of the House and outside bodies, has called in the past for improvements in the system of parliamentary scrutiny of the Government’s finances—especially planned expenditure for future years. We have argued in particular for improvements to the timing and nature of the information provided to Parliament and for changes in the methods of debate.

The Treasury has now, in a White Paper published in March (the Alignment Project), published plans to improve the quality and clarity of the financial information. The objective is to bring consistency to what is included in the budgets which the Government sets individual departments, the Estimates which are put to Parliament to approve government spending, and the accounts of departmental spending audited by the National Audit Office. At present, these differ considerably—for example there is £129bn of spending for 2008-09 currently included in departmental budgets but not in the Estimates presented to Parliament.

Alignment will require significant adjustments—most prominently the ending by the House of legal (but not practical) control over the income which departments generate themselves and then use directly in support of their spending (as opposed to income from general taxation). Gains will include the inclusion of capital controls within the sums voted by Parliament.

Overall, we support the package of detailed proposals by the Treasury to achieve alignment. A system will be needed to ensure these benefits are not lost through any future changes to the budgeting process.

We welcome the principle of alignment because it will:

- allow the controls exercised by Parliament to reflect those exercised within Government, and
- enable 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, and into actual spending recorded in the accounts.

This change would be a significant contribution to remedying one of the major gaps identified by this and other committees, that of the House’s inability to examine effectively the spending plans of the future years of each Government Spending Review. Existing procedures are closely geared towards examination by the House of the current year’s spending plans. Given that this is usually after the year has started, it is generally too late to have any effect. Better aligned and clearer figures will enable the various select committees of the House to examine the budget figures provided for years to come on the basis that they are ‘draft Estimates’ for those future years.

But this in itself is not enough. The opportunities for committees and the House to debate
and influence these figures need to be developed further. We propose that:

- 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.

We also recommend that, to reflect the additional kinds of business which can be debated, the number of Estimates Days should be increased to 5 (from 3). In addition, as has been recommended before, we consider that it should be standard practice for there to be debates both on Spending Reviews and on the annual Pre-Budget Report. We also believe strongly that the Main Estimates ought to be published as closely as possible to the beginning of the financial year to which they relate.

While the changes we propose in this Report are themselves significant, the House may wish to return to this area as it considers its wider procedures and powers. The Committee believes that there is scope for further improvements to a system which may still be inadequate to the task of holding the Executive to account in its stewardship of public resources.
1 Introduction

The ‘Alignment Project’ and parliamentary scrutiny of expenditure

2. Effective monitoring of government expenditure—and ultimately the exercise of effective control over it—is one of the core functions of the House of Commons. This function is pursued day in and day out by the House, through inquiry and debate on the policies underlying expenditure, on priorities, and on overall government spending, and through examination by the National Audit Office (NAO) and the Committee of Public Accounts (PAC) of past expenditure. But there has been a broad consensus for some time that the way the actual public expenditure figures underlying government programmes for future years are controlled needs to be overhauled to make the process much more understandable and useful.

3. In particular, reporting, debating and authorising public expenditure would benefit greatly from simplification and rationalisation. The present arrangements for presenting information all too often provide obstacles to sensible and informed scrutiny of public expenditure: they can make it difficult to compare and identify trends, they are inefficient and they are unnecessarily complicated. On 6 March 2009 HM Treasury published proposals for reform of this part of the process, in a white paper entitled the Alignment (Clear Line of Sight) Project.1

4. The proposals in the Alignment Project White Paper are detailed plans which follow earlier provisional proposals first flagged up in the Governance of Britain Green Paper in July 2007.2 The Liaison Committee reported in March 2008 on the proposals in an earlier stage of preparation in its report Parliament and Government Finance: Recreating Financial Scrutiny.3 The Government responded to that Report in June 2008.4 It then submitted a memorandum to various committees of the House in November 2008 giving initial proposals on a number of detailed matters and fleshing out further the ideas previously floated, to which this Committee replied in a letter to the Chief Secretary to the Treasury.5 The Committee’s earlier responses had indicated—as had the Treasury Committee—broad support for the principles of the Alignment Project but reserved judgement until final proposals could be examined. The Treasury’s latest White Paper provides those final proposals.

5. These exchanges have been only the latest in a long string of reports, from within the House and from outside, on scrutiny and control of public expenditure. These have included reports from committees of the House—in particular the Procedure and Liaison

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1 Cm 7567 HM Treasury March 2009 (hereafter called ‘the Alignment Project White Paper’)
2 Cm 7170 July 2007 paras 109-111
4 Liaison Committee, Third Special Report of Session 2007-08 (HC 1108)
5 This letter is printed at Annex 2 to the First Report of the Liaison Committee of Session 2008-09, The work of committees in 2007-08 (HC 291).
Committees—over the years, reports and other steps taken at the time of the introduction of resource accounting and budgeting in the period up to 2001 and reports from outside Parliament.

6. The need to improve clarity of presentation of the figures, which lies at the heart of the Alignment process, has been a theme of these reports. But there has also been a consistent effort to improve the ways in which the information is then considered by the House. Improvements in presentation are a benefit in themselves, but they are only part of the story. To be properly effective improvements in presentation need to be accompanied also by improved opportunities for Members—as individuals and through select committees and front benches—to debate the figures (both in the form of the formal Estimates for the current year and the spending plans for future years).

7. While it can be misleading to draw too strong a distinction between debate on policy and debate on expenditure, the House is unlikely to want to devote large amounts of time to debates which appear to be purely about spending figures compared to debates which are more obviously about the policy which gives rise to that expenditure. And even when it does so it will often wish to do so in a debate which is primarily an exchange of views and information and is unlikely to be whipped. But it must have effective means at its disposal to conduct such debates, and if necessary to resolve differences of opinion (if necessary on division), where Members see fit.

8. This Report therefore examines the Government’s proposals for improved information against the background of the need to integrate such improvements with improved opportunities for the House to scrutinise that information and to debate it.

The Government’s proposals

9. The Alignment Project has arisen primarily because the measures Government uses to control public expenditure do not match those which Parliament uses to authorise such expenditure. There are also mismatches between both of these measures and the way expenditure is reported, after the year end, in the Resource Accounts.

10. This situation has developed over a period of time, as the way public expenditure is monitored, controlled and reported has evolved, and publications, limits and frameworks have altered. Often these changes have not been applied consistently, leading to the present arrangements with a number of overlapping and divergent controls. Changes which have been made in recent years include:

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7 For example Committee of Public Accounts Fourth and Ninth Reports of Session 1999-2000, Government Resources and Accounts Bill (HC 127 and HC 159); Liaison Committee, Third Report of Session 1999-2000 Resource Accounting and Budgeting (HC 841)

8 For example, most recently, the Hansard Society Report The Fiscal Maze: Parliament, Government and Public Money July 2006
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11. The Alignment Project aims to improve current processes by bringing together, as far as is reasonably possible, the present Treasury controls (“Budgets”), Parliamentary approvals (“Estimates”) and end year reporting (“Resource Accounts”). The key elements of the proposals are:

• Parliament in future should vote (i.e. formally approve) Departmental Expenditure Limits and Annually Managed Expenditure totals, and Resource Accounts should report expenditure against those limits;

• the voted limits should include the expenditure both of the departments and the NDPBs which they sponsor;

• the limits should be on a net basis, with appropriate controls over the departmental income used to support their activities;

• capital budgets should be brought within the parliamentary control process; and

• the publications timetable should be rationalised, notably through bringing together Annual Reports with Accounts, and generally having a single Supplementary Estimate each year.

The potential gains from the proposals

12. This Committee, in its Report last year, noted that “Clear, comprehensive, accurate and timely information is fundamental to Parliament’s financial scrutiny”, “figures in one [document] cannot easily be related to those in another”, and “information…. happens to

9 See paragraph 19 below
be presented in an unnecessarily unhelpful way”. The Committee was critical of the “sheer number of reporting documents”. We saw the Alignment Project as offering clear potential to address these points, concluding that “…we emphasise the magnitude of the prize which is potentially available: a comprehensive and coherent system of planning, authorising and reporting government expenditure, making it possible for the House and select committees to scrutinise the Government’s finances far more effectively.” 10

13. The direct potential benefits are twofold:

- consistent figures across key publications would promote greater clarity, and the ability to track trends and compare information;

- the new approach would, for the first time for many years, give Parliament the opportunity to exercise its control over expenditure in a way which corresponds to the way in which the Government itself controls public expenditure.

14. But the potential benefits go deeper. The changes should lead to greater opportunities for Parliament to improve the quality and effectiveness of existing processes of financial scrutiny.

15. The annual Estimates themselves should become a valuable source of budgetary information in a way which they have not been for some time. At present the Estimates include part of the picture only, and are an end product of decisions made against a completely different framework, converted at the end of the process to the format required for Parliament under the present rules. This makes it very difficult to explain the budgets and changes simply, to track trends or to compare budget plans between differing documents. The new arrangements would enable changes to budgets to be tracked over time, and between different documents.

16. This in turn would allow the figures to form part of a continuing dialogue between parliamentary committees and Government on the budget figures as they unfold during the year and—even more helpfully—as budget plans from earlier years firm up. Parliament would have a much clearer opportunity to identify changes in plans as they move from Spending Reviews to the formal provision for the year in question, and then to changes during the year.

17. 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.
Approval of the proposals by the House

18. The proposals in the Alignment Project White Paper were primarily addressed to those select committees in the House of Commons with a clear or potential interest in aspects of the project: the Liaison Committee, the Public Accounts Committee, the Treasury Committee, the Procedure Committee and the Modernisation Committee. In the event, it is this Committee which has taken the lead in responding to the proposals, through a Working Group first established ahead of last year’s report on Recreating Financial Scrutiny. The Working Group, under the direction of the chairman of the Committee, brings together the chairs of the Public Accounts Committee, the Procedure Committee, the Treasury Committee and another departmental committee.11 The Working Group has drawn from the Committee’s Report of last year and has been helped by the Scrutiny Unit in its examination of the proposals.12 It also sought to give an opportunity to the various Opposition parties in the House to express any views.

19. The proposals are of major significance and require the endorsement of the House as a whole. Although the changes would not, under present proposals, come fully into effect until the 2011–12 financial year, there is considerable preparatory work involved, including administrative expenditure, which the Government would not wish to undertake if the project is not to go forward. To meet the envisaged timetable, endorsement is required this summer. We have therefore sought to complete our work in time to allow the House to consider its response before the summer recess or, at least, in the spill-over period before the next session. We understand that the Government will also be seeking the endorsement of the House to one or two detailed aspects of the scheme which it has been assessed will need statutory backing. We hope that the House will find the discussion of the proposals in this Report to be of value and we hope that it will agree with the proposals we make.

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11 The Working Group thus comprised Mr Alan Williams, Mr Edward Leigh, Mr Greg Knight, Mr John McFall and Mr Michael Jack (chairman of the Environment, Food & Rural Affairs Committee).

12 It has also been helpful that House officials have been represented on the Project Board and on the Project Steering Committee.
2 Aligning Budgets, Estimates and Accounts

Government Budgets, Estimates and Accounts

20. The Alignment Project White Paper is concerned above all with aligning the figures used as the basis for three different Government and Parliamentary financial processes:

- **Government budgets**: these are the controls over departments’ spending plans used within Government, administered by the Treasury; they are published in Spending Reviews and in the annual Budget documents (principally the Financial Statement and Budget Report—the “Red Book”). Under present arrangements they distinguish between expenditure which is largely predictable or controllable, currently set by the Treasury for three years at a time in Spending Reviews as Departmental Expenditure Limits; and less predictable types of expenditure (such as welfare benefits) controlled on an annual basis and known as Annually Managed Expenditure. All such expenditure is recorded on an “accruals” basis—ie when incurred, not when cash is paid.

- **Estimates**: these are the detailed requirements put to Parliament (in practice to the House of Commons) for approval of spending plans for the current\(^\text{13}\) financial year. Estimates distinguish between resource requirements (on an accruals basis, but presented in a different way from Government budgets) and a cash requirement—the amount of cash needed to support that expenditure.\(^\text{14}\)

- **Resource Accounts**: these are the financial statements recording expenditure which has been incurred during the year, set out according to UK Generally Accepted Accounting Practice, and in future according to International Financial Reporting Standards. The Resource Accounts are audited by the National Audit Office. Expenditure is generally recorded on an accruals basis.\(^\text{15}\)

Aligning the figures used as the basis for these three documents raises a number of issues and does not come without accompanying difficulties. The House will wish to address these closely.

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13 Votes on Account are presented a few months before the end of the previous financial year to seek authority for spending in the early months of the coming financial year; the ‘Main Estimates’ are presented (usually) in April or May to seek authority for the plans for the year and are approved in July with any summer ‘Supplementary Estimates’; further Supplementary Estimates are presented in (at present) November and February to seek additional authority for any further sums needed as the year progresses.

14 Further details on the system of Estimates are given at paragraph 99ff below.

15 There is also a cash flow statement within the Resource Accounts.
Ending current misalignments

21. We examine first a range of issues which the Treasury has identified in its paper.\textsuperscript{16} It has proposed ways forward which we examine also. There may be additional areas of difficulty which are identified in the months to come—or indeed in the future after ‘alignment’ has been agreed and introduced. These would have to be looked at as and when they arise, under the arrangements discussed at paragraphs 52-54 below, relating to the proposed new protocol to govern discussions between the Government and Parliament on the form of the Estimates documents.

Non Departmental Public Bodies (NDPBs)

22. One of the major changes proposed\textsuperscript{17} is that net NDPB expenditure should be consolidated within the Estimates and Resource Accounts of the sponsoring department. This proposal mirrors the existing arrangements for Government DEL and AME budgets, where expenditure scores in the same way whether departmental Ministers elect to channel available funds through their departments’ NDPBs or directly through their department.

23. In contrast, at present an individual Estimate includes only the cash grant-in-aid which the department provides to the NDPB. Crucially, this means there is no distinction in Estimates between capital and resource expenditure channelled via NDPBs (it is all regarded as resource expenditure); and the Estimate reflects the timing of cash payments from the department to the NDPB, rather than actual expenditure of the NDPB. Expenditure directly incurred by departments and expenditure channelled through NDPBs—although often in pursuit of similar aims or through similar mechanisms—is thus currently treated entirely differently in Estimates and in Resource Accounts depending only on the delivery body involved.

24. The change proposed is one aspect of the proposals which requires legislation. The House will wish to look at this closely when considering the provisions when it comes forward.

25. It is not proposed that bringing NDPB expenditure within the Estimates and Resource Accounts would alter the division of responsibilities between the Departmental and NDPB Accounting Officers. The statement of Accounting Officer Responsibilities (within the Estimates and the Resource Accounts) would be modified to make quite clear that, by signing the Resource Accounts, there would be no implication of control by the Departmental Accounting Officer over transactions within the NDPB. The Departmental Accounting Officer would be responsible for the accuracy of the numbers in the consolidated Resource Accounts, but not for the regularity, propriety and value for money of the NDPB’s own expenditure. The Departmental Accounting Officer would be held

\textsuperscript{16} The Alignment Project White Paper also contains a number of proposals which relate to changes within the Government budgeting system. These would either make changes which affect distinctions only currently drawn within Government budgets (such as the removal of the near cash/non cash ring fence) or are in areas which are already broadly aligned and which would affect Budgets, Estimates and Accounts equally (such as the removal of the cost of capital charge). Neither would have a direct impact on the principle of alignment, and so are not discussed specifically in this Report.

\textsuperscript{17} Alignment Project White Paper paras B15-B22
responsible for any excess vote, although where it is clear that excess expenditure has arisen against an NDPB’s budget, which has contributed or led to the overall excess vote, the Accounting Officer of the relevant NDPB would also be held accountable to Parliament through the Public Accounts Committee for the excess spending. NDPBs would also continue to prepare and produce their own accounts, as well as feeding into the consolidated Resource Accounts of the relevant department.

26. We consider the Treasury’s proposed way forward for treatment of Non Departmental Public Bodies’ expenditure to be the most appropriate to achieve alignment. It would enable NDPB expenditure to be treated consistently between documents and to be fully comparable with direct expenditure of departments.

Gross & net expenditure

27. One of the biggest issues to consider in the Project is the proposal that the House should in future vote net expenditure limits, rather than—as at present—voting both net expenditure limits and limits on the income which can be retained by departments. Without this change there would continue to be significant differences between Government DEL and AME budgets on the one hand and the Estimates on the other, in circumstances where higher levels of income are generated than were anticipated and included in the Estimates. The proposal is a critical one as, without change, such differences would continue to occur across the Estimates of all the major departments. This would leave a major misalignment in place, so to an extent the success of the whole project depends on resolution of this issue.

28. But alignment in this respect raises significant issues. The proposed approach is that Parliament would in future vote a net expenditure limit (as now) but with no upper limits on any income to be used (currently known as appropriations in aid) in support of such expenditure. The effect would be that a department receiving income above the forecast level would, in future, be able to use this extra income to increase expenditure on that Estimate, instead of (as now) having to surrender the extra income to the Consolidated Fund (as what are known as Consolidated Fund Extra Receipts).

29. Under the Treasury’s proposals, the Estimate would continue to give full details of the income which is expected to be received, and the Accounts would give full details of income in fact received. The kinds of income to be used to support the expenditure would still be controlled by Parliament, in two ways. First there would continue to be controls limiting the kinds of income which can be regarded as ‘negative expenditure’ across the system as a whole—thus income classified as tax revenues would continue to be excluded.

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18 Effectively, what this means is that if a department receives income below the income limit set it must reduce expenditure to keep within the net expenditure limit, but if a department receives income above the income limit set it cannot use this extra income to increase gross expenditure, even though it would stay within the net expenditure limit. (See Alignment Project White Paper paras B7-B14.)
Secondly, the Estimate itself would contain, in the ‘ambit’, a specific description of the kinds of income allowed for that Estimate.

30. While the issue is important in principle—because it could be seen in some measure as allowing a department to raise extra income in order to spend beyond any level specifically authorised by Parliament—it may be less significant in practice than might at first appear. First, this is because the present Estimates system (as opposed to the legislation which authorises the income generating power in the first place) already places no constraint on the amount of income which may be raised, only on the uses to which it may be put. Secondly, the controls currently operate at a high level, meaning that excess income in one area often can still be used in support of the Estimate because income elsewhere within the Estimate is less than expected. Thirdly, the present system in practice imposes only a timing delay on the use of any excess income rather than an absolute barrier to its use: while excess sums raised cannot be devoted to the Estimate in question until the authority of Parliament has been given, this in practice normally means including an equivalent sum in the following year’s Estimate. While under Estimates rules the department hands back the income as cash to the Consolidated Fund, under the Treasury budgetary rules this creates a budget underspend which (under the End Year Flexibility scheme) can be included as an increase to the budget in a subsequent year’s Estimate. Although Parliament could of course reduce the later Estimate by the same amount if it saw fit, it has never exercised such powers in this way; and alignment would not alter its power to impose an equivalent reduction.

31. In its report on the Administration and Expenditure of the Chancellor’s Departments 2007-08, the Treasury Committee acknowledged “that the requirements of the alignment project mean that it is not possible for Parliament to maintain control over gross totals. We are concerned that without adequate levels of information regarding income, Parliament’s authority may be diminished. We recommend that the new Estimates provide appropriate levels of information relating to income. We do not wish to impose an unreasonable administrative burden on the departments and hope that a pragmatic solution can be adopted.”

32. The concerns expressed by the Treasury Committee are entirely valid. The safeguards identified by the Treasury in response under the proposals, in summary, include:

- Estimates would continue to contain details of forecast income;
- the types of income to be used in support of expenditure would be restricted to those included within a detailed income description within the Estimate;
- the existing controls on the distinction between income which may be retained by departments and income which may not (including tax receipts and income from fines) would remain in place;

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19 The “ambit” is the term for the description within the Estimate of the nature of the expenditure and income for which authority from Parliament is sought. Expenditure may not be incurred nor income retained if it falls outside the coverage of the ambit description.

20 Treasury Committee, First Report of Session 2008-09 (HC 35)
• the Resource Accounts would continue to require explanation of variances between actual and estimated income;

• the provisions of *Managing Public Money* would continue to require, for instance, that charges should be set so as to recover the full costs of the service, but not to generate a profit.

We consider that the concerns of the Treasury Committee, which—as noted above—we share, are adequately addressed by the Alignment Project White Paper proposals, when combined with the remaining power of the House to reduce or reject any Estimate.

33. **The proposed switch from parliamentary control of gross expenditure (via approval of both net expenditure and of limits on appropriations in aid) to control of net expenditure alone is one of the most significant single elements of the Alignment Project. But it is in practice a change to the formal control regime only. Provided that there is no diminution in the level of information available on retained income, we consider the proposal to be acceptable and the right way forward. The Alignment Project effectively falls without it. We consider that no longer formally approving Appropriations in Aid is a price worth paying for the benefits of alignment. The safeguards proposed are in our judgement sufficient to reassure the House that the switch will not reduce effective parliamentary control over the Executive’s access to resources.**

**Voted and non-voted expenditure**

34. Although the proposals allow for full alignment between the totals visible in each Estimate and the equivalent departmental budget, there will still be a difference in some cases between the money for which new legislative authority is actually being sought and the departmental budget. This is because specific legislation governs the arrangements for the use of certain funds, such as the National Insurance Fund, or because it is constitutionally appropriate for sums to be paid directly from the Consolidated Fund (eg judges’ salaries) rather than this expenditure being voted by Parliament each year. While there would be no change in the legal arrangements in such cases, the proposals will identify clearly the different elements by providing for separate lines to be included in the Estimate distinguishing between the part of the total to be voted and the part which is non-voted. Parliament will benefit from having this additional information alongside the voted totals for information and completeness.

35. **The proposals for distinguishing in each Estimate between those elements which require fresh legislative authority by being voted, and those which do not, would add some extra complexity to the Estimate. But we consider this to be the correct approach, because it achieves alignment without disrupting existing arrangements for the**

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21 *Managing Public Money* (October 2007 HM Treasury) sets out the main principles for dealing with resources used by public sector organisations in the UK. It replaced the long-standing *Government Accounting* (first published in 1915).

22 Alignment Project White Paper paras B3-B6
approval of those areas of funding governed by separate legislation, and Estimates will present a complete picture of a Department’s expenditure.

Departmental Unallocated Provision

36. In order to avoid recourse to the central Treasury Reserve, departments are encouraged to earmark a small proportion of their overall Departmental Expenditure Limits to an unallocated reserve, which can be used to fund unforeseen pressures, while allowing the departments to remain within their overall budgets. Such budget reserves, known as “Departmental Unallocated Provision” or DUP, are not currently voted, but the funding may be moved to a voted programme during the course of the year, through a Supplementary Estimate, when the department is clear what it needs to use the funds for.

37. The proposed arrangement is that any DUP, as part of the overall Departmental Expenditure Limit, should in future be included within the resource and capital elements of the Estimate, thus achieving alignment. The separate cash requirement for the Estimate would, however, exclude the DUP element, so as to ensure that a department does not seek authority to draw down more cash than is expected to be needed. The cash requirement would then subsequently be increased in a Supplementary Estimate as and when the DUP is allocated to specific programmes. The proposal for the treatment of Departmental Unallocated Provision ensures that Estimates include the full budget, and achieves alignment without departments seeking more cash than they require.

Capital expenditure, including capital grants

38. Capital expenditure is currently a poor relation within Estimates. Direct capital expenditure of departments is disclosed, but not voted upon, other than in the cash requirement. “Capital grants” are treated as resource expenditure in Estimates and not distinguished from “current grants”. Capital expenditure of NDPBs is supported by resource grant-in-aid from the sponsoring department, so again is shown as resource expenditure in Estimates. Finally, use of departments’ budgets to support local authority borrowing for capital projects is not included in Estimates at all. All of these items are, however, currently within departments’ capital budgets (Capital DEL and AME).

39. As a consequence, the capital limits which Parliament currently sees in the Estimates (but does not specifically approve), are quite different from the capital budgets with which Government works. Changing the distribution of capital funding between different types of capital can give the appearance in Estimates that capital expenditure is being increased or reduced rather than simply being moved around within budgets.

40. The proposed approach is to align each type of capital in the Estimate with the DEL budgeting treatment. Parliament would in future vote the entire capital budgets of departments and their NDPBs, including capital grants, together with capital budget

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23 Alignment Project White Paper paras C4-C7
24 Alignment Project White Paper paras F4-F7 (capital grants) and paras C16-C18 (Local Authority borrowing)
support for local authority borrowing. This one capital budget would be broken down, as with resource budgets, between lines of activity or objectives.

41. We welcome the proposals for treatment of capital expenditure, which offer the opportunity for much greater clarity and greater parliamentary control over the approval of capital expenditure.

**Provisions**

42. Under accounting rules, departments are required to make a “provision” if there is a current obligation, as a result of past events, where it is probable that it will need to make payments in the future which are currently measurable. Provisions cause a difficulty in that accounting rules rightly require that they be recognised as a cost immediately, even though the cash may not be paid for some time, often years, later. Budgets, on the other hand, need to reflect both the timing of the payment of the cash and the recognition of the liability.

43. At present Government budgets record provisions differently from how they are recorded in the Estimates. The proposal is that Estimates and budgets should move to a common treatment, which recognises in the budget element of the Estimate both the financial liabilities when entered into, and the subsequent cash payment. The cash element of the Estimate would also continue to need to cover the cash costs when paid.

44. The proposals for treatment of provisions are complex and not ideal, as they involve recording obligations in one way in budgets and Estimates when they are entered into, and then later reversing this to record any actual expenditure when it arises in a different way. But they do provide alignment, while retaining incentives for departments to minimise provision creation and allowing government to manage cash payments against provisions. We think that they offer the best solution available.

**Reductions in Estimates**

45. Until recently, Government has, in general, only presented requests to Parliament for increases to previously authorised supply (hence “Supplementary Estimates”). Following a proposal from Government, the Procedure Committee in its 2003-04 Report *Estimates and Appropriation Procedure* recommended that negative Supplementary Estimates be permitted where a Machinery of Government change led to one Department’s Estimate

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25 Provisions are not the same as contingent liabilities, which are either possible obligations arising from past events, or present obligations where it is not probable a cost will be incurred or any cost is not measurable. Contingent liabilities are unaffected by the alignment process. They will continue to need to be reported to Parliament under the arrangements made with Parliament over the years, including as set out in the Government manual *Managing Public Money*.

26 Alignment Project White Paper paras C32-C36

27 i.e. the DEL and AME resource and capital components, as opposed to the cash requirement

28 The proposals envisage provision creation to be an AME cost, and cash paid out to be a cost to DEL and a credit to AME; all of these entries would also be recorded in the Estimate.

29 Prior to financial year 2004-05, negative authorisation was limited to cases where a Main Estimate sought total provision below that already authorised in a Vote on Account, but not yet appropriated.
being reduced, while another’s was increased. This alteration was agreed by the House and introduced shortly afterwards.\textsuperscript{30}

46. Prior to this change, it had been considered that an Appropriation Bill\textsuperscript{31} could not reduce an amount already authorised under a previous Appropriation Act. The maximum amount set in an Appropriation Act had been viewed as an indelible minimum.\textsuperscript{32} But without the ability to reflect both increases and reductions in budgets in Estimates, alignment would not be achieved, as whenever a Government budget were decreased, the Estimate would not follow.

47. The proposal,\textsuperscript{33} therefore, is that reductions as well as increases should be permitted, along with the possibility of a negative initial budget being set (if, exceptionally, a department had a target for income which exceeded its expenditure). The Treasury may need to explore whether there are any possible legal complications in voting negative Estimates (see paragraphs 108-109 below).

48. \textit{On the basis that there is no unacceptable risk arising from the reduction of a budget mid-year, and subject to any conclusions from the Treasury about legal issues, the Committee supports the ability to vote negative as well as positive Estimates in order to enable alignment between Government Budgets and Estimates.}

\textbf{Conclusion on creating alignment}

49. As a result of the above, and other less major changes proposed, the House would move from a situation where misalignments are many and significant to one where they are almost all removed. Whereas, for example, some £129 billion of expenditure is currently in budgets, but outside Estimates, and £86 billion is in Estimates but not budgets,\textsuperscript{34} in future budgets and Estimates would be almost totally aligned. The differences in definitions between capital and resource spending which mean at the moment departments can have capital budgets which are very much greater than those which appear in Estimates, would also be removed.

50. A few differences would remain, but these would either have good reason, or little impact. The most significant relates to the devolved administrations and affects only Ministry of Justice (in relation to the Scottish and Welsh administrations) and Northern Ireland Office Estimates. Government budgets would record spending as it was incurred by those administrations, while the corresponding Estimates would continue to include the cash grants to the administrations. This is necessary to ensure the UK Parliament does not

\textsuperscript{30} Procedure Committee First Report of Session 2003-04 (HC 393); approved by the House 12 May 2004.

\textsuperscript{31} Appropriation Bills give detailed legislative authority to government spending, based on the Estimates (see paragraph 100ff below).

\textsuperscript{32} It had also been considered in the past that the possibility of any such retrospective reduction could have created the risk of Accounting Officers being exposed to an unforeseen reduction of their total budget at a late stage in the financial year for reasons wholly outside their control. This is nowadays more of a technical risk, rather than a serious possibility. See Procedure Committee Third Report of Session 2003-04 \textit{Estimates and Appropriation Procedure} (HC 393) Appendix 2.

\textsuperscript{33} Alignment Project White Paper paras B32-B33

\textsuperscript{34} Figures for financial year 2008-09: see Alignment Project White Paper paras 3.7-3.8
vote budget expenditures which are the responsibility of the devolved administrations. Apart from that the only differences would relate to the treatment of capital grants within Resource Accounts, where a simple reconciliation table would be required; and the occasional Prior Period Adjustment due to errors or omissions, which would need to continue to be included in Estimates even where not required in budgets. Elsewhere the measures would be aligned throughout.

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.

**Future changes in the budgeting system and Estimates**

53. We have said that the opportunity for Parliament to control Government expenditure in the same way that Government itself does is a benefit. Bringing the two together would however mean that Parliament’s system of approval becomes tied to the Government budgeting system—e.g. the current system of DELs and AME which has been in place only since 1998 and which any Government could change again. But at the same time, as the Treasury recognises, the Government is required to obtain the House’s approval for significant changes to the way in which the Estimates are presented.35 For this reason, the Treasury has proposed a new protocol to set out the arrangements governing how future changes to the government budgeting framework would be handled. This is designed to ensure that where changes are proposed then Government and parliamentary controls can be kept in step. Without this, any changes which the Treasury were to propose or make to the budgeting framework would affect only the government system of control and not the legal and parliamentary ones, which would reintroduce undesirable misalignments.

54. The draft protocol is set out at Annex E to the Alignment Project White Paper. Its essential element is to require appropriate consultation with the House, with major changes to be subject to agreement. It proposes that:

- changes involving movements into or out of the budgeting boundary would be subject to parliamentary approval and would (other than in exceptional circumstances) be communicated to Parliament at the latest three months before the start of the financial year, with a response needed at least two months before the start of that year;

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35 *Erskine May, 23rd Edition*, states that “... the Treasury is responsible for the form in which the Estimates are presented. Under established usage, however, important changes in the customary form of the Estimates should not be made without the previous approval of the relevant committees of the House of Commons. In deference to this practice, Treasury alterations in the Estimates are restricted to such rearrangements as involve no question of principle.” (p 863)
changes to the treatment of spending within the budgeting boundary would be notified to Parliament (again, normally at least three months before the beginning of the financial year) but would not need parliamentary approval;

changes to the structure or format of the Estimates would be subject to discussion between the Treasury and the parliamentary authorities (including the NAO, the Public Bill Office and the Scrutiny Unit, at official level), it then being a matter of judgement as to whether parliamentary approval would be needed.

55. We agree that a protocol governing the consequences for the Estimates of possible changes to the Government budgeting process is necessary. We are also broadly content with the proposed form it would take. However, we have two reservations in terms of the detailed arrangements.

• First, we are concerned that the time given to respond to proposals would be very tight. It would not be possible to guarantee that parliamentary committees—or the House itself—can turn proposals round within one month. The Government must accept that, while no doubt all parties will do their best to agree a way forward as quickly as possible, at least two months will normally be needed (and sometimes more).

• Secondly, the protocol is not specific—any more than are the present arrangements requiring changes to the Estimates process to be agreed—as to how the assent of the House is to be obtained where this is necessary. Major changes (as with the current Alignment Project for example, though the same could be true of changes less far reaching than these) would require the assent of the House itself, which—other than by legislation—can only be by resolution of the House. In other cases it may be sufficient for relevant committees to indicate that they are content. Even in the third category identified by the White Paper proposals, it will be very rare indeed that any change can be endorsed entirely at official level.

The precise method, and timing, of assent by the House to any particular proposal will always in practice be a matter to be decided in the light of the specific proposal. In practice, House officials will be ready to liaise with the Treasury on these matters but will always consult with and be ready to advise relevant committees. In cases where the Government does not originally envisage obtaining the direct approval of the House as a whole, but the relevant committees indicate that they consider House approval to be necessary, then the Government must be prepared to accept this.
3 Scrutiny, debate and approval of expenditure and Estimates by the House

Context

56. As noted above, clarity in the content, coverage and measurement of public expenditure is important. But it is only part of the story. The House also needs to have the right information at the right time, and to have effective procedures for examination and approval. This chapter discusses how to turn clearer—well-aligned—financial information into better scrutiny.

57. This was discussed at length in our Recreating Financial Scrutiny Report,\(^3\) which highlighted three basic principles—

- the simplification and alignment of figures is an essential pre-requisite to better financial scrutiny. But it does not, in itself, create it;

- the Government’s financial decisions need to become more transparent, and there needs to be greater opportunity to influence and to hold the Government to account, with the aim of contributing towards an improvement in the Government’s financial decisions and management;

- there should be the opportunity to debate on the floor of the House specific items of expenditure or objectives of expenditure and if necessary vote upon them.

58. The Government response noted that the introduction of the Alignment Project proposals would be an opportunity for these issues to be considered further. In our view, the two aspects—more relevant information and better scrutiny processes—are integrally related as part of the objective, set out in the Governance of Britain Green Paper, of enabling Parliament, and the House of Commons in particular, to hold the Government to account for expenditure.\(^3\) We consider in turn:

- the information required by the House, in terms of detailed content and timing,

- the use of debating time on the floor of the House; and

- the mechanisms for giving legislative authority.

Information required by the House: timing and content

59. Alignment will allow the Estimates to become a much more useful source of information on current budgets. The information will relate to real budget figures and

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\(^3\) Recreating Financial Scrutiny paragraph 13

\(^3\) Cm 7170 paras 103-111
much less effort will have to be spent reconciling them to departments’ actual spending proposals. But the headline figures—those which are subject to precise legal control, reflected in Part I of each Estimate and then in the Consolidated Fund and Appropriation Bills—provide only the most basic information. It is the underlying figures—the longer-term figures for budgets for future years, and the more detailed figures (in Part II of the Estimate) for the current year—in which select committees will often be more interested. And these figures need to come forward at a time at which they are useful to Parliament and can enable effective scrutiny of plans.

**Detailed presentation of information in the Estimates**

60. The Estimates contain a wealth of figures relating to the expenditure being authorised for that year. The main elements receive specific legislative authority (see paragraphs 102-103 below). But the more detailed figures, contained in Part II of each Estimate and in supporting tables and information, provide key information for committees and others in the House to establish what is going on.

61. There are a number of changes of detailed format and information proposed in the Alignment Project White Paper, which also offers a number of illustrative options for some aspects. These matters have been examined in more detail by the Scrutiny Unit and are discussed in an Annex to this Report. We endorse the specific proposals put forward in the Annex to this Report (paragraphs 4 and 6-10) for the detailed form of Part II and supporting tables in future Estimates following Alignment.

**Estimates memoranda**

62. Since 2004, departments have been required to send to their relevant select committee a memorandum, accompanying each estimate or Supplementary Estimate, setting out the changes sought and how those changes relate to public spending totals and departmental targets. This followed a recommendation of the Liaison Committee in November 2003, and was further supported by the Procedure Committee in its February 2004 report *Estimates and Appropriation Procedure*, and developed further in the Liaison Committee’s November 2006 report on *Estimates memoranda*. The development of these Estimates memoranda has considerably enhanced the ability of Parliament to understand and hence scrutinise and challenge expenditure proposals put forward by departments.

63. Further work needs to continue on developing these memoranda. Despite the detailed guidance available, the quality of the memoranda at present varies significantly from department to department. With the advent of alignment, the memoranda should be able to focus more on the purposes of the changes and the justification for them, rather than explaining the technicalities of differences between expenditure frameworks.

64. We recommend that revised guidance is developed—in consultation between the House of Commons committees and the Treasury—on the content of the Estimates.
memoranda post-alignment, so that the memoranda can best serve the needs of Committees in their consideration and questioning of Estimates. The focus should be on providing information not contained in the Estimates themselves—specifically explaining the purposes and justification for spending plans proposed, with particularly significant changes, new programmes and larger areas of spending being a key consideration.

65. Hitherto, while some committees have published the Estimates memoranda (generally on the internet rather than in print), many have not, which means that the information contained in them is not available to others in the House. **We recommend that henceforth all select committees routinely publish the Estimates memoranda received.** This would serve a number of purposes: greater openness and public access, enabling departments to see examples of best (and poor) practice, and providing a readily available explanation for particular Estimates for those looking back.

**Timing of publications of Estimates, Annual Reports and Accounts**

66. Under present arrangements, the Estimates are published around 5 weeks after the Budget, i.e. around May, a month or so after the year to which they relate has started. Departmental Annual Reports containing figures and information not only for the current year but for one or more years beyond, are meant to be published in May/June. The Resource Accounts, giving outturn information against the Estimates agreed the previous year for the year just completed, are intended to be published by July. There are thus 3 separate publication events, with each produced as separate documents, to different timescales. Under the Alignment Project, with the departmental budgets, Estimates and accounts all prepared on a largely similar basis, it is envisaged that Annual Reports and Accounts will be published together, in a single volume for each department, in June.

67. The Treasury also envisages that—other than to address exceptional circumstances—there should be only one set of Supplementary Estimates (in January each year), in place of the present system of presenting Winter Supplementary Estimates (usually in November) and Spring Supplementaries (in February).

68. Overall, the proposed old and new systems will be as follows, in terms of timing of publications:

<table>
<thead>
<tr>
<th>Month</th>
<th>Present system(39)</th>
<th>New system</th>
</tr>
</thead>
<tbody>
<tr>
<td>April/May</td>
<td>Main Estimates</td>
<td>Main Estimates</td>
</tr>
<tr>
<td>May</td>
<td>Departmental Annual Reports</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>(Combined) Departmental Annual Report &amp; Accts</td>
<td></td>
</tr>
</tbody>
</table>

(39) There are already an increasing number of exceptions to this, with some departments publishing combined Annual Reports and Accounts, following the moves to “faster closure” (ie earlier finalisation) of accounts.

(40) Table simplified for convenience. The publication slots are approximate and the Table omits, for example, Summer Supplementary Estimates (which, if needed, are generally presented around June but are approved by the House at the same time as the Main Estimates) and the Votes on Account (taken with the Winter Supplementary Estimates).
69. The possibility of including the Estimates in the same volume as the Departmental Annual Report and Accounts had been considered, but this was considered impractical since it would have the effect of the Main Estimates not being published until an unacceptably long period had elapsed after the beginning of the financial year to which they relate. In our response to the Treasury’s provisional proposals in November, we had stated that the House would expect a clear statement of proposed budgets/estimates to be “published early in the financial year (or, even better, before the beginning of the year)”. The Treasury has indicated that it does not consider it possible to bring publication of the Estimates significantly forward routinely to before the beginning of the financial year, regarding the timing of their presentation as being determined by the Budget,41 since the Budget may contain adjustments to the expenditure plans agreed at a late stage which then need to be incorporated into the Estimates. We note however that, before the introduction of resource accounting and budgeting in the late 1990s it was standard practice for the Estimates to be presented no later than March. We also note that, in the current year, the Estimates were not tabled until 18th June, which can surely be regarded neither as right nor as unavoidable.

70. **We repeat that it would not be acceptable for the publication of the Main Estimates to await publication of the Departmental Annual Report and are grateful to the Government for accepting this point. Indeed we consider strongly that the Main Estimates ought to be published as close to the beginning of the financial year to which they relate as possible (indeed in an ideal world they would be published before the beginning of the year, as was previously the case). We ask the Treasury to commit to reducing the present 5 week gap between the Budget and the presentation of the Main Estimates.**

71. The bringing together of Departmental Annual Reports with Accounts is a logical consequence of alignment and should help to ensure that consistency is achieved between the two elements of a combined publication. It is a move which mirrors practice in the private sector.

72. From the Committee perspective the main issue with the proposal is one of timing. Departmental Annual Reports have traditionally been published in May. Although, with faster completion of the accounts being achieved increasingly across Government, Resource Accounts have been appearing earlier and earlier, most are published during July, only just before the summer recess. The incorporation of NDPBs into the Accounts will create fresh challenges, which will be unlikely to make it easier for Accounts to be

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produced much earlier. The Treasury have suggested mid-June as a target date although this is likely to need to be phased in.

73. As a minimum, therefore, a combined document is likely to delay the publication of the Departmental Annual Report element by at least a month. Where there is a delay to the Accounts, then even this deadline would not be achieved. The NAO had expressed concerns about the tying of the Accounts to early deadlines, where this was solely for the purpose of allowing their publication with other documents. The Treasury has agreed that where necessary a separate Accounts document could be produced in a given year for a particular department, rather than delay the Annual Report component too.

74. There is a further issue, in that some select committees prefer to examine and hold an evidence session on their department’s Annual Report before the summer recess. Publication of the Report in late June (in order to allow combined publication with the Accounts) could leave insufficient time for a committee to prepare for such a hearing. The Treasury has in principle agreed that publication might continue as a separate (and earlier) document if a particular select committee strongly preferred this.

75. The Committee, in principle, supports the proposal to combine Departmental Annual Reports and Resource Accounts, to be published in June. However, as the Alignment Project White Paper acknowledges, if a committee feels strongly that it should continue to take evidence on the Annual Report before the summer recess, it would be possible to retain separate publication of Reports and Accounts in particular cases. Departments should seek the views of their select committees as to whether they are content with the Annual Reports and Accounts appearing as combined documents, including the delay in publication of the Annual Report element. Where combined documents are planned, Departments should agree a planned timetable for publication with the NAO and the relevant select committee, including a cut off point after which, if the Accounts were not ready in time, separate publications would appear.

**Enabling better scrutiny of spending plans for future years**

76. This Committee’s *Recreating Financial Scrutiny* Report sought to create a framework whereby the expenditure plans of government could be better scrutinised in advance of their being voted upon. At present, formal plans for expenditure for the year are set out in Main Estimates which are sometimes not published until May, and are not voted on until July. This is a procedure systematic use of which dates back to the introduction of annuity in the 1860s, but which undermines the ability of Parliament effectively to scrutinise or challenge the binding expenditure totals and is out of step with arrangements in other countries where budgets are normally voted on before the year starts.

77. We have already recommended above (see paragraph 69) that the Treasury should work towards publishing the Main Estimates much sooner after the Budget, so that
Parliament is aware of detailed spending plans as close to the beginning of the relevant financial year as possible. But the publishing of the detailed Estimates figures, which ultimately form the legally binding control figures, only after the beginning of the financial year would matter less if meaningful provisional figures were available earlier. In practice, this is not currently the case. While Departmental Annual Reports and Spending Reviews already provide information on spending plans before the year starts, the form in which the figures are published, due to current misalignments, bears little resemblance to the Estimates when they are presented, even if the plans themselves have not altered.

78. Alignment offers the opportunity to make better use of this advance information on spending plans. Departmental Annual Reports and Accounts published each June or July will continue not only to look back, but to look forward as well, and the departmental “core tables”—a requirement of each department’s report—will show the provisional spending plans for as far ahead as they have been made (which will depend on the timing in relation to the spending review cycle). Crucially, the format of these will in future mirror that of the forthcoming new year Estimates, meaning there will be the opportunity for departmental select committees to examine these plans in advance of the year start, compare them with past spending, as well as to compare them at a later point with the actual Main Estimates when they are finally presented, possibly even influencing their content in the process. They will thus in effect represent a draft Estimate for the coming year. This should be a significant step forward towards the requirements set out in our Recreating Financial Scrutiny Report and reiterated by the chairman of the Committee of Public Accounts in his Committee’s response to the Treasury’s November 2008 memorandum on the Alignment Project.

79. As already noted, the timing proposals in the Alignment Project White Paper do not provide for the full detailed information about spending plans, contained in Part II of the Estimate, to appear significantly in advance of that financial year. Nonetheless the proposals do allow for significantly more information relating to the figures to appear nearly a year in advance, on a basis which is the same as Parliament will be asked to approve. Committees will therefore have a much better opportunity than hitherto to undertake real scrutiny of future years’ spending plans. We would encourage individual committees to examine future spending plans contained in Annual Reports.

80. At present most departmental select committees already do this in some form, but we note that the opportunities for other Members of the House to be involved in the process are limited to the submission of written contributions to the committee (likely to be rare) or to attending any public hearing as a member of the public. By contrast, where an item of European legislation has been referred by the European Scrutiny Committee for debate in a general committee, then any Member of the House can participate in the ensuing European Committee session both in questioning the relevant Minister and in debating on the proposal. We consider that there is a case for examining ways of providing greater opportunities for all Members to participate in consideration of an Estimate or of
future spending plans in an appropriate committee forum, and invite the Procedure Committee to look at ways in which this might be achieved. Possibilities include:

- for a departmental select committee to be able to refer the Estimate or spending plan for examination and debate in a general committee, under a procedure comparable to that for European legislation

- for other members of the House to be allowed, at the invitation of a departmental committee, to participate in departmental committee hearings on Estimates or spending plans.

81. The Alignment Project White Paper also refers to the possibility that departments might prepare “mid year” Departmental reports. These could draw together a provisional view of spend and performance for each department during the current financial year, an update on provisional spending allocations for the forthcoming year, together with the possibility of information currently in the autumn performance reports, the Supplementary Estimate, and an interim set of accounts. These reports would offer further opportunities to scrutinise departmental expenditure performance and plans. We recommend that the Treasury takes forward the plan for developing ‘mid-year reports’, perhaps piloting it initially with a few departments.

Opportunities for debating future spending proposals

82. At present, the time specifically made available for the consideration of Estimates is set at three days. On these days, the Liaison Committee may select particular Estimates for debate, which it does mostly on the basis of identifying Estimates which provide an opportunity for debating particular select committee reports (ideally, reports dealing with subjects which have financial implications). These debates will often be policy debates as much as expenditure debates (although, as we have noted, this distinction is to some extent a false one).

83. Debates on Estimates Days have to be seen in the context of a number of factors:

- the opportunity for debate on select committee reports provided by these Days sits alongside the additional opportunities for select committee debates in Westminster Hall;

- the provision of a number of days’ debate on the Budget proposals and on the Second Reading of the Finance Bill, which provide an opportunity for debate on

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47 Cm 7567 p 34 (para 8 37.3); at present, departments publish Autumn Performance Reports, generally in December, which contain information on progress against Public Service Agreements and Departmental Strategic Objectives, but do not contain preliminary information of out-turn against current year spending plans.

48 Estimates Days were introduced in 1982, following the report of the Select Committee on Procedure (Supply). The former ‘Supply days’ were abolished, and were replaced by a system involving 20 Opposition Days, and 3 Estimates Days, the House formally recognising the way in which the days historically set aside for considering expenditure had long been in practice days for opposition parties to nominate business.

49 These debates however take place on non-amendable and non-divisible motions.
general economic issues including the public finances (but not on specific expenditure proposals);

• the absence of any time set aside for debating Government (bi- or tri-ennial) Spending Reviews;

• the undertaking by the Government to arrange business so that, using Government business slots on the floor of the House and in Westminster Hall, and taking into account the selection of business by the Liaison Committee for select committees debates, the annual objectives and plans of the major government departments can be debated each year.50

84. With the reduction in the number of occasions of presentation of Supplementary Estimates51 from two to one per year, and with the alignment of the budget and Estimates figures, there will be the opportunity to review the use of the three days. In this section we consider whether the time spent on Estimates Days might usefully be spent on kinds of motion other than specific Estimates, and the number of days available.

The kinds of motion which may be debated

85. As noted above, the business to be taken on Estimates Days is at present limited to approval of specific Estimates.52 The House can divide on approval of the Estimate, or on a proposed reduction of an Estimate, though such divisions have not been frequent in recent years (and no reduction has been agreed for more than 80 years). The recommendation of an Estimate for debate by the Liaison Committee can be (and almost invariably is) linked to a specific subject matter—eg ‘road transport’ or ‘dental services’—which limits the scope of debate enforced by the Chair but does not formally tie any decision of the House to the narrow topic.

86. There is thus a range of possible debates or motions which the House might like to debate which cannot formally be debated under the current mechanism, some of which were raised in our report of last year, reflecting in turn the recommendations of the Procedure Committee in its 1999 Report Procedure for debate on the Government’s expenditure plans.53 These include in particular:

• motions to propose increases in expenditure (whether or not offset by decreases elsewhere)

• motions to consider, or to approve or propose amendments to, the spending allocation for a future year.

50 Written Ministerial Statement 14 July 2008 Official Report col 5WS. This arose from the Governance of Britain Green Paper Cm 7170 (para 103ff), and a subsequent report by the Modernisation Committee Second Report of Session 2007-08 Debating departmental objectives and annual reports (HC 530).

51 Not counting Summer Supplementaries, which are taken at the same time as the Main Estimates

52 Including Supplementary Estimates and Votes on Account

53 Sixth Report of Session 1998-99 (HC 295)
87. Motions of these kinds would be different from the present motions to approve or reduce Estimates in the important respect that they would have no binding legal effect—in the case of Motions to propose increases in expenditure because the power of financial initiative rests with the Crown, and in the case of future spending plans because these are purely planning concepts with no legal significance. If the House were to recommend a system allowing debates on Estimates Days on such Motions, this difference would have to be reflected in the way such decisions impacted on subsequent business (the formal proceedings on Consolidated Fund (Appropriation) Bills for example). But this need not stand in the way of such debates being held. The impact of such debates, and of any resolutions arising from them, would be in the political pressure they would place on the Government.

88. Motions to consider future spending plans: The Committee has already made clear its view that the House would benefit from earlier sight of, and consideration of, departments’ future spending plans in order to inform, scrutinise, challenge and debate them before they are finalised. We have also noted that the proposals put forward by the Government would give select committees the opportunity to scrutinise departmental spending plans for the following year, because the information in Departmental Annual Reports will be presented on the same basis as the coming years’ Estimates. It is a logical next step from this that the House should be given the specific opportunity to debate the future plans, or individual programmes within those plans, whether for one or more years ahead.

89. Motions to propose increases in expenditure: To go further in giving real impetus to the process of effective scrutiny, the House could be given the opportunity to consider specific propositions to recommend increases in future spending plans or programmes. While in theory such motions could even apply to the current year, such a step could be seen as infringing the important principle that the power of financial initiative rests with the Crown. But where such motions relate to future years’ spending they would be purely declaratory of the House’s opinions rather than having legal effect and would not infringe the principle of Crown initiative.

90. Motions simply to consider future spending plans could come within the terms of Standing Order No 24B for general debates on a motion of the form “That this House has considered the matter of the spending plans for [the Department of Administrative Affairs] for 2012-13 and 2013-14, as set out in Cm XXXX”. Such motions would be capable of being divided upon but would not be amendable.

91. A step further would be to allow substantive motions. Motions to propose increases in expenditure would anyway have to be of this type. Such motions would be along the lines “That this House considers that the spending plans for the Department of Administrative Affairs for 2012-13 fail to take sufficient account of the need to address the impact of climate change” or “That, in the opinion of this House the budget for the Department of

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54 It would also be difficult to integrate with rest of the approval process (it would be difficult then to proceed with the Estimate itself, with the Government having to bring forward another Estimate or Supplementary Estimate) and with the actual spending process (since there is no vehicle for forcing a government to spend up to the maximum budget approved by Parliament).
Administrative Affairs for 2012-13 should be increased by £xbn in respect of the transport infrastructure programme”.

92. We consider that if the House’s ability to scrutinise expenditure is to be effective it needs to have the opportunity to examine and debate future expenditure plans, on the floor of the House, well before the year to which they relate has begun. By then it is generally too late to effect any change. We reiterate our conclusion last year that as presently conceived “Estimates Days have failed to achieve their potential because of the artificiality of the link with Estimates, which in their present form relate to decisions already taken, are confined to a single year, do not cover the whole of a Department’s expenditure and are in themselves uninformative”. The last two objections — relating to the coverage and informativeness of the Estimates — will be partially addressed by the Alignment Project but the other objections can only be addressed by a change in the kinds of motions which can be debated. The House must be aware in making any such change that it would be moving towards debating a less effective proceeding in place of the time devoted at present solely to legally effective (binding) proceedings. It would remain vitally important that the power of the House to approve, reduce or reject an Estimate or Estimates for the current year should remain at the heart of the available procedures, with debates of the new form being only an option, for use at the Liaison Committee’s discretion.

93. We therefore recommend that, in addition to the ability to recommend for debate on an Estimates Day a particular Estimate or Supplementary Estimate which has been laid before the House for approval (as now), the Liaison Committee should have the power to recommend for debate any Motion which has been tabled to:

- Consider a department’s spending plans or programmes for the next financial year (or the next two financial years, if available) on a non-amendable motion
- Propose an increase in the spending plans for a future year or express other opinions on individual departments’ future spending plans (or programmes) on substantive (and therefore amendable) motions

Since (unlike with Estimates) in either case no such Motion would have been tabled by a Minister, the motion would have to be tabled by another Member. While this could always be a motion tabled by any individual Member or group of Members, in practice the Liaison Committee might generally be expected to look first to any such Motions which have been tabled by the chairman and members of a select committee.

94. We emphasise that this proposed change should not be seen as diminishing in any way the importance of retention of the existing power of Members, through the Liaison Committee, to bring about debates (and potentially divisions) on specific Estimates which are outstanding and, theoretically, to reduce or reject them. The fact that Members do not at present choose to use the existing opportunities to force divisions on Estimates, as they can, in no way means that the power is unimportant or undervalued. We would expect the majority of debates on Estimates Days to be on specific Estimates as now.

55 Recreating Financial Scrutiny paragraph 78
Number of days for debate on expenditure matters

95. Since 1983 the number of days available for consideration of Estimates has been set at three. The time available on each of the three Estimates Days per year is generally divided by the Liaison Committee into two, thereby allowing for between three and six debates per year—generally two on the Main Estimates and two on each of the Winter and Spring Supplementaries (though this division is not mandatory).\(^56\) Under the proposals in the Alignment Project White Paper (although it is not a direct consequence of Alignment), there will usually be only one set of Supplementary Estimates. The reduction in the number of Estimates ‘events’ has no impact on the need for Estimates Days, and (subject to paragraph 96 below) the Liaison Committee should be free, as now, to decide whether to allot 2 days to consideration of Main Estimates and one to the Supplementary Estimates or vice versa.

96. But it flows from our earlier recommendation that the Liaison Committee should be free to recommend debates on future spending plans, to take place on Estimates Days, that:

- there would be no need for Estimates Days only to be taken when there are outstanding Estimates or Supplementary Estimates waiting to be approved by the House

and

- that there is potentially a higher amount of business to be taken on those days (since there is a wider range of business eligible).

97. We consider accordingly that the number of Estimates Days should be increased to five. This would be commensurate with the Government’s undertaking (referred to at paragraph 82 above) to manage business so as to provide time during the year for debates on a range of departmental objectives and plans, since the extra days (which would in practice be allotted to debates on departments’ future expenditure plans) would come within this process.

98. We also repeat our view that the Government should give an undertaking to provide a day’s debate on (i) the outcome of each Spending Review and (ii) each Pre-Budget Report. As we noted in the Recreating Financial Scrutiny Report it is totally unsatisfactory that such a fundamentally important announcement as the outcome of the Comprehensive Spending Review “was discussed for only an hour and a half in the Chamber” (on the Chancellor of the Exchequer’s oral statement only, with no actual debate at all) and that this “made a mockery of the House’s right to scrutinise government expenditure”.\(^57\) This is not a matter for inclusion in the Standing Orders but a matter of business management.\(^58\)

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56 In addition, Standing Orders allow for one of the 3 Days to be split into two half days taking place on different days.

57 Recreating Financial Scrutiny para 66

58 See also Treasury Committee Second Report of Session 2008-09 Pre-Budget Report (HC 27) para 161 and Government response HC (2008-09) 431
Supply procedure and legislative authority for Government expenditure

99. Statutory authorisation is required for the expenditure in respect of which Estimates are laid before the House of Commons. The process by which the Estimates are given that authorisation is referred to as Supply procedure, and will be affected by the Alignment Project proposals.

Current procedures

100. Statutory authorisation begins with the presentation of Main, New or Supplementary Estimates, Votes on Account or Excess Votes to the House of Commons. The House then considers motions for ‘Supply resolutions’ to approve the Estimates in the name of a Minister of the Crown. These motions include both those selected for consideration on select committee Estimates Days (which may be amended) and the ‘roll-up’ motions in which the rest of the Government’s net expenditure and limits on retained income are authorised en bloc. These roll-up motions are decided at the moment of interruption without debate or the possibility of an amendment being moved.

101. These resolutions form the basis upon which Supply bills are then brought in. Supply bills—at present normally three per year—give statutory authority for the use of resources and the payment of money from the Consolidated Fund. Under Standing Order No. 56, such bills may not be debated or amended, and second and third reading are put forthwith successively. The basis for the non-amendability of the bills at this stage of the supply process is that the House has had the opportunity to debate (and amend, in the sense of reducing the amounts provided for) the content during debate on the individual Estimates selected for debate on Estimates days.

102. At present two of the three Supply bills each year are also ‘Appropriation’ bills. As well as the statutory authorisation for the total amounts to be spent by the Government, such authorisation is also required for the ‘appropriation’ of specific amounts of that money to particular services and purposes. Such authorisation is exercised (under the current Estimates format) in relation to one or more ‘Requests for Resources’ for each Estimate, covering different areas of expenditure.

103. Appropriation bills are also the means by which parliamentary control is formally exercised over gross expenditure: as well as setting limits on net expenditure, the bills set upper limits to the amounts that departments may retain as income either as ‘Operating Appropriations in Aid’—income arising from activities within a particular Request for Resources—or as ‘Non-operating Appropriations in Aid’—capital-related receipts such as loan repayments or asset sales. The effect of such limits on income in conjunction with the net expenditure limits is to set limits on gross Government expenditure.

104. Although the House of Lords passes Supply bills, the House of Commons in effect exercises exclusive control over the authorisation of ordinary Government expenditure,

59 It also encompasses the process by which approval is given to the limits on numbers of personnel in the three armed services, but this is not touched on by the Alignment Project White Paper proposals.
since Supply bills are not printed or debated in the Lords. They are also always certified as Money Bills under the Parliament Act 1911 and so may be presented for Royal Assent without the agreement of the Lords if that House does not give its assent to them within one month of their being sent to the Lords.

**Implications of the Alignment proposals**

105. As they stand, the Alignment proposals would require changes both to the timing and content of both Supply resolutions and the legislation which is consequent on the resolutions. The reduction in the number of Supplementary Estimates opportunities implies that the pre-Christmas resolutions and Consolidated Fund Bill would no longer be required, as the proposed single set of Supplementary Estimates after Christmas would replace the Winter and Spring Supplementary Estimates. The timing of this set of Estimates (earlier than the present Spring Supplementary) would allow the Votes on Account for the forthcoming financial year to be authorised in the associated Appropriation Bill before the end of the financial year. The Main Estimates\(^60\) would not, however, undergo any change to present timing as a result of Alignment. They would give rise, as now, to resolutions of the House and an Appropriation Bill.

106. The content of both Supply resolutions and bills would alter. At present, bills give approval in respect of each Estimate to:

- one or more Requests for Resources
- a net resource requirement
- a limit on operating Appropriations in Aid in respect of each Request for Resources
- a limit on non-operating Appropriations in Aid
- a net cash requirement.

Unless a particular Estimate is the subject of an Estimates Day debate, in which case a motion relating to that Estimate is voted on separately, ‘roll-up’ motions for resolutions of the House give approval en bloc to the totals of these figures across all the Estimates.

107. Under alignment, the House would instead be asked to give formal approval to the following in respect of each Estimate:

- Resource DEL (Departmental Expenditure Limit)
- Capital DEL
- Resource AME (Annually Managed Expenditure total)
- Capital AME

\(^60\) and any Summer Supplementary Estimates
• Net cash requirement.

108. The House would no longer set limits on appropriations in aid in Supply Bills. It would therefore no longer exercise formal control over gross as well as net expenditure. We have discussed the principle of this change earlier in this Report, and have considered it to be acceptable. There might be a need to amend the Government Resources and Accounts Act 2000 and the House of Commons Administration Act 1978 to remove their requirements to set a limit on income.

109. The logic of the Alignment Project is that in future the House could be asked to agree to negative Supplementary Estimates in order to reflect in-year budget changes agreed between departments and the Treasury. At present a reduction in a previously agreed Estimate may be proposed to the House in a Supplementary Estimate only if it arises because of a transfer of functions between Estimates.

110. Alignment would also imply that, in rare cases, negative Estimates could be presented in respect of a department whose budgeted income exceeds its expenditure. At present, the Treasury sets the level of net resources and appropriations in aid in a department’s Estimate so that, in cases where it would otherwise receive more income than it spends, the figure for net resources is never less than £1,000 and any excess income is treated as Consolidated Fund Extra Receipts. But alignment with budgets would end this practice, and so supply resolutions and bills might in future need to set an obligation for a department whose income exceeds its spending to surrender resources and/or pay cash into the Consolidated Fund.

111. If the basic principles of the Alignment Project are agreed, then the precise forms that Supply resolutions and bills would need to take under alignment will need to be the subject of consultation between the House authorities and Parliamentary Counsel and the Treasury. Such consultation could also explore the scope for substantial simplification of the texts of supply legislation, if this can be done without altering their legal effect. It might for example be possible for supply bills in future no longer to replicate the various texts and limits set out in the Estimates, but instead to give legal effect to particular sections of the Estimates themselves.

Standing Orders

112. Standing Orders at present provide for the nomination of Estimates Days by the Liaison Committee in SO No 145(3), for the appointment and conduct of business on Estimates Days under SO No 54, for the voting of Estimates under SO No 55 and for proceedings on Consolidated Fund (Appropriation) Bills under SO No 56.

113. If the Alignment Project and the proposals in this Report are agreed, then changes to Standing Orders would be needed in order:

61 It would also be possible as part of this exercise for consideration to be given to responsibility for the actual process of drafting Consolidated Fund Bills. At present, this highly technical exercise is carried out for largely historical reasons from within the House service by the Clerk of Supply. It may in future be more appropriately carried out by Parliamentary Counsel—who draft all other government bills—in consultation with the Clerk of Supply (who would retain responsibility for overseeing the proper transaction of supply business in the House).
• to reflect a power for the Liaison Committee to propose different kinds of business to be taken on Estimates Days

• for Estimates Days to include the additional kinds of business (and possibly be renamed accordingly)

• for the number of Estimates Days to be increased

• for the questions on outstanding Estimates to be subject to different date deadlines, and for the existing reference to authorising amounts and limits on appropriations in aid to be removed.
4 Conclusions

114. This Report looks at the relatively narrow proposals in the Treasury’s Alignment Project White Paper. We have built on these proposals to recommend significant—potentially dramatic—improvements for consideration of expenditure by the House and by its committees. But the House may wish to return to these questions as it considers changes to its wider procedures and powers. We believe that there is scope for further improvements to a system which may still be inadequate to the task of holding the Executive to account in its stewardship of public resources.

115. In its White Paper the Treasury has put forward plans for major reform of the way expenditure figures—expenditure plans for future years and Estimates for the current year which require the approval of the House—are presented to Parliament. We believe these have the potential to be of major assistance to the House in its work, as well as to others who follow these matters. Above all, they will:

- make the Government’s requests to Parliament for spending authority easier (though not easy) to understand; and
- mean that the sums that Parliament approves are on the same basis as those actually used within Government for setting budgets.

116. This will enable better scrutiny by individual Members, by the House’s select committees and by other interested parties. But it will not in itself deliver better scrutiny and control by the House as a whole. That will require also more effective procedures for consideration of expenditure proposals on the floor of the House. We propose that:

- the scope of debate on the days set aside for these matters be broadened to allow genuine examination of future spending plans, allowing proper scrutiny before plans are almost irretrievably firmed up in the Estimates; and
- two additional days’ debate be set aside for formally debating Estimates and spending plans (in accordance with the Government’s own initiative to provide opportunities for debates on these matters).

117. Provision of clearer information and the availability of better procedures will not lead to a major change in the House’s approach, with frequent debates specifically devoted to discussion of actual figures and sums of money, as some commentators appear to have in mind when they call for improved scrutiny of expenditure. As we have said in this Report, the House scrutinises expenditure all the time, as an integral part of its general scrutiny of policy, through parliamentary questions, statements, general debates and legislation. And Members already have the power, under existing Standing Orders and procedures, to precipitate debates and votes on individual Estimates, and have the power to force reductions in Estimates.

118. While it is understandable that these formal powers are rarely invoked, it is nonetheless vital that the powers are available and effective. But we consider that the current needs of the House require an extension of the procedures to provide for wider, but
nonetheless focussed, opportunities to examine future plans as well as current Estimates. We think that the proposals in the Alignment Project White Paper, together with the proposals in this Report, will help to provide such opportunities.
ANNEX

Detailed changes to Estimates format proposed by the Committee Office Scrutiny Unit

1. As explained in Chapters 2 and 3, the Alignment Project will involve major changes in the figures which are included in each Estimate (to align with budgets) and in how these figures are set out in the key introductory part (Part I) of each Estimate and subsequently in Consolidated Fund ( Appropriation) bills. But detailed breakdowns of the figures—including information on the attributions of overall sums to particular programmes etc—are in the further information contained in Part II of the Estimate and accompanying tables. While these figures do not form part of the legal controls voted by the House, they are key information for committees in their scrutiny work and in underpinning the consideration of the House on the overall control figures.

2. The presentation of these figures and information is discussed at Annex D to the Alignment Project White Paper, including a mock up of a possible new format of a complete Estimate following alignment, with in some cases alternative options. The Scrutiny Unit has examined a range of issues posed by the Treasury together with other points arising, coming to a number of conclusions as to how the information in Part II and the supporting tables might best be presented. These are illustrated at Table A (for the Part II information) and Table B (for the supporting tables of information) below.

3. The new format would include the following changes, all proposed in the White Paper, which would either broadly maintain or add to the levels of existing information provided in Estimates:

- in Part II, a net total column for Capital would be required, in order to reconcile to the new voted capital totals;
- in Part II, the reconciliation of resource to cash would require amendment, because of the proposed changes incorporating NDPB spend within the resource and capital DELs, and the removal of the cost of capital charge;
- in Part III, the table of Extra Receipts payable to the Consolidated Fund would need to be amended, reflecting the need only to show receipts which are outside of the DEL and AME budget totals;
- the forecast operating cost statement would also need to be altered to reconcile to the new voted totals;
- the Explanation of Accounting Officer responsibilities would be altered to reflect the addition of NDPB Accounting Officers’ responsibilities for expenditure within the Estimate totals;

62 We do not comment here on the Part I information, containing the key figures subject to control by the House, which reflect the changes discussed in the main body of the Alignment Project White Paper and this Report.
• the analysis of operating and non operating Appropriations in Aid would be combined in a new table—Analysis of Income—which would provide considerably more information than at present. Instead of an analysis limited to expenditure type, the proposal is that the analysis would be both by expenditure type and expenditure line, and this would be broken down between Resource and Capital (the current distinction being between ‘operating A-in-A’, for resource income, and ‘non-operating A-in–A’ for capital receipts);

• the Non-Departmental Public Bodies note would be amended to reflect the inclusion of their expenditure within voted limits, but would still also provide information on grant in aid (part of the Net cash requirement). For the first time within Estimates, there would be a simple comparison provided between cash support to NDPBs and their expenditure plans;

• prior period adjustments would be included as a note where they relate to accounting standards changes. This is a consequence of the proposal to remove the requirement to vote these types of changes in a subsequent year. This provides better and more detailed information with no effective loss of control.

4. The above proposals provide appropriate detailed information, with no effective loss of control. It is proposed that they are adopted.

5. In addition a number of suggestions and options are put forward to improve layout and aid clarity and reconciliation, discussed in the following paragraphs.

6. In Part II, space limits the number of columns which can be included if visual clarity is to be retained. There is a choice between whether the two prior year resource columns be retained; or these should be replaced by a single year of each of resource and capital. The Scrutiny Unit proposes that the single year option, giving figures for resource and capital, be chosen. The inclusion of capital and specific voted totals for the current year makes it sensible to change to this option to give a consistent comparison, but with a single year. This gives a consistent approach between resource and capital totals. The additional information on capital for the prior year is likely to be more useful than resource information for the year before last, which will in any case continue to be provided in the core tables of the Departmental Annual Report;

7. Similarly, there is a choice in Part II between the retention of the separate “other current” and “grants” columns; or the merger of these two columns, and the addition of separately identified administration income, and administration net totals. The Scrutiny Unit proposes the merger option with the additional information on administration cost limits. This would mean Part II would include, for the first time, a separate total for net administration costs, broken down into expenditure and income, and between Estimates lines. There would be a small loss of information—the distinction between “other current” and “grants”. If this were thought to be of key importance in particular cases, the lines of expenditure could be split in order to continue to provide it, but in most cases it would be of limited value, particularly as the figures are in any case estimated breakdowns, and departments are quite free to switch between the headings without providing any explanation. The advantage of including administration income and net expenditure,
separate from other (programme) income and expenditure would be that there would be
clear net expenditure column totals for administration and programme in Part II of the
Estimate—information which is currently impossible to derive from these tables because
only gross expenditure is separated between administration and programme. Unlike the
existing headings, administration is a limit to which departments are required under
budgeting rules to keep within, and separate identification can help verify efficiency and
aid read-across with other documents such as the Annual Report. The layout proposed
differs slightly from the option B proposed in the White Paper, as it makes more sense to
group column headings for administration and programme together. The proposed layout
is shown at Table A.

8. There is also a choice in Part II between retaining the current “central government
spending” and “support to local authorities” sub-headings, which mean that similar
spending must be separated and repeated under each heading required rather than be
shown alongside; or removing this requirement. Removal would enable spending to be
shown in the same level of detail as now, but more logically grouped, and would mean
easier read-across with the figures shown in Departmental Annual Reports, which do not
show such sub-headings. For these reasons it is proposed that the specified sub-headings be
removed and the section lines be re-ordered accordingly.

9. There is a further choice of retaining separate forecast operating costs and reconciliation
tables; or merging these tables (with no loss of information). This choice arises partly
because alignment much simplifies the reconciliations—there should be none in future
required for capital spending at all. It is proposed that the forecast operating cost and
reconciliation tables be merged.

10. The Scrutiny Unit has also noted that several tables could be removed as they would
become superfluous under the proposals. These are:

- Reconciliation of capital expenditure between Estimates and Budgets. This would
  no longer be required post alignment as the totals will be the same;

- Departmental Expenditure Limits and Administration budgets. This table would
  no longer provide any additional information because of alignment, so becomes
  unnecessary. DEL and AME totals would be shown in part I. The administration
  budgets would be shown in the Forecast Operating Cost Statement and, if the
  option proposed above is adopted, the Part II subhead detail.

- Cash which may be retained to offset expenditure. This is essentially the total
  forecast cash equivalent of the income figure in Part II. In practice it has almost
  always been exactly the same figure as in Part II in the past and this is expected to
  continue. Changes in debtors and creditors relating solely to income are difficult to
  predict with accuracy many months in advance, and the income figure almost
  always provides the best forecast available for cash receipts. If necessary, any
  known variation could be set out as footnote to the Analysis of Income note, to
  avoid any potential loss of information.

It is accordingly proposed that the following supplementary tables be no longer included:
Reconciliation of capital expenditure between Estimates and budgets, Departmental
Expenditure Limits and Administration budgets, Cash which may be retained to offset expenditure.
### Table A  Part II: Subhead detail

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<th></th>
<th>2008-09 Budget Plans</th>
<th>2007-08 Last year’s final budget</th>
<th>£’000</th>
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<td>Administration Programme</td>
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<td>Net Capital</td>
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<tr>
<td></td>
<td>Gross expenditure</td>
<td>Income</td>
<td>Net expenditure</td>
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<td>B Development services</td>
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<td>-</td>
</tr>
<tr>
<td>C Partnership Studies</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D Grants to improve public communication (grants to private and voluntary sector)</td>
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<tr>
<td>E Grants to improve public communication (grants to local authorities)</td>
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<tr>
<td>F Research into innovative delivery mechanisms</td>
<td>-</td>
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<td>G Operation of support establishments</td>
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<td>-</td>
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<td>H Administration law enforcement &amp; criminal justice</td>
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<td>I The Office for Strategic Development</td>
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<td>J Better communication</td>
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<td>Spending in Annually Managed Expenditure (AME)</td>
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<td>Voted expenditure in AME</td>
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<td>N Public sector pension scheme (provision for liabilities)</td>
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<td>Voted expenditure outside of DEL and AME</td>
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<td>O Grant to Scottish Executive</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total voted in Estimate</td>
<td>770,479</td>
<td>-38,200</td>
<td>732,279</td>
</tr>
<tr>
<td>Total non-voted in Estimate</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
### TABLE B: Supporting Tables

<table>
<thead>
<tr>
<th>Schedule or note</th>
<th>Purpose</th>
<th>When currently required</th>
<th>Proposed change(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part II: resource to cash reconciliation</td>
<td>Shows breakdown of differences between the cash and resource totals in Part I.</td>
<td>Always</td>
<td>Simplified due to alignment, with no loss of information</td>
</tr>
<tr>
<td>Part III: Extra receipts payable to the Consolidated Fund</td>
<td>Gives total of extra receipts, excluded from Part II as surrendered to Treasury</td>
<td>Always</td>
<td>To be used more rarely as income more likely to be shown either within Part II, or in a trust statement (where acting as agent for Treasury)</td>
</tr>
<tr>
<td>Forecast Operating Cost Statement</td>
<td>Provides reconciliation between Administration and Programme Budgets, Estimates and Accounts</td>
<td>Always</td>
<td>Realigned to new control totals. Could be merged with “Reconciliation of resource expenditure between Estimates, Accounts and Budgets” with no loss of information, removing duplication.</td>
</tr>
<tr>
<td>Reconciliation of resource expenditure between Estimates, Accounts and Budgets</td>
<td>Provides reconciliation between resource budgets, Estimates and Accounts</td>
<td>Always</td>
<td>Simplified following alignment. Could be merged with “Forecast Operating Cost Statement” with no loss of information, removing duplication.</td>
</tr>
<tr>
<td>Reconciliation of capital expenditure between Estimates and Budgets</td>
<td>Provides reconciliation between capital budgets and Estimates.</td>
<td>Always</td>
<td>Only to be required exceptionally, as almost all capital misalignments removed.</td>
</tr>
<tr>
<td>Explanation of Accounting Officer responsibilities</td>
<td>Sets out who the Accounting Officer is and main responsibilities</td>
<td>Always</td>
<td>Modified to add responsibilities of NDPBs’ accounting officers</td>
</tr>
<tr>
<td>Analysis of Appropriations in Aid (to be retitled Analysis of Income)</td>
<td>Provides breakdown of income used in support of expenditure by broad ype.</td>
<td>Always</td>
<td>Detail of income by Part II line added. Detail of broad income type retained. Income shown as a negative value. Income description moved from here to Part I to give greater prominence.</td>
</tr>
<tr>
<td>Analysis of Consolidated Fund Extra Receipts</td>
<td>Provides breakdown of receipts surrendered to Treasury by broad type</td>
<td>Always</td>
<td>To be used more rarely as income more likely to be shown either within Part II, or in a trust statement (where acting as agent for Treasury)</td>
</tr>
<tr>
<td>Departmental Expenditure limits and Administration Budgets</td>
<td>Sets out the DEL, AME and Administration budget control limits.</td>
<td>Always</td>
<td>Redundant and to be removed. DEL and AME figures to be given in Part I, Administration budgets in the forecast Operating cost statement and possibly Part II. Near cash ring fence abolished.</td>
</tr>
<tr>
<td>Comparison of provision sought with final</td>
<td>Compares budget now sought with prior year final</td>
<td>Always</td>
<td>No change.</td>
</tr>
<tr>
<td>provision for the previous year</td>
<td>budget.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes to Accounting Policies</td>
<td>States any changes to accounting policies (likely to affect numbers).</td>
<td>If applicable</td>
<td>Existing detail retained. Detail of prior period adjustments that would no longer need to be voted would be added here.</td>
</tr>
<tr>
<td>Cash which may be used to offset expenditure</td>
<td>Gives cash receipt equivalent of income figure total.</td>
<td>Always</td>
<td>Propose to remove as in practice almost always identical to information in Part II and the analysis of income.</td>
</tr>
<tr>
<td>Expenditure resting solely on the authority of the Appropriation Act</td>
<td>Sets out where there is no statutory authority to spend, other than that provided by the Appropriation Act.</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
<tr>
<td>Expenditure in the form of adjustable advances</td>
<td>Gives details of where money is advanced but may be subsequently clawed back if not spend for intended purposes</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
<tr>
<td>Gifts</td>
<td>Gives detail of where Departments wish to make a gift worth more than £250,000</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
<tr>
<td>Staff benefits</td>
<td>Gives detail of any “unusual” staff benefits proposed</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
<tr>
<td>Contingent liabilities</td>
<td>Gives detail of any contingent liabilities currently in force, including those below the threshold for prior notification to Parliament</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
<tr>
<td>Grants in aid (to be retitled NDPB note)</td>
<td>Gives details of cash grant in aid payable by the Department to each NDPB and (in future) the expenditure to be incurred by those NDPBs.</td>
<td>If applicable</td>
<td>Information on expenditure of NDPBS- split between capital and resource, added. Grant in aid information retained.</td>
</tr>
<tr>
<td>International subscriptions</td>
<td>Gives details of any international subscriptions above £1,000,000, itemised.</td>
<td>If applicable</td>
<td>No change- only included if required</td>
</tr>
</tbody>
</table>
Conclusions and recommendations

The potential gains from the Alignment Project proposals

1. 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. (Paragraph 16)

Ending current misalignments between budgets, Estimates and accounts

2. We consider the Treasury’s proposed way forward for treatment of Non Departmental Public Bodies’ expenditure to be the most appropriate to achieve alignment. It would enable NDPB expenditure to be treated consistently between documents and to be fully comparable with direct expenditure of departments. (Paragraph 25)

3. The proposed switch from parliamentary control of gross expenditure (via approval of both net expenditure and of limits on appropriations in aid) to control of net expenditure alone is one of the most significant single elements of the Alignment Project. But it is in practice a change to the formal control regime only. Provided that there is no diminution in the level of information available on retained income, we consider the proposal to be acceptable and the right way forward. The Alignment Project effectively falls without it. We consider that no longer formally approving Appropriations in Aid is a price worth paying for the benefits of alignment. The safeguards proposed are in our judgement sufficient to reassure the House that the switch will not reduce effective parliamentary control over the Executive’s access to resources. (Paragraph 32)

4. The proposals for distinguishing in each Estimate between those elements which require fresh legislative authority by being voted, and those which do not, would add some extra complexity to the Estimate. But we consider this to be the correct approach, because it achieves alignment without disrupting existing arrangements for the approval of those areas of funding governed by separate legislation, and Estimates will present a complete picture of a Department’s expenditure. (Paragraph 34)

5. The proposal for the treatment of Departmental Unallocated Provision ensures that Estimates include the full budget, and achieves alignment without departments seeking more cash than they require. (Paragraph 36)

6. We welcome the proposals for treatment of capital expenditure, which offer the opportunity for much greater clarity and greater parliamentary control over the approval of capital expenditure. (Paragraph 40)
7. The proposals for treatment of provisions are complex and not ideal, as they involve recording obligations in one way in budgets and Estimates when they are entered into, and then later reversing this to record any actual expenditure when it arises in a different way. But they do provide alignment, while retaining incentives for departments to minimise provision creation and allowing government to manage cash payments against provisions. We think that they offer the best solution available. (Paragraph 43)

8. On the basis that there is no unacceptable risk arising from the reduction of a budget mid-year, and subject to any conclusions from the Treasury about legal issues, the Committee supports the ability to vote negative as well as positive Estimates in order to enable alignment between Government Budgets and Estimates. (Paragraph 47)

9. 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. (Paragraph 51)

Future changes in the budgeting system and Estimates

10. We agree that a protocol governing the consequences for the Estimates of possible changes to the Government budgeting process is necessary. We are also broadly content with the proposed form it would take…The precise method, and timing, of assent by the House to any particular proposal will always in practice be a matter to be decided in the light of the specific proposal. In practice, House officials will be ready to liaise with the Treasury on these matters but will always consult with and be ready to advise relevant committees. In cases where the Government does not originally envisage obtaining the direct approval of the House as a whole, but the relevant committees indicate that they consider House approval to be necessary, then the Government must be prepared to accept this. (Paragraph 54)

Information required by the House: timing and content

11. We endorse the specific proposals put forward in the Annex to this Report (paragraphs 4 and 6-10) for the detailed form of Part II and supporting tables in future Estimates following Alignment. (Paragraph 60)

12. We recommend that revised guidance is developed—in consultation between the House of Commons committees and the Treasury—on the content of the Estimates memoranda post-alignment, so that the memoranda can best serve the needs of Committees in their consideration and questioning of Estimates. (Paragraph 63)

13. We recommend that henceforth all select committees routinely publish the Estimates memoranda received. (Paragraph 64)

14. We repeat that it would not be acceptable for the publication of the Main Estimates to await publication of the Departmental Annual Report and are grateful to the Government for accepting this point. Indeed we consider strongly that the Main Estimates ought to be published as close to the beginning of the financial year to
15. The Committee, in principle, supports the proposal to combine Departmental Annual Reports and Resource Accounts, to be published in June. However, as the Alignment Project White Paper acknowledges, if a committee feels strongly that it should continue to take evidence on the Annual Report before the summer recess, it would be possible to retain separate publication of Reports and Accounts in particular cases. Departments should seek the views of their select committees as to whether they are content with the Annual Reports and Accounts appearing as combined documents, including the delay in publication of the Annual Report element. Where combined documents are planned, Departments should agree a planned timetable for publication with the NAO and the relevant select committee, including a cut off point after which, if the Accounts were not ready in time, separate publications would appear. (Paragraph 74)

**Enabling better scrutiny of spending plans for future years**

16. The timing proposals in the Alignment Project White Paper do not provide for the full detailed information about spending plans, contained in Part II of the Estimate, to appear significantly in advance of that financial year. Nonetheless the proposals do allow for significantly more information relating to the figures to appear nearly a year in advance, on a basis which is the same as Parliament will be asked to approve. Committees will therefore have a much better opportunity than hitherto to undertake real scrutiny of future years’ spending plans. We would encourage individual committees to examine future spending plans contained in Annual Reports. (Paragraph 78)

17. We consider that there is a case for examining ways of providing greater opportunities for all Members to participate in consideration of an Estimate or of future spending plans in an appropriate committee forum, and invite the Procedure Committee to look at ways in which this might be achieved. Possibilities include:

- for a departmental select committee to be able to refer the Estimate or spending plan for examination and debate in a general committee, under a procedure comparable to that for European legislation

- for other members of the House to be allowed, at the invitation of a departmental committee, to participate in departmental committee hearings on Estimates or spending plans. (Paragraph 79)

18. We recommend that the Treasury takes forward the plan for developing ‘mid-year reports’, perhaps piloting it initially with a few departments. (Paragraph 80)
The kinds of motion which may be debated

19. We therefore recommend that, in addition to the ability to recommend for debate on an Estimates Day a particular Estimate or Supplementary Estimate which has been laid before the House for approval (as now), the Liaison Committee should have the power to recommend for debate any Motion which has been tabled to:

- Consider a department’s spending plans or programmes for the next financial year (or the next two financial years, if available) on a non-amendable motion
- Propose an increase in the spending plans for a future year or express other opinions on individual departments’ future spending plans (or programmes) on substantive (and therefore amendable) motions

Since (unlike with Estimates) in either case no such Motion would have been tabled by a Minister, the motion would have to be tabled by another Member. While this could always be a motion tabled by any individual Member or group of Members, in practice the Liaison Committee might generally be expected to look first to any such Motions which have been tabled by the chairman and members of a select committee. (Paragraph 92)

20. We emphasise that this proposed change should not be seen as diminishing in any way the importance of retention of the existing power of Members, through the Liaison Committee, to bring about debates (and potentially divisions) on specific Estimates which are outstanding and, theoretically, to reduce or reject them. The fact that Members do not at present choose to use the existing opportunities to force divisions on Estimates, as they can, in no way means that the power is unimportant or undervalued. We would expect the majority of debates on Estimates Days to be on specific Estimates as now. (Paragraph 93)

Number of days for debate on expenditure matters

21. The reduction in the number of Estimates ‘events’ has no impact on the need for Estimates Days, and (subject to paragraph 96 below) the Liaison Committee should be free, as now, to decide whether to allot 2 days to consideration of Main Estimates and one to the Supplementary Estimates or vice versa (Paragraph 94)

22. We consider accordingly that the number of Estimates Days should be increased to five. (Paragraph 96)

23. We also repeat our view that the Government should give an undertaking to provide a day’s debate on (i) the outcome of each Spending Review and (ii) each Pre-Budget report. (Paragraph 97)

Supply procedure, legislative authority and Standing Orders

24. If the basic principles of the Alignment Project are agreed, then the precise forms that Supply resolutions and bills would need to take under alignment will need to be
the subject of consultation between the House authorities and Parliamentary Counsel and the Treasury. (Paragraph 110)

25. If the Alignment Project and the proposals in this Report are agreed, then changes to Standing Orders would be needed in order:

- to reflect a power for the Liaison Committee to propose different kinds of business to be taken on Estimates Days
- for Estimates Days to include the additional kinds of business (and possibly be renamed accordingly)
- for the number of Estimates Days to be increased
- for the questions on outstanding Estimates to be subject to different date deadlines, and for the existing reference to authorising amounts and limits on appropriations in aid to be removed. (Paragraph 112)
Formal Minutes

Tuesday 25 June 2009

Members present:

Mr Alan Williams, in the Chair

Sir Alan Beith
Malcolm Bruce
Michael Connarty
Mr Andrew Dismore
Mr Frank Doran
Mrs Louise Ellman
Dr Hywel Francis
Mike Gapes
Mr Greg Knight
Peter Luff
John McFall
Rosemary Mckenna
Andrew Miller
Mr Mohammad Sarwar
Mr Barry Sheerman
Dr Phylis Starkey
Mr Don Touhig
Keith Vaz
Mr John Whittingdale
Mr Phil Willis
Sir George Young

Draft Report (Financial Scrutiny: Parliamentary Control over Government Budgets), proposed by the Chairman, brought up and read.

Ordered, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 117 read and agreed to.

Annex and Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

* * *

[Adjourned till Thursday 16 July at 9.30 am.]
List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2008–09
First Report The work of committees in 2007–08 HC 291

Session 2007–08
First Report Pre-appointment hearings by select committees HC 384
Third Report The work of committees in 2007 HC 427
First Special Report Pre-appointment hearings by select committees: Government Response to the Committee’s First Report of Session 2007–08 HC 594
Second Special Report The work of committees in 2007: Government Response to the Committee’s Third Report of Session 2007–08 HC 595
Fourth Special Report Planning Bill: Parliamentary Scrutiny of National Policy Statements HC 1109
Fifth Special Report Modernisation of language in standing orders relating to select committees HC 1110

Session 2006–07

Session 2005–06
First Report Government reply to the Annual Report for 2004 HC 855
Second Report A New Publication Order for Select Committee Evidence HC 1271
Third Report Estimates Memoranda HC 1685