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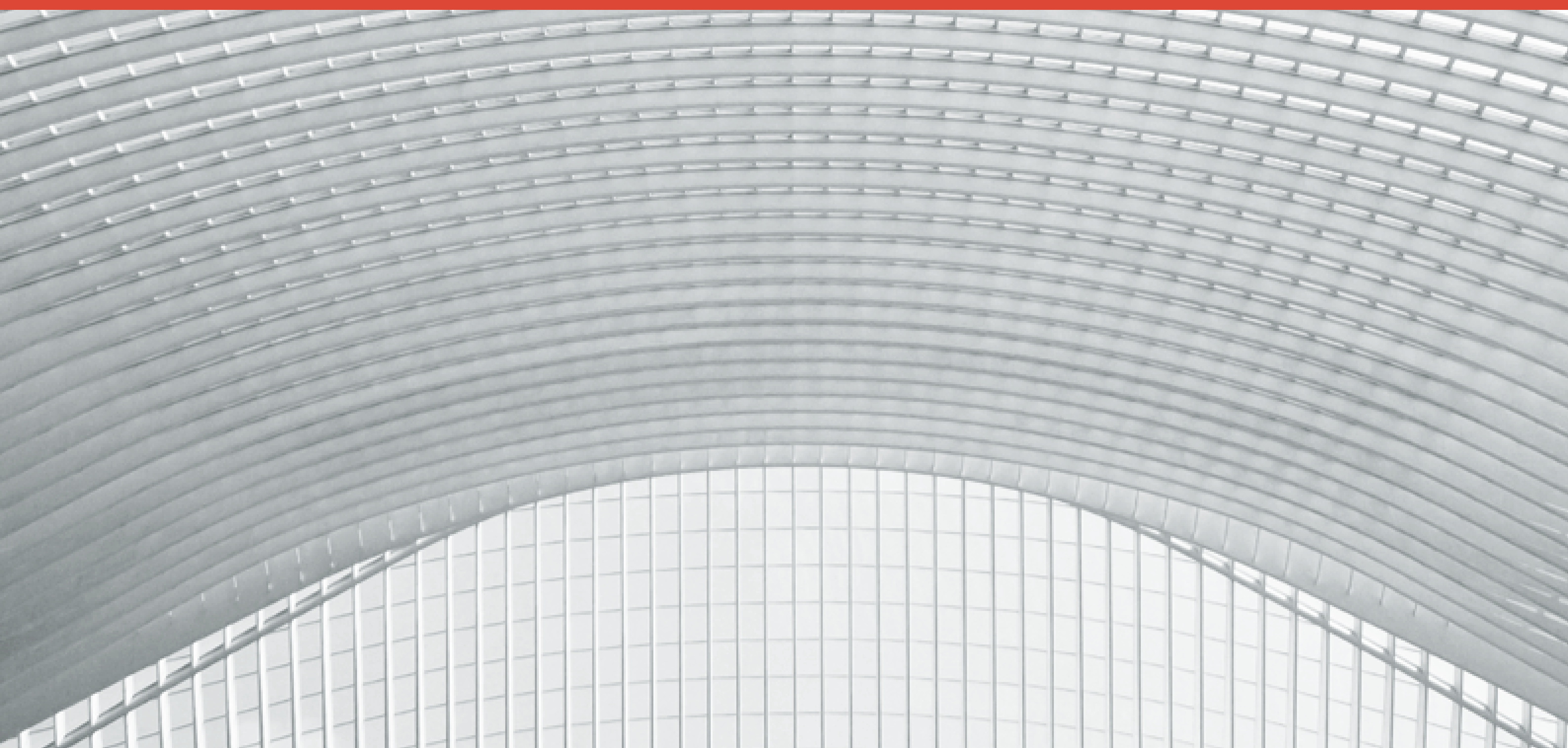
Parliamentary financial scrutiny in hard times



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This report reviews the measures that have been taken to improve parliamentary financial scrutiny and considers lessons learnt and what still remains to be done.

Looking at specific examples from Australia, Canada, Ireland and the UK, the role of parliaments is considered in the context of dramatic political developments and the tumultuous global financial crisis.

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Executive summary

Parliamentary scrutiny of public spending is a vital mechanism for holding governments and other providers of public services to account for the taxpayers' money they spend. The financial crisis that began in 2008 provides an opportunity for parliaments to have a fundamental reconsideration of how financial scrutiny can be improved. Legislatures will need to improve their performance if financial scrutiny is to keep pace with budget and accounting reforms, as well as financial developments.

The evidence in this report suggests that financial scrutiny may not be taken seriously enough nor seen as strategically important. This is reflected in the slow evolution of the parliamentary financial scrutiny process since the financial crisis began. This finding is particularly worrying because of the significance of public spending, severity of austerity measures and continuing sovereign debt problems experienced by governments. Parliamentary financial scrutiny on its own may not prevent the next financial crisis, but it is a vital part of a nation's governance and if done well it may help manage the risks of future financial crises.

All four of the countries (Australia, Canada, Ireland and the UK) included in the case studies in this report have a history of weak parliamentary financial scrutiny capacity, as reported by the Organisation for Economic Co-operation and Development (OECD), and it is disappointing to find that there has been little improvement, apart from the growth of Independent Fiscal Institutions (IFIs). IFIs have, however, been introduced by governments to provide independent analysis and forecasts of the economy and public finances, not to supply parliamentary financial scrutiny.

The outdated 'estimates supply votes' process that exists in Westminster-style systems is a key barrier to effective parliamentary scrutiny of the budget and financial reports. In countries using the Westminster model of government, parliaments cannot realistically amend spending proposals, and many are barred from substituting a budget of their own. Instead, they are confined to assenting to spending proposals that are put to them and, as a result, parliamentarians see little point in getting involved in the technical detail of estimates that they will have little chance of influencing. The focus of financial scrutiny needs to be re-aligned with the budget, spending plans and resource accounts, but this will require significant structural and cultural reform.

Independent fiscal institutions (IFIs)[1] are becoming increasingly popular with governments. The UK introduced an IFI in 2010, and political promises to establish similar models have been made in Ireland and Australia. In contrast, Canada established a Parliamentary Budget Officer (an officer of the House of Commons Library) in 2008. Although these models are increasingly popular, they do not perform a parliamentary financial scrutiny role and at some point will require an evaluation of their performance.

Parliamentary select committees are the 'engine room' of parliaments and across the case study countries they proved to be an important means for holding governments to account.[2] They have a number of strengths, including the ability to facilitate technical debate and scrutiny, but they also have a number of weaknesses, such as a general lack of skills, lack of action in following up recommendations and general inability to influence government policy through their reports. For example, research by the Constitution Unit in the UK highlighted that 40% of select committee recommendations were accepted by the government and roughly the same proportion were implemented, but this still left a significant number confined to the dustbin.

The case studies in general show a greater need for training and professional development of parliamentarians to promote a culture of financial awareness and to empower politicians to ask more searching questions on financial matters. This change also requires the provision of high-quality accounting information, effective independent audit and clear responsibilities for accounting officers.

1. Independent fiscal institutions are commonly defined as non-partisan public bodies, other than the central bank, government or parliament, that prepare macroeconomic forecasts for the budget, monitor fiscal performance and/or advise the government on fiscal policy matters. An IFI may also be referred to as the Parliamentary Budget Officer (PBO) or Office for Budget Responsibility (OBR).

2. Parliamentary select committees often mirror government departments and are responsible for scrutinising departmental spending, policies and administration. The UK's Public Accounts Committee is an example of a select committee that whose remit crosses departmental boundaries.

Fiscal transparency has become a philosophy of governments seeking to improve both finances and their own popularity. The drive for transparency has inspired governments to publish spending data, whole-of-government accounts, and a wide variety of other documents. The present research shows that the generation of more data does not mean the provision of better information, and can conversely diminish the accountability that it seeks to promote. Also, making data widely available should not been seen as a substitute for effective financial scrutiny by parliaments.

Systematic evaluation and monitoring of reforms rarely takes place. Rhetoric about improving financial scrutiny is well established in the policy dialogue of governments, and concepts such as ‘transparency’ and ‘fiscal discipline’ are cited at the start of projects, but these terms are often left vague and undefined. It is critical that systematic monitoring and evaluation of reforms by both parliaments and governments is undertaken to prevent important concepts such as ‘transparency’ from becoming devalued.

The changing landscape of the financial and political arenas across the case study countries and the severity of the austerity measures raise concern about the lack of resources available for parliamentary financial scrutiny. This may become more acute in the future, particularly for those countries undergoing cuts in public spending. It will be important that resources such as support for select committees are safeguarded from unreasonable cuts and a clear and coherent policy is developed to improve financial scrutiny at an institutional level.

There is a risk that governments may use the financial crisis to reduce scrutiny rather than enhance it. For example, in Australia there is a perception that the budget process has become less transparent as the Federal governing party plays on popular fears that the economy is faltering and needs urgent attention. Such anxiety can make the public willing to grant the government power that it would not usually have in the normal democratic process. Similarly, it is perceived by some commentators that parliamentary scrutiny is also lacking, as policy initiatives are rushed through to prop up the economy without proper debate or consultation.

This report shows a failure by parliaments to use the available research in a significant way. In some cases, the work commissioned by a country’s own parliamentary bodies has been under-used, raising questions about the efficiency and purpose of engaging such resources. This report shows that few recommendations have been put into practice: for example, the establishment of separate taxation committee in the UK.

1. Introduction

> 'Good scrutiny makes for good government'.
>
> ROBIN COOK, LEADER OF THE HOUSE OF COMMONS, SELECT COMMITTEE ON MODERNISATION OF THE HOUSE OF COMMONS, UK, DECEMBER 2001

Parliamentary scrutiny of public spending is a vital component of a modern democratic system. In times of increasing austerity and anxiety, it is more important than ever to ensure that public funds are spent wisely. Effective financial scrutiny ensures that governments are held to account for their actions and fiscal policy decisions, as well as allowing parliaments to monitor both public service provision and value for money.

Nonetheless, politicians are frank about their lack of understanding and engagement with financial figures. Natasha Engel, UK Labour MP, observes that: 'We do not take that seriously enough…don't look at it carefully…don't understand it…yet we are making very important decisions'.

In the middle of the most significant financial crisis for decades, the need for austerity means that effective parliamentary scrutiny of public spending, taxes and, more widely, the impact of the budget on government debt is critical. This report reviews the measures that have been taken to improve parliamentary financial scrutiny and considers lessons learnt and what still remains to be done. Looking at specific examples from Australia, Canada, Ireland and the United Kingdom, the role of parliaments is considered in the context of dramatic political developments and the tumultuous global financial crisis.

RESEARCH METHODOLOGY

This international comparative study reveals the experiences and lessons to be learnt from each of the four case study countries, at different stages in their economic recovery following the financial crisis. Findings are based on a review of the existing literature and a subsequent series of interviews conducted with officials and politicians in each country. These interviews were conducted in person where possible, and in such cases were semi-structured and participant-led where appropriate. Where data were collected by telephone and email the process was more formalised, with participants responding to a series of specifically written questions that concerned their area of expertise.

Many of the key developments identified here have their roots in complex political reforms and initiatives that precede the financial crisis and the chronological scope of this paper accounts for these parameters. This paper is not intended as a detailed guide to the financial scrutiny or budget processes of specific countries, but should be read as discussion document and as a basis for identifying areas for further research.

2. Context

All four countries have fared differently as a result of the global economic crisis. Australia's financial system has proved very resilient. This was partly the result of solid domestic banking supervision, which was substantially reinforced after sizeable banking sector losses in the early 1990s, and low exposure to toxic assets (OECD 2010). Also, the Labor party government inherited a budget surplus with very little debt, and high natural resource exports due to strong Chinese demand. Similarly, Canada did not experience the financial crisis to any significant degree, and suffered no major bank failure or similar collapse because it was protected following regulation to limit exposure to bad debt in the housing market. Nevertheless, it has kept a watching brief on the experiences of other countries.

In contrast, the UK was caught out by the banking crisis. As a result, two major banks came under state control and a series of austerity measures stretching over four years were introduced to reduce the financial deficit. Ireland fared the worst, suffering financial collapse and requiring external support from the EU and IMF to see it through its economic difficulties.

In addition, both Ireland and the UK are not isolated from the recent changes in fiscal policy introduced by the European Union (EU). The European Court of Auditors has raised concerns that the global crisis has major consequences and challenges for accountability, transparency and public audit. The OECD has also reported that governments are unlikely to improve accountability on their own, but require some kind of external influence encouraging them to do so (OECD 2009).

This report recognises that each country studied here is quite different in both the civil society around its parliament and the way in which its government has approached its modernisation strategies. For example, in the UK the House of Commons Liaison Committee, established in 2002, has improved accountability in the way that the work of select committees is considered and how evidence from the Prime Minister is heard on matters of public policy. In contrast, this model has not been repeated in Federal Canada. Instead, Canada's House of Commons is loaded with statutory accountability offices, including the parliamentary budget officer.

Three of the four case studies chosen are parliamentary democracies based on the Westminster model (Australia, Canada and the UK). The exception is Ireland, which is classified by the OECD as a semi-presidential system maintaining a Westminster-style budget system. The nature of the relationship between the various parties in Westminster-style systems is often compared unfavourably with the US congressional system for spending and taxation, as the latter gives Congress much greater negotiating ability and budgets and financial legislation are frequently batted between the executive and the legislature. It is questionable whether Westminster-style systems will ever change to the US model as parliaments would have to be given much greater power on appropriation decisions and this is something that most governments would wish to avoid.

All four countries are located within the lower quartile of the OECD's 'International Index for Legislative Budget Institutions'. This index, designed by OECD budget expert Joachim Wehner, maps the comparative capacities of worldwide parliaments for fiscal scrutiny. Given the poor ranking of all four countries studied here, and the UK in particular, which is deemed 'dismal' by comparison with other countries in general (Wehner 2006), this report offers a timely insight for improving financial scrutiny.

3. Financial scrutiny in a nutshell

> 'If democracy is government by explanation, then scrutiny is an essential part of democracy'.
>
> JOHN BERCOW, SPEAKER OF THE HOUSE OF COMMONS, UK 2011

Financial scrutiny ensures robust accountability in the public interest, by holding governments and other providers of public services to account for the taxpayers' money they spend. Quality health care, education, and the reduction of poverty are just a few of the real outcomes for which public money is appropriated and invested by governments.

The financial crisis that began in 2008 revealed to many countries the reality of their vulnerability in the face of global financial collapse. Therefore, the need for parliamentary financial scrutiny of government spending is greater than ever before. National parliamentarians are growing more active in budgetary and financial matters around the world, with legislatures recognising the importance of scrutiny and seeking to engage more effectively with the budget process (Wehner 2004: 1). An OECD study in 2007 reported that in more than half the countries surveyed, legislatures had a larger budgetary role than they had had a decade earlier (Anderson 2009:3). Even so, the four case studies emphasise that there have been patchy activity and few reforms.

Although financial scrutiny is a fundamental component of good governance and an essential mechanism for ensuring the safeguarding of the public interest, this report recognises that not all scrutiny is of equal value. Additionally, a formalised system of financial scrutiny does not automatically translate into a meaningful role for parliament in affecting the budget (Wehner 2004: 1). A sound system of financial scrutiny in parliament is not alone sufficient to ensure sound fiscal decisions or strong national economies. Despite having a strong Congressional Budget Office, the current state of the American budget and finances is proof that improved scrutiny alone is not sufficient to achieve better economic policy or public spending. The US experience illustrates that financial scrutiny does not operate in a vacuum, but takes place in a political and often highly charged environment.

Despite piecemeal developments, financial scrutiny is still considered by a number of commentators to be less compelling than the potentially more interesting scrutiny of government policy and high-profile scandals, such as the recent inquiry into phone hacking in the UK. Also, in the middle of the financial crisis, there is growing concern that the complexity of budgeting and anxiety of fiscal vulnerability may be used by governments to undermine their accountability to parliament, eroding the very democracy on which these countries stand (Anderson 2009: 2).

4. Fiscal scrutiny and the financial crisis

This chapter compares and contrasts the changes made to financial scrutiny by the legislatures and executives across the four case study countries since the financial crisis began in 2008.

The studies show that, although it has raised awareness of the significance of financial risk and the fragility of the global banking system in general, the financial crisis has not been the only impetus for change in and parliamentary reform of financial scrutiny. Where reforms have been made to the budget and financial accounting processes, as well as scrutiny processes, these are frequently the result of initiatives pre-dating the financial crisis and tend to be located within the existing policy rhetoric, usually as part of a wider 'drive towards greater transparency'.

In countries such as Australia, changes were made to the budget in response to a local financial crisis arising from major flooding, without there being any corresponding changes to the financial scrutiny process. In the UK, an initiative for aligning the different measures of public spending to simplify arrangements for reporting and controlling public expenditure to parliament (the 'clear line of sight' or 'alignment' project (CLoS)) was introduced before the economic crisis, together with the 'whole of government accounts' project. Both the UK and Australia now publish whole-of-government accounts, two of four countries around the world to do so.

The exception is Ireland, where reform of the budget and financial scrutiny processes is driven by the urgent need to respond to financial collapse and the milestones set out in the EU/IMF Programme of Assistance. But even here, budget reforms had been in progress for a number of years' pre-dating the financial crisis. Proposals for further fiscal reform have also been set out by the Oireachtas (Parliamentary) Committee on Finance and the Public Service in 2010. These include recent changes extending parliamentary scrutiny to cover all board appointments and addressing issues about the lack of accountability and transparency.

In contrast, data collected from the Canadian House of Commons Committees Directorate reveals that there has been no reform to parliamentary scrutiny of the budget process, no change to the level of resources available for fiscal scrutiny and no change in the role or function of select committees regarding fiscal scrutiny since 2008.

In the UK, although not a major catalyst for reforms so far, the financial crisis has provided some indirect impetus for change. For example, select committees appear to have increased their level of interest in budget scrutiny and fiscal matters in general. This is reflected in an increase in the number of questions raised by these committees as stated by the Deputy Head of the Scrutiny Unit, Parliament. Further detail on the activities of the Scrutiny Unit can be found in Chapter 7.

At the general level, and not confined to the field of fiscal policy, there has been reform and progress made to the scrutiny function of Parliament in the UK since 2001, but there has been 'no revolution' according to the Speaker of the House of Commons. There remains a lack of interest among UK MPs in scrutinising government expenditure, despite relatively high levels of scrutiny in other areas, such as the Iraq war. Possible explanations for this include a lack of public interest from voting populations who elect MPs, but also the lack of possible action that can follow scrutiny, given that the current system focuses on supply estimates (the means by which the government seeks authority from Parliament for its own spending each year). The supply estimates process offers a blunt instrument for such change because there is little incentive for parliamentarians to scrutinise the figures given that the outcomes have already been determined by the government.

Although reforms across the case study countries generally pre-date 2008, it remains to be seen what changes made in coming years can be attributed to more recent reactions to the crisis. The mechanisms of the legislature are often slow to change, owing to the difficulties in reforming both procedures and operating systems, as well as dealing with the complexities involved. Any significant reform by the legislature and/or executive usually requires time and extensive planning.

CONCLUSION

Since the financial crisis there has been no significant change in parliamentary financial scrutiny across the four case study countries. This finding is particularly worrying because of the continuing sovereign debt problems, the significance of public spending and the severity of austerity measures being introduced by governments. While changes are being made to the budget and financial accounting processes within the four countries, little or no attention is paid to improving parliamentary financial scrutiny.

Also, despite the impact of the financial crisis and findings of the OECD, which show that all case study countries have a history of weak parliamentary financial scrutiny capacity, it is doubly disappointing to find that not much has changed.

5. The relationship between parliaments and governments

This chapter explores the balance of power between the legislative and executive arms of the state, what impact this relationship has on financial scrutiny and the arguments put forward for less parliamentary engagement in scrutinising budgets.

THE BALANCE OF POWER BETWEEN THE LEGISLATURE AND EXECUTIVE

Internationally, the balance of power between the legislature and the executive varies considerably. According to the IMF, the level of control depends upon the links between the political powers of legislatures and the degree of separation of the legislative and executive branches of government (IMF 2005: 18). The separation of political powers in parliamentary monarchies based on the Westminster model, which includes three of the case study countries (Australia, Canada and the UK), is deemed to be extremely weak. The IMF study shows that the political powers enjoyed by the executive are accompanied by strong budgetary powers. Governments that follow the Westminster model have not only initiated laws to strengthen their own budget powers but, by virtue of their control over parliamentary select committees, have also inserted into parliamentary regulations limitations on their parliament's capacity to change the government's proposed draft annual budget.

Some parliaments, such as those in presidential systems, can influence spending proposals, by either amending or rejecting them, and some can formulate their own. According to the IMF, 63% of parliaments can and do make minor adjustments to the budgets presented by government, although the scope for real influence is severely limited by the Westminster-style system of parliament. Although Ireland's system of government is semi-presidential as classified by the OECD, it shares the same weaknesses as it retains most of the features of a Westminster-style budget system. Its Parliament, the Dáil, was also categorised by the IMF as having weak budgetary powers (IMF 2005: 17).

The power held by a parliament over the budget process varies significantly within the international context. In measuring the relative power of parliaments over national budgets on a scale of 1 to 10 (10 representing significant power) the IMF measured whether parliaments:

- approve an annual budget strategy
- have powers to amend draft budgets
- allot time for discussion of the annual budget within parliament
- receive technical support for scrutinising the budget.

The IMF also considered the government's ability to modify the budget once it has been approved.

Against these measures Australia, Canada and the UK achieve a low score of 1, while the US, a presidential system which enjoys an extensively resourced Congressional Budget Office, has the highest possible score of 10 (IMF 2005: 18). Many would-be reformers look towards the US as an example of how effective budget scrutiny can be achieved. Nonetheless, the issue here is that despite such a system the US deficit of 15 trillion dollars is the largest in history.

ARGUMENTS AGAINST GREATER INVOLVEMENT OF PARLIAMENTS IN SCRUTINISING THE BUDGET PROCESSES

As discussed above, it is important to recognise the limitations of the legislature in its role as budget, financial accounting and spending scrutineer. Financial scrutiny tends to be retrospective and focuses on government policies and decisions already made (ex post). The current system of supply estimate voting, which is frequently criticised by opposition MPs, is designed to limit the powers of parliamentarians and to preserve decision making on fiscal allocations in the budget as the sole right of government. For example, the UK Treasury sets the framework for the budget and ensures financial discipline and that allocations are met by the government's spending policies. Parliament, by contrast, votes only on whether government departments have managed to adhere to the pre-defined allocations. This rationale is used to explain the lack of opportunity for legislative influence in the estimates stage of the budget.

Although increased parliamentary scrutiny is related to strengthened democratic systems and better accountability, weak parliamentary scrutiny is not the only or even primary cause of over-spending. The pursuit of public interest is the driving force behind reform in public sector spending, but the limitations of this approach must be recognised. Increased scrutiny of public sector financing is just one way in which to ensure that governments are held to account and consistently act for the public good. An arbitrary increase in parliamentary activism in the budget process does not necessarily create sound budget outcomes (Wehner 2004: 1). While unrestrained governmental power in the aftermath of a fiscal crisis can be heralded as providing short-term benefits (perceived or real), the long-term goal is for a sustainable balance between power held by the government and by parliament, where processes and reforms are monitored against outcomes.

Alternatively, increased parliamentary involvement in the budget could lead not to greater financial discipline but to chronic deficits as parliaments fail to restrain them, constantly calling for higher public spending and lower taxes. This view has remained pervasive for hundreds of years, and has been endorsed by prominent scholars who correlate parliament's capacity to amend the budget with fiscal outcomes. As a result, in some countries parliaments have voluntarily relinquished their budgetary powers because they could not trust themselves to make responsible financial decisions. For example, in a paper published by the European Commission, Jorgen von Hagen gives strong empirical support for the hypothesis that limits on the amendment power of parliament, and other rules, strengthen fiscal discipline and result in relatively small deficits and public debt (Anderson 2009: 3). The lack of financial skills and weak accountability may also be contributory factors.

Some research has suggested that fiscal outcomes are better in countries with weak legislative controls, where there is less pressure to spend more and tax less. Without proper financial discipline, this can risk the creation or exacerbation of deficit in the national budget. Underpinning this argument is the concern that, if left to parliament, allocation of spending and resources can be unfair, and not influenced by the national interest. There is a belief that parliamentarians may be inclined to reward supporters and particular constituencies with budgetary allocations.

Also, given its elected status, parliament lacks accountability for fiscal decision making, and is particularly vulnerable to the pressure of lobby groups and sectoral interests. This has been an issue in Ireland and the UK. The intended consequence of parliamentary scrutiny is to improve the accountability of public sector spending and so any reforms implemented towards this aim must be balanced in order not to risk exacerbating the problem.

CONCLUSION

In summary, all four of the case study countries continue to exhibit significant weaknesses in their arrangements for budget and financial scrutiny and will continue to do so without major structural and cultural reform. In the middle of the largest financial crisis that the world has seen, parliaments and governments should not waste the opportunity to reform how they go about scrutinising public funds and taxation policies. As highlighted above, the arguments for improving financial scrutiny are more compelling than those against greater parliamentary involvement.

6. Scrutiny of budgets, estimates and spending reviews

The wider value of scrutiny is demonstrated to the public through the recent catastrophes among the major banks and companies that accompanied the global financial crisis and localised scandals. This chapter discusses the challenges faced by parliaments in scrutinising budgets, taxation, estimates, financial reports and spending plans, as well as those factors conducive to financial scrutiny.

THE BUDGET, ESTIMATES AND SPENDING REVIEW PROCESS

To understand how financial scrutiny is performed in practice, it is important to have a grasp of the budget, estimates and spending review processes across the four case study countries. Studying the budget is in itself a complex task, not least because of the number of actors involved in both its formulation and implementation, to say nothing of the myriad agents who contribute to the auditing and accounts vital to this process, as well as political parties, civil society groups and business and private enterprise, etc. For the reasons set out earlier in this report, financial scrutiny tends to be ex post scrutiny.

Conventionally, the budget is the key economic policy tool of government and regarded as the most comprehensive statement of policy priorities (Wehner 2004:1). During the 20th century, many governments attempted to reform their budgetary systems, and most of these initiatives date from the mid-1980s onwards. In contrast, Canada began its own series of reforms as early as the 1960s (Hawke and Wanna 2010: 2).

Canada's budget is the government's fiscal plan, presented to Parliament in late February. It includes aggregated projections of the government's expenditure plan for the coming and following two fiscal years and the annual budget, which is a macroeconomic and fiscal statement to parliament. Its budget is not a mandated statement (in 2002, the government chose not to present a budget at all). Shortly after the budget the 'main estimates' (updated forecasts for all statutory programmes) are presented to parliament to approve together with government department 'Reports on Plans and Priorities' (RPPs). The latter reports are for information and are not voted on in the House. A second report demanded of government departments and agencies is the 'departmental performance report', each of which is presented to parliament in the autumn and set out performance against targets.

Similarly, in the UK the budget refers to an annual statement of revenue that is required to pay for the expected spending of government, and which the Chancellor of the Exchequer presents to Parliament in March. The estimates process is similar to that operated in Canada. In addition to the annual budget, a spending review is performed which allocates budget funding across departments. Spending reviews were first introduced in 1997 by the Labour government and typically covered a two-to-three year period, but now they stretch over four years.

In Ireland, the budget is the annual statement presented to the Dáil in December. The legislature has 10 months in which to approve the budget, so there is considerable time for scrutiny. It typically sets out budgetary targets for the following year and contains a financial statement, budgetary measures, statistics and tables and a stability programme update. A White Paper on receipts and expenditure usually precedes the budget statement. Parliament is generally not permitted to make any changes; it can only approve or reject the budget as a whole. In general, the budget falls or passes in its entirety; however, ministers for finance do accept minor amendments on revenue-raising measures.

In contrast, the Australian budget is usually presented in mid May, only six weeks before the commencement of the financial year, thus limiting the time available for parliamentary scrutiny through debates and senate estimates hearings. The budget has to be approved by both houses before the start of the new financial year, although in reality some revenue or spending matters may remain unresolved (Hawke and Wanna 2010: 72). The budget contains planned government expenditures for the coming year, as well as other documents such as economic statements and revenue proposals. The estimates process is similar to that of the other countries studied. The Australian Parliament's capacity to influence the allocation of funds within appropriations is limited under the constitution. The Senate is prevented from amending bills for the ordinary annual services of government, which comprise most of the annual appropriations (Hawke & Wanna 2010: 74). Senate select committees now perform a vital function in the consideration of estimates, following reforms made during the 1990s.

A key motivating factor for financial discipline is that in all the case study countries government departments are able to keep savings from efficiency gains that they have made. In Canada departments have the ability to move funds within a vote allowing savings from efficiency gains to finance other expenditures of the same type. The ability of managers to reallocate unspent funds that have been approved through budgeting is contentious. While it can serve as a motivator for greater efficiency and savings, the ability to move funds between programmes without seeking parliamentary approval may undermine the level of financial scrutiny that takes place.

CRITICISMS OF THE WESTMINSTER-STYLE ESTIMATES SUPPLY SYSTEM

The outdated 'estimates supply votes' process that exist in Westminster-style systems presents specific challenges to effective parliamentary scrutiny. These are both structural and cultural, and can have a detrimental impact on both the perception and practice of financial scrutiny in parliaments.

Despite vast changes in the governance of these countries, the method by which parliament approves government funding remains largely unchanged; parliamentary scrutiny of financial matters has not kept pace with extensive reforms in almost every other aspect of a political and democratic system. A number of key criticisms are highlighted below.

Lack of detailed information about expenditure, indicated by the small number of lines included in each estimate, prevents parliamentarians from scrutinising the proposed spending allocations or voting on specific areas of spending within government departments.

The parliamentary system does not award sufficient time or meaningful debate to scrutinising the estimates, especially considering the huge sums involved, and the myriad purposes for which they are used.

The estimates day debates (held three times a year) are used as a chance to debate the policies that underline specific select committee reports, rather than for the detailed scrutiny of expenditure. Therefore, the debates are more concerned with policy than with the money that the government is seeking from parliament.

There is a general lack of scrutiny of the estimates. This is partly explained by the perceived futility of further action on the estimates. As estimates cannot be amended, there is no real possibility that parliament will reject the proposed spending, as to do so would be in effect to deny the total funding to the government department concerned. The last time the UK Parliament voted down a request for money was in 1919, when the Lord Chancellor was refused funding for a second bathroom. Amendment experience in many other Westminster-type parliaments is similar. According to the Westminster tradition, successful attempts by parliament to amend the budget proposal are considered tantamount to a vote of no confidence in the government (Wehner 2004: 7).

In an interview with Joachim Wehner, budgeting expert with the OECD and LSE, he recommended that parliamentarians should be presented with examples of good practice in supply estimate procedures, such as those used by South Africa or America. This should, however, be done with the knowledge that improving scrutiny in parliament is not on its own sufficient to ensure sound fiscal decisions or strong national economies. As stated earlier, despite extensive budget scrutiny and a Congressional Budget Office that exercises unrivalled control over the budget and supply estimates, the current state of the American budget and finances is proof that improved scrutiny alone is not sufficient to achieve better economic policy.

In the UK, the involvement of select committees in the scrutiny of estimates is now focused largely on an assessment of the efficiency and performance of the relevant department, rather than a detailed examination of the estimates proposed. This practice was established following the division of the estimates committee after the Second World War, when it was split into sub-select committees for the examination of selected estimates and their related departments. A series of reforms during the 1960s awarded greater power to the estimates select committees, in response to growing concern in Parliament about the lack of effective scrutiny in public spending. Following these reforms, select committees came to be recognised as performing wide-ranging administrative scrutiny, with value for money and the pursuit of efficiency as their main concerns (Giddings 1994: 673).

In the US, in contrast, the lines contained in the estimates are numbered in the thousands (compared with hundreds in the UK). These resources allocations are not only amendable by the legislature, but the well-staffed Congressional Budget Office exists to scrutinise and amend these estimates line by line. Australia has recently amended its own estimates in order to include more specific spending details, for instance in the Defence budget, which was entirely covered by just one line in the supply estimates. Canada operates a good policy in which requests for resources are made through programme level spending updates, allowing even greater detail in both allocation and reporting of finances.

In addition to increasing the accountability and specificity of fiscal allocations, increasing the detail of estimates would also limit the power of governments to move funding around between departmental programmes, which can currently occur through virement without the requirement for parliamentary approval.

In Ireland, the virement of funds between line items is possible because the parliament, in appropriating money in the annual Appropriation Act, does so by specifying only the overall total of the vote for each department or office. The Minister for Finance thus has discretion for reallocating between line items. The manner in which this is done may be questioned by the Committee of Public Accounts, which comprises members of the Lower House. Therefore, the use of savings on one item to fund excesses on another is not automatic.

FACTORS CONDUCIVE TO SOUND SCRUTINY BY PARLIAMENT OF THE BUDGET AND FINANCIAL REPORTS

There are a number of factors that are conducive to sound financial scrutiny. Considering the role of parliament, the most effective way in which to achieve efficient and effective engagement with the budget, estimates and financial reports is set out in Box 1.

Box 1: Facilitating factors for financial scrutiny

Parliamentarians should have access to the appropriate support, resources and information for scrutinising the budget, financial reports and estimates. To strengthen financial scrutiny, in 2001 the UK Parliament established a House of Commons Scrutiny Unit, consisting of financial professionals. Nonetheless, specialist expertise on key areas such as tax issues continues to be absent.

Parliamentarians should have access to a research facility so that they are able to gain sufficient knowledge about often-complex financial issues, such as sovereign debt issues. They should also have access to learning and development support. For example, the UK Parliamentary Scrutiny Unit has hosted a number of financial management and reporting workshops for MPs. The key problem here has been that they are not well attended.

Sufficient parliamentary time and effective timetabling should be made available to promote discussion of the budget and estimates day debates. This remains a weakness in Westminster-style systems.

The quality of financial information provided to parliamentarians is critical. Financial reporting and accounts should be transparent, accurate, timely and reliable as this will ensure not only good policy but also effective engagement by parliamentarians.

CONCLUSION

The outdated ‘estimates supply votes’ that exist in Westminster-style systems are a key barrier to effective parliamentary scrutiny. Countries using the Westminster model of governance cannot realistically amend spending proposals and because of this there is no real possibility that their parliaments will reject such proposals, and many parliaments are barred from substituting a budget of their own. Instead, they are confined to assenting to spending proposals as they are put to them.

This antiquated estimates system existing across the case study countries present specific challenges to effective parliamentary scrutiny and it is difficult to see how these will be overcome without significant structural and cultural change. Parliamentarians see little point in getting involved in the technical detail of estimates that they will have little chance of influencing; the outcome has already been determined by government. As the Hansard Society in the UK notes, ‘the government decides the value of the cheque, to whom it should be paid and when, and Parliament simply signs it’ (Brazier and Ram 2006). The focus of financial scrutiny needs to be realigned with the budget, taxation and spending plans, and financial reports. To some extent projects such as the ‘clear line of sight’ (CLoS) initiative in the UK, which seeks to realign estimates with the budget and resource accounts, will go some way to addressing issues of complexity, lack of accountability and transparency. As the project is relatively new, however, it is still too early to evaluate how successful it will be in addressing these issues.

7. The rise of the independent fiscal institutions

This chapter explores the rise and popularity of IFIs. Although they are not directly part of parliamentary financial scrutiny they are involved in the independent examination of budget processes and fiscal policy.

THE GROWING TREND

There appears to be a trend in OECD countries (and globally) to establish IFIs or budget units, as their legislatures become more involved in the budget process. These bodies are commonly non-partisan public bodies that prepare macroeconomic forecasts for the budget and monitor fiscal performance.

The creation by parliament of an independent unit or body to assist parliamentary scrutiny and to undertake research can potentially address bias toward spending and deficits, and more generally enhance fiscal discipline, raise the quality of debate and scrutiny, and promote transparency and accountability (Von Trapp 2011). More generally, IFIs are often created as part of a broader package of reforms. This partly reflects pressure from the European Commission, IMF and OECD to introduce IFIs, and a growing recognition of the benefits of such institutions.

Budget processes are complex and often difficult to understand, requiring specialist knowledge and the time in which to research and gain full understanding of crucial issues. The inherent complexity of budgetary issues presents a barrier to effective engagement by parliamentarians, who are rarely trained in fiscal policy; in addition, numerous issues compete for their time and attention. The establishment of IFIs can add value in helping the state to navigate the budget, but they are not financial scrutineers acting on behalf of parliament. They have been introduced to provide independent analysis and forecasts of the economy and public finances.

In Canada, the legislation to establish a Parliamentary Budget Officer (PBO) was passed in 2006, and this promise was met in 2008 by appointing an Officer of the Library of Parliament (a position, that is, an individual as opposed to an independent office, placed within a non-partisan Library of Parliament, reporting directly to the Librarian of Parliament) (Sutherland 2011). This position was designated as the PBO, with authority to hire personnel and manage a budget, as stipulated by the Speakers of the two houses of Parliament. The position was established in response to political events rather than financial pressure. In particular, it was a reaction to public outcry at two reports of fiscal maladministration that had been reported by the auditor general. The legislation established a position and not an institution so the PBO cannot be considered to be an IFI.

Nearly three years later the PBO has demonstrated an impressive record of achievements, including five economic and fiscal updates and more than 20 research reports, which have achieved high praise (Brooke Jeffrey 2010). Even so, controversy still remains as to whether the connection with the Library of Parliament should be severed and a stand-alone office established, supported by legislation to strengthen accountability.

In contrast, the UK created an Office for Budget Responsibility (OBR) in 2010 and this was heralded by the coalition government as a response to shortcomings of the previous government, which had presided over the state as the financial crisis rocked the global economy. Citing the inadequacy of the existing fiscal framework, the OBR was created to provide independent fiscal and economic forecasts on which the budget could be based. The independence of the OBR was questioned by some, but became crucial in carrying out one of its first duties as it assessed the impact of spending cuts made by the new government as a response to the deficit.

In his address to the OECD annual meeting of parliamentary budget officials in 2011, the chair of the OBR, Robert Chote, described its establishment as a response to the need in the UK for credibility of fiscal management, which had been undermined pre-crisis by over-optimistic public finance forecasts (Chote 2011).

In comparison, the Australian government promised the introduction of a PBO in May 2011, but nothing has yet appeared. So far, Ireland has not introduced an IFI, although the Oireachtas supports the introduction of an Independent Economic Advisory Council and a separate Budget Review Council. This trend is not confined to the OECD countries, and is occurring in both presidential and parliamentary systems (Anderson 2009:8).

Generally, IFIs are staffed by non-elected professionals and mandated to provide non-partisan oversight of fiscal performance and advise on key aspects of fiscal policy (OECD 2011). Publicly funded, the IFI is supposedly independent of the government, and crucial to its functionality is the perception and realisation of its independent status. The challenge of maintaining impartiality is paramount for its success. Located within the Parliamentary Library, the Canadian parliamentary budget officer has faced particular tensions regarding his status; the legislation has had the affect of keeping the PBO out of Parliament. Also, conflicts have arisen in relation to parliamentary procedure, for example, the PBO was so far from considering himself a part of the parliamentary library office that when Parliament was not is session he issued to the media a major report on the costs to Canada of the war in Iraq. The parliamentary Opposition and media still desire that that the PBO should be an office rather than a position, reporting directly to a House standing committee, ie an American-type position with a large staff and matching the freedom from all constraint of the Office of the Auditor General.

In contrast, the UK OBR is an office and was initially situated within the Treasury, which raised questions from commentators about how independent it really was. Recently, it has relocated offices although it still receives analytical and research support from treasury staff.

CONCLUSION

Apart from the increasing popularity of IFIs and other models, such as the creation of non-partisan budget officers, across the case study countries, little has changed in relation to parliamentary financial scrutiny. IFIs have been introduced by governments to provide independent analysis and forecasts of the economy and public finances and are not bodies of parliament. They are also not a substitute for effective parliamentary financial scrutiny but can have a complementary role to play.

It is possibly too early to evaluate whether or not IFIs have been successful in enhancing financial discipline, raising the quality of debate on fiscal policy and improving accountability. It is, however, critical that at some stage in the near future they are evaluated to test whether they are operating effectively and are adding the value that was originally intended.

8. The role of select committees

This chapter considers the role of parliamentary select committees as a primary source of financial scrutiny and some of their limitations. Interviewees considered them to be a valuable resource, but their resources are often stretched and they risk taking on too much, with too little time and too few appropriate members.

SELECT COMMITTEES 'THE ENGINE ROOM' OF FINANCIAL SCRUTINY

Select committees are the 'engine room' of the legislature and, internationally, committee involvement in the budget process appears to be growing (Wehner 2006). Committees can facilitate technical debate and scrutiny, unlike the political grandstanding that usually characterises debate in the Chamber (Wehner 2006). The exact structure of committee involvement differs from country to country. For example, the Australian Senate introduced a departmental committee stage for the budget approval process as early as 1970, India in 1994, and the Ugandan and Zambian parliaments have recently created new select committees to consider budget issues.

In a number of cases a budget or finance committee has overall responsibility for the approval process. In some legislatures, it has sole responsibility for considering the draft budget; in others it acts as a coordinating body for the work of sectoral select committees on departmental budgets (OECD 2002; Wehner 2004) to assure itself that the budget it approved is implemented fully, efficiently and effectively. In addition, to assure itself that the budget it approved is implemented, the legislature also requires committee time for the ex post scrutiny of audit findings supplied by the supreme audit institution. Arguably, the most effective legislative vehicle for this purpose is a dedicated Public Accounts Committee (PAC) (McGee 2002; Wehner 2003).

A number of factors make for strong select committees, including a consistent and coherent approach to scrutinising estimates and departmental resource accounts, allocating sufficient time for debate and being adequately resourced with support staff, and appropriate terms of appointment for members. The democratisation of appointments to select committees in the UK in 2011 was seen as a turning point in their development for effective scrutiny. Also, factors such as the powers of select committees to summon individuals and access all relevant information help to make for strong scrutiny. Select committees also benefit from a perception, whether perceived or real, among parliamentarians and the wider public that their recommendations will be followed and that they exercise real influence in policy and budget processes. The challenges of select committees are captured below.

Select committees in the UK Parliament

There has been considerable growth in select committee activity at Westminster since the mid-20th century. There are now more select committees, more systematically organised, occupying the time and energy of many more MPs, receiving written and oral evidence from more ministers and officials (Giddings 1994: 669) than ever before. Nonetheless, there are serious concerns about the future capacity of these select committees to perform their vital role in supporting and providing scrutiny in Parliament.

There has long been concern that the growing use of select committees in Parliament would have a detrimental impact on Parliament itself: increased workload, decreased efficiency, and unsustainable pressures on the time and resources of ministers have been cited as potential limitations inherent to the system (Giddings 1994: 670). According to an interviewee: 'select committees are in danger of becoming victim of their own success, as they take on increasing workloads, including the scrutiny of pre-legislature bills and draft, post-legislature scrutiny, committee hearings for public appointments, and general research duties'.

Select committees operate in a changing landscape. When departmental select committees were established over 30 years ago, they operated as the sole means for scrutiny. In the contemporary political field, freedom of information (FoI), localism, devolution, a plethora of think tanks and access to continuous live media coverage are all forms of scrutiny. In this context, select committees must reconsider their priorities, and assess how financial issues can be incorporated more effectively in the new field of scrutiny.

The agency for change has also shifted away from its historic roots in government. Traditionally, the impetus to reform had to come from government, but this has shifted in recent years to give new power for reform to the

Procedure Committee, the Liaison Committee and Backbench Business Committee. 'These committees can and should act as conduits for institutional reform in the House' as highlighted by Dr Ruth Fox in interview.

Also, in response to the current localism reforms of the UK coalition government, the Public Accounts Committee (PAC) published a significant report examining the implications of such reforms to the functionality of Parliament. The report found that select committees were at risk of being overstretched by growing demands on their already limited resources, and that localism reforms could hand Parliament responsibility for holding innumerable local delivery bodies to account for their use of taxpayers' money, without adequate support or resources.

LIMITATIONS OF SELECT COMMITTEES

Although select committees are an important tool for scrutinising public finances they also have some limitations and these are explored below.

The usual suspects

Although some perceive the quality of skills to be sufficient for supporting select committees, many observers within and outside parliaments question the level of skills provided. Interviewees involved in this research from both Canada and the UK revealed that these concerns are expressed internationally. Nonetheless, there have been some notable changes. For example, in the UK select committee members are now elected by their fellow members and have to campaign about their work, rather than being selected by whips. This has the potential to change the dynamics of a committee. This is particularly the case for select committee chairs, many of whom produced manifestos when running for their positions in 2010.

Lacking action

Although research conducted by Russel and Benton (2011) shows that roughly 40% of committee recommendations have been implemented by the UK government, a frequent criticism of select committees is that recommendations made are not systematically followed up. As a result, a minister or government department may experience a general lack of pressure to make changes on a sustained basis. It is noteworthy that there is no mechanism for debating the Bank of England Annual Report; prior to 2008 such a debate could arguably have flagged up problems although such a claim is difficult to prove conclusively. Where select committees make recommendations there should be in place mechanisms for their implementation and evaluation.

A sense of direction

There is a lack of overarching strategy from Parliament to guide the actions of select committees in relation to scrutinising issues that cut across departmental boundaries. This has generally arisen because select committees often replicate the government departmental structure. Although this structure has it strengths it also can be an obstacle to 'joined-up' scrutiny. For example, in considering the extensive scrutiny required for private finance initiatives (PFI) in the UK, departmental select committees look at each individual department's PFIs rather than assessing the issue as a thematic/cross departmental issue on a higher level. Margaret Hodge, a UK Labour MP and Chair of the Public Accounts Committee (PAC), recently said that 'she wanted to review issues such as the PFI and procurement on a pan-government basis rather than in departmental "silos" and to ensure that findings were acted on'. The PAC is now moving toward longitudinal examinations of programmes to stop the avalanche of 'silo-based' reports recommending the same set of actions.

Resources for scrutiny

A particular threat following the extensive budget cuts is the scarcity of funding and resources made available for select committees. This has the potential to undermine their effectiveness. Despite calls for the establishment of sub-select committees in the UK to deal with increasingly complex scrutiny tasks and growing case loads, the parliamentary budget does not expand to allow for creation of additional facilities. As the remit of select committees expands, the resource allocation for them does not necessarily increase either. Although committee funding overall has increased in the past, since 2008 budgets have been cut as for everything else in the UK. Ironically, against a backdrop of reduced funding in Parliament and following drastic cuts to departmental budgets in 2010, the Scrutiny Unit of the House of Commons UK has noted a marked increase in fiscal scrutiny by the select committees.

CONCLUSION

Select committees are an important means of holding governments to account across the case study countries. They have a number of strengths including facilitating technical debate and scrutiny. Nonetheless, they also have a number of limitations, such as a lack of relevant expertise and skills, lack of action in following up recommendations and general inability to curb the abuse of government policy through their reports. If these issues are addressed this may go some way to making financial scrutiny more effective in the future.

What is clear is that an overarching strategic approach to financial scrutiny that guides select committees in their roles and defines their remit and resources will help them to manage the risk of taking on too much, with too little time, and with too few resources. Lessons should be learnt across the case study countries with respect to new financial scrutiny approaches. New methods of scrutiny, such as move towards longitudinal examinations of programmes initiated by the PAC in the UK, should be commended.

9. Holding governments to account: other ways and means

The accountability of public spending is critical because 'it is unlikely that key actors will invest effort in making a budget realistic if the execution is unaccountable' (DFID 2002: 6). This chapter explores other ways and means by which governments are held to account for their use of public money. It considers the vital role that sound financial information plays, the role of the accounting officer and of independent audit, as well as that of evaluation and monitoring systems. These are key means by which the legislature can exercise control over the executive for public spending.

FINANCIAL REPORTING PROMOTING TRANSPARENCY

As stated earlier, effective financial scrutiny is dependent on parliamentarians' access to sufficient information, which is provided through financial reporting of spending and accounts of governments. Not only should financial reports be reliable but they should provide a realistic reflection of services and performance. Outside the OECD, this is particularly significant in developing countries where assured levels of transparency can be a prerequisite for major aid donations. The IMF, OECD and World Bank all identify fiscal transparency as a major component of good governance (OECD 2002).

Even so, more financial information does not necessarily mean better financial scrutiny and better scrutiny does not always mean improved finances. If governments take seriously their own claims of promoting transparency and stronger parliaments, they must ensure that quality of information is not replaced by quantity of data. In 2011, the PAC of the UK Parliament reported concerns regarding the 'dumping' of data in a bid for transparency. Margaret Hodge MP, Chair of the PAC stated that: 'While we welcome the Government's commitment to transparency it is not good enough to dump data into the public domain. It must be analysed to be relevant, robust and fit for purpose. As responsibility for service delivery is devolved to new bodies government departments must clearly set out what they are expected to deliver, how they will be held accountable and what action will be taken should performance fall short.'

The drive toward transparency at all levels across governments is made possible by the development and widespread use of information technology. Pre-dating the financial crisis, the availability of desktop publishing software and the internet, and widespread access to and use of both, have had a significant impact on the abilities of governments to disseminate their data as well as their political message (Thain 2010: 61). In response to the quality over quantity debate, the PAC of the UK Parliament helpfully set out criteria that should underpin financial reporting, as shown in Box 2 below.

Box 2: The purpose of government financial reporting

The purpose is

- to provide parliaments and select committees with sufficient, timely, reliable and high-quality information with which to examine government departments' performance in carrying out policies, functions and programmes

- to provide sufficient information to Parliament to enable the consideration and approval of finance for services in the Appropriation Act

- to ensure the accountability of government departments to Parliament for the money spent.

- to provide Parliament with information on performance of government departments, measuring the economy, efficiency and effectiveness with which they operate services; this information can then provide the basis on which to conduct enquiries.

PAC 18th Report, 1988/89 cited in *RAB White Paper,* Jan 1995: 2).

Among the case study countries, Australia follows comparatively good practice by making its financial accounts publicly available within four months of the end of the financial year. The UK is following this example, although publication dates are not always consistent.

In addition to its requirements for financial information the OECD has also defined a set of best practices for budget information, as outlined in Box 3 below.

Box 3: OECD best practices for budget information

A comprehensive budget that encompasses all government revenue and expenditure, and includes performance data and medium-term projections.

A pre-budget report, stating explicitly the government's long-term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

Frequent and scheduled reporting that includes monthly reports and a mid-year report to provide a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term.

A year-end report that is audited by the supreme audit institution and a pre-election report that will illuminate the general state of government finances immediately before an election. In addition, a long-term report is needed to assess the long-sustainability of current government policies.

Following reforms to Australia's budget, documentation has been produced with new regularity and greater volume and scope (Hawke and Wanna 2010: 65). Despite this good practice there nonetheless remains a perception among some commentators that the Australian government uses cash or accrual figures depending on which figure provides them with the best political outcome. The challenge for Australia has been to ensure that this documentation is used for effective fiscal scrutiny, which must be demanded by both parliament and the wider population.

As outlined earlier, all the case study countries provide budget information that fulfils the above criteria to varying degrees and/or are striving to make improvements through their budget reform processes.

THE ROLE OF ACCOUNTING OFFICER

The use of accounting officers in the UK is intended to ensure that departmental spending, which comprises the overwhelming majority of public spending, is the direct responsibility of an individual. This is usually the most senior official within a government department. The accounting officer acts within the authority of the Minister, but has separate personal responsibility to Parliament for the management and organisation of the department, including the use of public money and the stewardship of its assets. The accounting officer model has a number of strengths as it promotes high standards of propriety in public spending and an understanding within government departments of the importance of securing value for money.

There is no clear demarcation between ministerial responsibility for policy and accounting officer responsibility for implementation. More recently, ministers have taken a closer interest in how their policies are implemented, and the present public service reforms will inevitably affect senior relationships within departments. These developments, taken to their logical conclusion, might be perceived as supporting the argument for a shift from the current ministerial accountability model to a collective model in which departmental boards would be held accountable for implementing areas of policy, such as securing value for money.

In Canada, the accounting officer's responsibilities are set out in the Financial Administration Act, which was formally adopted in 2006. Deputy Ministers are designated as accounting officers, and assigned statutory responsibility for the stewardship of their respective departments. The adoption of this system in Canada was influenced by the British model that dates from the 19th century, although some observers regard the formalisation of the accounting officer's role to be an exercise in aligning legislation with procedures that have been established and practised for some time (Jervis 2009). One significant consequence of these reforms is that the formalisation of the accounting officer model has acted in some ways as a substitute for financial scrutiny. This mirrors concerns from Australia, where critics claim the success of recent reforms is used to distract from or placate contemporary calls for further strengthening in financial scrutiny processes.

ACCOUNTABILITY THROUGH THE ACCOUNTING OFFICER

In 2011, the PAC of the UK Parliament reported that 'the personal accountability of the accounting officer forms the foundation of Parliament's ability to hold government to account for public spending'. These observations were part of a report looking at the challenges to parliamentary power in light of government reform. The PAC report investigated the implications for the power of Parliament to hold government to account for public spending, in light of decentralisation and localism proposals. These proposals, which form a tenet of post-crisis reform in the UK, envision significant devolution of responsibility for service provision to a wide range of new bodies, in some cases independent of both central and local government. The PAC found that:

- localism reforms risk weakening the system of parliamentary accountability for safeguarding taxpayers' money, at a crucial time when budgets are falling

- there is a potential conflict between the demands of accountability to Parliament and the devolution of responsibility for the provision of public services under the government's reform and localism agenda.

The report raised concerns that Parliament could be handed responsibility for holding innumerable local delivery bodies to account for their use of taxpayers' money, without proper support or resources. Given the tensions arising from recent government initiatives in the UK, one government department, the Department for Communities and Local Government, is currently undertaking a review of how demands of localism reform might be reconciled with the need for accountability to Parliament for public spending.

THE ROLE OF AUDIT

External audit in the public sector is an essential part of the process of accountability for public money and the governance of public services. The recent financial crisis has called into question the quality of audit in the private sector and a question has been asked as to whether auditors did enough to live up to their designated role (NBA 2010). Given the state of government finances around the world the same questions could be asked of audit in the public sector. In order for audit to provide public confidence and certainty in the systems of governance and public spending it is critical for each country to have a reliable and trusted audit system.

Each of the case study countries has a national audit office/function that fulfils this role and reports to a PAC. This is the most effective legislative vehicle for scrutiny in all these countries. All the national audit bodies are creatures of parliaments and have specific powers and duties to act on matters of legality. A distinguishing factor is that they have a regulatory objective to fulfil, whereby the auditor is required to provide assurance that the transactions recorded in the financial statements are in accordance with the relevant authority, legislation and regulations. The auditor generals can also carry out value for money (VFM) examinations of government entities. In Canada, performance audits take the lion's share of the auditor general's budget. Also, in all these countries, the majority of line ministries are subject to internal audit, although only in Canada and Australia are these prescribed by law. These audits tend to be guided by best practice guidelines and international standards for internal audit.

In relation to recent developments, the national audit functions are taking on more responsibilities. For example, in England the National Audit Office (NAO) is taking a more active role in providing technical and specialist support to select committees. The Hansard Society reported that the combined work of the NAO and PAC and the departmental select committees results in significant savings for government, but considerably more could be achieved. The fundamental question is whether long-term improvements in outcomes are achieved, wider lessons are learned and mistakes not repeated (Brazier and Ram 2006).

PERFORMANCE MONITORING FOR ACCOUNTABILITY

Performance monitoring can provide data that are accessible and relevant to scrutineers, including members of parliaments and the public, who are often concerned with outcomes rather than with the output-based assessment of programmes. These data must be objectively scrutinised to ensure that publications give useful and accurate reflections of government departments' programmes and services.

Output or performance management plays a major role in almost all countries that are reforming their public sector. It provides a measure for assessing the success of new policies and monitoring the performance of government departments in a clear and accessible way. Performance orientation is regarded as an essential prerequisite for increasing transparency and accountability in the public sector (Reichard 1998: 129). Despite widespread adoption of performance measures for fiscal reporting in government, the impact of such reforms on the budget process remains contested.

All case study countries make publicly available reports on their performance against targets, which are commonly published by government departments and agencies in the autumn. In every country reviewed, the performance information is reportedly used as part of the budget negotiations between the central budget authority and line or spending ministries. In reality, performance-based budgeting in many countries is not actually used to make fiscal decisions or to influence the budget.

In 1999, Australia was the last of the case study countries to introduce performance measures. Canada had been the forerunner, introducing a government-wide initiative for performance measures as early as the 1970s, followed by Ireland in 1996 and the UK in 1998. In the immediate years following the financial crisis in the UK, there was some evidence that the Labour government was awarding increasing significance to performance-related data in the formation of budgets (Thain 2010: 60). The use of public sector agreements (PSAs) was, however, abolished by the incoming coalition government, heeding claims by critics that the lack of clarity resulting from outcome-focused rather than output-focused assessment failed to provide fiscally sound data on which to allocate resources. Under the previous government, select committees in the UK had an active role in scrutinising government departments' performance against PSAs. Now that PSAs have been dispensed with the focus will be on government department business plans.

Among the case study countries for which information was available, the performance-based indicators were not used in a way that could be perceived as punitive toward departments. It was shown in 2008 that failure to achieve performance against targets rarely or never results in the elimination of related programmes, or in a negative impact on the pay or career prospects for responsible officials. Indicators were more likely to influence increased monitoring of the programmes concerned. In Canada and Australia there is a tendency to use measures of performance against targets for decision making in the Central Budget Authority and by the Cabinet, but the overall trend among all countries was not to use these measures in budget formulation itself.

SYSTEMATIC EVALUATION AND MONITORING OF REFORMS

> 'What was promised in reform announcements rarely get implemented in practice'.
>
> GOOD AND LINDQUIST (2010: 91)

Across the case study countries the present research shows no effective and systematic monitoring of reforms. The lack of systematic evaluation means that potentially reforms are costly and time consuming. For example, observers may tire of measures that are taken to achieve 'transparency' if these are perceived to be ineffective and costly or the concept itself risks becoming vague and overused.

Hawke and Wanna found that, in Australia, when central budget agencies announced reform initiatives, they did so without specifying objectives or explicit rationale. Governments have tended to be wary of defining specific goals for reforms, and instead have talked in generalities such as 'transparency' and 'efficiency' (and 'fiscal discipline') (Hawke and Wanna 2010: 66). This is also the case in the UK, where the Treasury and the Parliamentary Scrutiny Unit are wary of defining clear goals for reforms to 'improve transparency', such as the 'clear line of sight project'. It is not clear how this project will be evaluated against the aim of improving transparency.

In comparison, budgetary reform in Australia has occurred largely intermittently, and without a clear strategy to guide the changes. There has been no comprehensive or post-crisis review of the extensive reforms to Australian budgeting that have taken place since the 1980s (Hawke and Wanna 2010: 85). As is common in government practice, successive Australian governments have tended to be wary to defining specific goals for reforms, and instead have talked in generalities as set out by Hawke and Wanna above. This lack of clarity is exacerbated by the seminal Australian Charter for Budget Honesty Act 1998, which contains some key terms that are highly subjective and contextual; eg 'sound fiscal management' is described as managing financial risks prudently having regard to circumstances. Such lack of clarity leads Hawke and Wanna to conclude that 'the word means what the government wants it to mean' (2010: 73). In addition to defining specific goals, outputs or targets for reform, key terms and concepts should be clarified at the outset, in order to ensure a clear focus throughout implementation.

In Canada the auditor general annually reports that federal departments are not trying hard enough to measure performance and factor performance information into decision making.

CONCLUSION

Strong parliamentary financial scrutiny is supported by sound financial information, effective independent audit and clear responsibilities for accounting officers. These are key means by which parliamentarians can exercise control over the executive for public spending.

The research also shows that more financial information does not necessarily mean better financial scrutiny and better scrutiny does not always mean improved finances. Policy reforms also pose challenges for accountability and may place public money at risk. The PAC was generally found to be the most effective financial scrutineer, but even here changes are necessary to ensure that cross departmental issues can be addressed and recommendations followed up systematically.

More generally, there is a lack of systematic evaluation and monitoring of reforms, as well as patchy professional development of parliamentarians. These factors, together with the fact that potential resources and support could be undermined because of austerity measures pose challenges for effective financial scrutiny

10. Professional development of parliamentarians

This chapter explores the resources and expertise available to parliamentarians and sets out recent training developments and inititiatives.

The performance of a parliament is ultimately driven by the will of its parliamentarians, but this must be matched and facilitated by their understanding of the issues at hand. In order to scrutinise the budget and financial statements, parliamentarians must be able to engage with and understand the accounts and finances of the government. Given the myriad demands and the limited time and resources of parliamentarians and parliamentary staff in general, the complex issue of financial scrutiny is an issue not easily awarded the attention it deserves.

Unlike members of other professions, parliamentarians have no defined qualifications or criteria for their role; nor is there a professional supporting body (Coghill et al. 2008). On election into parliament, parliamentarians are often faced with highly demanding schedules and a new set of responsibilities for which they have had little or no formal training or experience.

Currently, the provision of specialised training for parliamentarians is severely limited. None of the case study countries provide a formal professional development regime; only ad hoc training opportunities are available. A recent report on professional development for MPs shows that where parliamentary officials and agencies have sought to implement parliamentary strengthening programmes, they have encountered a distinct lack of research in the area (Coghill et al 2008). Coghill et al. (2008) also show that where training and induction are of high quality, this is largely due to the professionalism of the House of Commons staff and/or parliamentary officers responsible for its provision rather than any structural arrangements for good training. In this, the experience of Australia mirrors that of Canada where scrutiny functions, while effective, arise from the professional conduct and personal standards of parliamentary officers rather than structural provision of good service.

There are two lessons to be taken from this experience; first, it is important to recognise the high quality of service offered by these officials, and the contribution that they make through self-regulation to the effective functioning of parliament and the democratic state. Second, this quality must be standardised and structural provisions made to guarantee their continuation. Internationally, the Inter-Parliamentary Union claims that training is being reported by fewer than half the parliamentary chambers of affiliated parliaments (Coghill et al. 2008: 79). The examples set out in Boxes 4, 5 and 6 illustrate the experience of different countries.

Box 4: Induction training for parliamentarians in Australia

A recent study of induction training for the Australian senate found that the training on offer was well designed and met, if not exceeded, the expectations of the new parliamentarians. Even so, these inductions were geared toward training senators in the functions and operations of the Chamber, rather than providing guidance on more specific tasks such as financial scrutiny (Coghill et al. 2008).

Box 5: A training programme for parliamentarians in Canada

In Canada there is no formal training programme and no introduction for staff to the budget cycle but, from time to time, information sessions are offered to members of parliament and their staff on financial procedures (HoCC Select Committees Directorate). Although there is a good history of hitting the budget, this is because of the professionalism and ethos of civil servants in the public service rather than parliamentary scrutiny, and recognition of this fact further removes the impetus for investing resources in developing the scrutiny function of parliament through training and other initiatives.

BOX 6: FINANCIAL TRAINING IN THE UK PARLIAMENT

The Scrutiny Unit in UK Parliament provides assistance to select committees in their duty of scrutinising government, including extensive involvement in the rolling out of the ‘clear line of sight’ project reforms. Chris Bryant, Labour MP, is one of the MPs who champion the promotion of training and induction for MPs in the UK, citing the current lack of formal provision as a cause for concern (Bryant 2011). Regarding specific matters and briefings, there is good-quality research and support offered by the parliamentary library and parliamentary researchers. Nonetheless, there is currently no commitment for the future to provide parliamentarians with either induction or professional development training on financial issues. While this is recognised by officials and MPs as being problematic, it is an issue on which there is no consensus and no agreed recommendations for further action.

OBSTACLES TO TRAINING

Historically there is resistance to training in any form and often an obstructive attitude among parliamentarians. According to one interviewee ‘parliamentarians think because they are elected they must know what they are doing’. This problem is not unique to one particular case study country: it occurs across the world. Unless parties agree to prioritise raising their members’ awareness, and account for this in their timetables and business, there remain serious restrictions on the development of MPs’ abilities to scrutinise effectively, particularly in respect to financial issues. Key obstacles to development and training are set out below.

1. There is an expectation that parliamentarians will ‘hit the ground running’, owing to the potentially short cycle of office in which they will serve. This is especially relevant in Australia where the parliamentary cycle is particularly tight.

2. Competing demands of parliamentarians’ time and attention limit their availability for training. These demands are often unpredictable and volatile, further restricting the ability of MPs to attend training (Coghill et al 2008: 81).

3. Training can only be undertaken on a voluntary basis by individual members.

4. Party discipline can motivate an MP either to forgo training for political reasons, such as conflicting demands, or conversely can be used to encourage attendance at training, potentially overcoming the barrier described above by offering a tangible and immediate benefit to the recipient. These considerations have led to the Hansard Society’s recommendation that training should be encouraged and that the whips should stress the importance of attendance at committee meetings. While there is unlikely to be much support from the party in government, it is feasible to expect considerable support from those in opposition.

5. Members of minor parties and independent members are further limited by having little or no information and advice from political party personnel (Coghill et al 2008: 77), yet it is these independent and minor party members who may be best placed to undertake scrutiny without the limitations of party discipline or considerations of career politics.

6. Programme cost is restrictive to implementation. The question of who is to fund or resource these professional development sessions remains pertinent. In the past, in the UK funding has mainly been undertaken by the House of Commons or on a voluntary basis by organisations such as the Hansard Society. Raising financial support for training is particularly difficult given the complexity of illustrating the overall fiscal cost versus the measurable outcomes in the short and long term (Coghill et al 2008).

7. There is very little motivation for MPs to be interested in budget scrutiny. Unless it is sensational, the press and public are not interested, even in the middle of a financial crisis. Considering the current situation in the UK, Coghill et al. question the incentives for MPs to invest and engage in fiscal scrutiny while the current system denies them the chance to change budgets. Coupled with this disincentive, there is a perception of little interest among the public, the political parties, or the MPs themselves.

8. Time is a valuable resource in short supply. From scheduling MPs inductions, backbenchers questions, and holding debates, the proceedings of parliaments are consistently cited as a key factor in restricting scrutiny. In response, parliaments must be more efficient with the limited resources that they have, and must prioritise scrutiny when timetabling.

So what are the actions parliaments have to take to overcome the lack of training and development on financial issues? The present research supports Coghill et al.'s finding that it is a legitimate, non-partisan role for each chamber of parliament to provide continuing professional development for parliamentarians. Training should have a dual focus; explaining and clarifying the scrutiny role to parliamentarians and highlighting the resources available and where to find them.

WAYS OF OVERCOMING THE OBSTACLES COULD INCLUDE THE FOLLOWING.

- Hosting separate training events for parliamentarians and other staff, to encourage participation. The potential for partisan conflicts of interest should also be taken into account when scheduling training events.

- Introducing training at the start of office, when parliamentarians are enthusiastic and open to new ideas.

- Extending training and education more widely to researchers in order to improve their function and the support provided to parliamentarians. Research support of financial issues would be enhanced and would result in better-quality research. This can be facilitated by ensuring that researchers are well paid and employed in long-term rather than short-term contracts.

- Providing structured training with a focus on the skills and competencies required to function effectively immediately upon election, as well as continuing development for the specialist skills required for such roles as committee chair or parliamentary secretary and so on up the career ladder (Coghill et al. 2008).

- Use of party discipline to encourage participation in training and development.

Although the above provide examples of how to overcome the obstacles to effective training and development of parliamentarians, the training sessions are no substitute for the use of existing experts to support the financial scrutiny. Each will enhance the other. More generally, while training and education can empower parliamentarians and provide them with the knowledge and skills required to tackle fiscal documents, there also needs to be a cultural shift to promote democratic systems in which this scrutiny is not only facilitated but also desired. Parliamentarians are frank about their lack of understanding and engagement with fiscal figures. This has the potential to breed complacency.

CONCLUSION

Overall the research identified a need for greater awareness and empowerment through training and professional development within parliaments to facilitate fiscal awareness and promote a culture of scrutiny at the individual and institutional levels. This is a critical area that requires addressing across the case study countries. Generally, there is resistance to training in any form and often an obstructive attitude among parliamentarians.

11. Overall conclusion

Parliamentary financial scrutiny is a complex task, not least because of the issues raised throughout this report. It is critical for the legislatures and the executives to approach this in the right way and use the financial crisis an opportunity to have a fundamental re-think about how they can improve financial scrutiny. The evidence suggests that financial scrutiny may not be taken seriously enough nor, indeed, seen as strategically important. This is reflected in the low levels of change seen since the financial crisis began in 2008. This finding is particularly worrying because of the significance of public spending and severity of austerity measures being introduced by governments.

Politicians will need to improve their performance and embrace training and professional development on financial issues both to increase fiscal awareness and to promote a culture of scrutiny at the individual and institutional levels. Although innovative attempts have been made across the case study countries through induction programmes, providing technical support and resource, this is not nearly enough. The growth of Independent Fiscal Institutions (IFIs) is a positive development in engaging politicians in fiscal scrutiny, but IFIs should not be seen as substitutes for effective parliamentary financial scrutiny. In addition, many are still new and their effectiveness has not been evaluated.

The outdated 'estimates supply votes' that exist in Westminster-style systems continue to be a key barrier to effective parliamentary financial scrutiny. If financial scrutiny is to be strengthened in the long term, structural and cultural change will be required. In addition, parliamentary select committees continue to be an important means of holding governments to account across the case study countries but they have a number of weaknesses such as a general lack of skills, lack of action in following up recommendations and general inability to influence government policy through their reports. These limitations will need addressing by parliaments to improve performance on financial scrutiny.

The severity of the austerity measures pose new dangers to the resources made available to parliamentary financial scrutiny, and these may become more acute in the future. It will be important for resources and technical support to be safeguarded from unreasonable cuts in the future. In addition, the drive for fiscal transparency, although welcome, does not necessarily mean more accountability. More data do not necessarily mean better information, and can conversely diminish the accountability that they are supposed to promote.

Overall, parliamentary financial scrutiny on its own may not prevent the next financial crisis, but it is a vital part of a nation's governance by holding the executive to account for public finance. If done well it may help manage the risks of future financial crisis and potentially the future risks of a downgrading of a country's credit rating.

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