



HOUSE OF COMMONS

Why? What? When? and How? –



Better Financial Scrutiny

A Guide for Select Committees

Why? What? When? and How? – Better Financial Scrutiny

A Guide for Select Committees

Select Committees play a critical role in holding the Government to account for the implementation and effectiveness of policies and programmes. Central to this is ensuring that public money is well spent – that it not only delivers the desired outcomes, but does so in the most cost effective way.

Why?

Greater accountability for public funds

Better decision making in the future

Improving value for money

When?

At policy development – gathering evidence

During policy implementation – monitoring milestones

After policy implementation – measuring performance and reviewing lessons

What?

Looking at financial decisions and consequences

Considering what is planned/has happened and impacts of decisions

How?

Clarifying policy objectives

Analysing facts

Identifying policy outcomes

This document shows how financial scrutiny can be linked to each stage of the development and implementation of a policy or programme. It gives some ideas for the types of questions that can be asked and what a good or poor response might look like. It also explains how the Scrutiny Unit can help.

This guide was written by staff of the Scrutiny Unit. The Scrutiny Unit supports Select Committees in the House of Commons. It provides specialist expertise to Select Committees, especially (but not exclusively) on financial matters and draft bills.

The Role of Departmental Select Committees in Financial Scrutiny

Committee core task: “to examine the expenditure plans, outturn and performance of the department and its arm’s length bodies and the relationship between spending and delivery of outcomes.”

One of the departmental Select Committees’ main roles is to examine the expenditure plans and performance of the associated department. Financial scrutiny of the **department as a whole** is carried out through analysis of key documents that Departments produce such as their:

- *Annual Report and Accounts* – which reports on spending for the previous financial year, and shows the assets and liabilities at year end;
- *Mid-year Report* – this gives an update on spending and performance of the department, mid-way through the year;
- *Main Estimate* – this covers the expected spending for a department for the financial year, and is presented to Parliament for approval, setting the Department’s budgets and cash requirement for the year;
- *Supplementary Estimate* – this is presented to Parliament when a department changes its budget limits or cash requirement during the financial year.

But financial decisions are not limited to events in a Parliamentary or financial calendar

Almost everything Government– and its various agents– does, every day of the week, involves making decisions about spending public money.

The following sections show how Committees can consider and question financial decisions at any stage in policy development and implementation. The diagram on page 7 provides a summary of how scrutiny can work in practice through the various stages.

Better financial scrutiny can ...

Influence and improve policy, delivery and implementation throughout the lifetime of a project or programme

Help money be spent more wisely in future projects

Hold those to account for past decisions and avoid repetition of past mistakes

Identify weaknesses in how government departments operate and help improve them

POLICY DEVELOPMENT AND IMPLEMENTATION CYCLE

Financial issues occur at every stage of policy development and implementation. All policies and programmes need to go through similar stages of development. These stages can overlap or last for many years at a time.

Illustrated by DECC's policy of encouraging green energy production:

Policy aims:

To improve energy efficiency; to reduce green house gas emissions

Strategy:

To encourage green energy production; to provide support to households to make houses more efficient

Delivery:

Levies on energy bills to support green energy and to fund home insulation. Contracts with energy companies to encourage green energy production

Implementation:

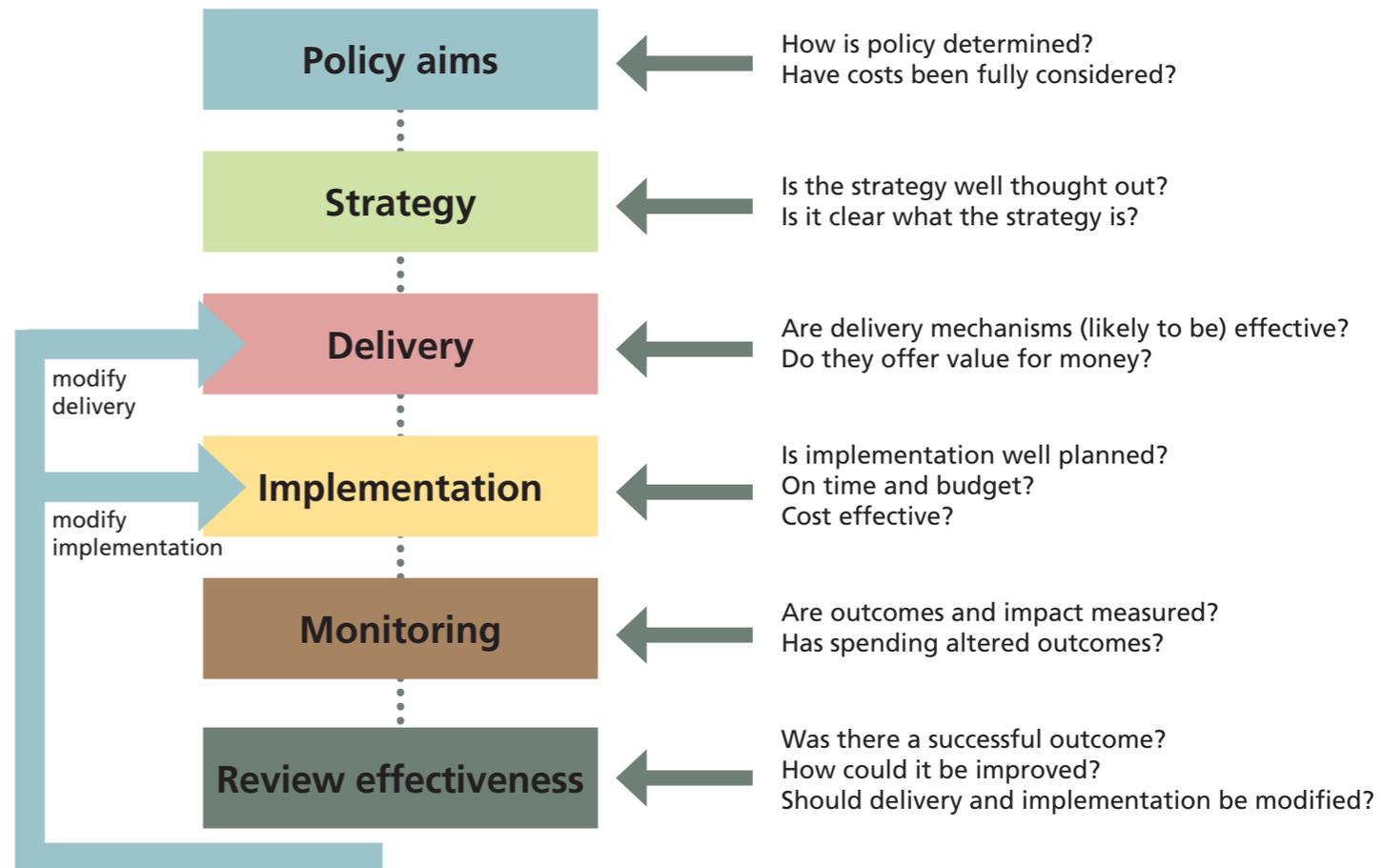
Establishing legal and contractual framework; Setting up funding arrangements; Preparing partners and providers; launching and promoting schemes

Monitoring:

Monitoring of spend and take up of schemes monitored. Measuring impact on energy efficiency and greenhouse gases

Review effectiveness:

Effectiveness of spending programmes against policy objectives assessed. Revisions to arrangements considered to improve delivery and effectiveness



The following sections give a guide to approaches Select Committees can take in conducting financial scrutiny. They give ideas for lines of inquiry and what to look for in answers.

For each stage of a policy’s development there are:

■ **Themes**

common relevant areas to consider

■ **Lines of inquiry**

generic financial scrutiny questions

■ **Positives and negatives**

what to look for in responses to these questions

■ **Scrutiny in practice**

an example of how a Select Committee has conducted financial scrutiny at this stage in the policy cycle

1. POLICY AIMS			
Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> • Balance of priorities • Consistency with objectives and other policies • Aims and intended impacts • Cost saving • Justification/ business case • Fairness and equity 	<ul style="list-style-type: none"> • How are priorities determined? How openly, transparently, consultatively is this done? • What are the aims? And intended impacts? • How does it tie in with other policies? • What are the financial and policy benefits of intervention? Does it save money long term? • Are different people, groups or organisations being treated fairly? Or is a specific group deliberately being targeted? • Are the aims specific enough so that a later review can ascertain whether or not they have been achieved? 	<p>Evidence based needs.</p> <p>Aims and intentions clear, and consistent with other policies.</p> <p>Financial benefits clear or measurable.</p> <p>Different groups targeted for sound reasons or treated fairly/equitably.</p>	<p>Lacking in evidence. Decisions based on assertion or ideology and evidence unclear.</p> <p>Consultation narrowly based or not fully considered.</p> <p>Aims or objectives not clear, or conflicting.</p> <p>Rationale for government intervention not clear. Costly interventions likely to offer poor value.</p> <p>Not clear why specific groups are being affected more than others.</p>

SCRUTINY IN PRACTICE Scottish Affairs Committee examines the validity of the Scottish Government’s policy aim of maintaining currency union with rest of UK, if Scotland were to separate

The Scottish Affairs Committee questioned the Scottish Government’s adherence to a single policy option of maintaining a currency union with the rest of the UK in the event of Scottish separation. The Committee used evidence from various sources to look at the currency options available to an independent Scotland, recommending that the Scottish Government considered back-up plans and possible alternative options, in the light of the UK’s likely unwillingness to enter a currency agreement with an independent Scotland.

2. STRATEGY

Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> Evidence base Option appraisal Impact assessment Cost-benefit analysis Value for money Consultation Delaying strategies 	<ul style="list-style-type: none"> How sound is the evidence? What other options were looked at and why were they ruled out? Was a cost-benefit analysis or impact assessment carried out? What do these show? Will spending be pushed elsewhere? Who was consulted? What responses were received? Why is it taking so long to develop? What are the key risks and were they adequately considered? 	<p>Evidence-based decisions on likelihood of effectiveness of strategy.</p> <p>Range of options considered and appraisal/selection on sound basis.</p> <p>Broad consultation took place with public or interested/affected groups and their views were considered.</p> <p>Costs and benefits overall calculated and option selected offers value for money.</p> <p>Cost savings do not lead to hidden cost pressures elsewhere.</p>	<p>Strategy vague or untested. Little evidence of likely success.</p> <p>Only one option seriously considered or others dismissed.</p> <p>Costs and benefit assumptions dubious.</p> <p>Likely cost of outcomes high, offering poor value for money.</p> <p>Savings in one area push cost pressures to another budget.</p> <p>Consultation cursory or not seriously considered.</p>

SCRUTINY IN PRACTICE EFRA Committee examines the Department's strategy of flood defences

The Environment, Food and Rural Affairs Committee questioned the Department of Environment, Food and Rural Affairs on its strategy of reducing levels of maintenance spending on flood defences while maintaining capital investment. The Committee was able to highlight the fact that long term commitments on capital investment for flood defence had not been matched by commitments on maintenance and the potential implications this had. The Government noted that there was an additional £5 million for maintaining new flood defences. However for low risk areas, they were going to be reliant on local landowners and farmers for maintenance.



Member: Just going back to additional capital funding for flood defences, this is good news, but how will the upkeep of these new flood defences be paid for when the maintenance flood budget has been falling steadily since 2010 and is set to continue? As an aside, are you passing over some of that maintenance to the drainage boards, where they exist?

Witness: We have an extra £5 million for maintenance to cover these new assets we are going to have. The Environment Agency, like every other Department, has had to make efficiencies, and it has made 33% efficiencies on the back office.

Member: My particular issue is how we are going to make sure, in the long run, that the capital schemes are properly maintained. If the Environment Agency do not have the funds, are you looking at ways in which the landlords or the internal drainage boards can manage them? This is a real issue

Witness: I have just said that, in the extra assets we are investing, there will be an extra £5 million for maintenance ... What I am proposing, if the pilots work out successfully, is that, on low-risk rural waterways, the work should be done by local landowners and farmers, with overall supervision by the Environment Agency.

3. DELIVERY			
Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> Value-added Cost effectiveness Risks Skills Changes Realism Timescales Long-term issues e.g. management of assets, scope for pulling out, liabilities 	<ul style="list-style-type: none"> What value does the spending add? Is it the most cost effective approach? What are the risks and risk management strategies? Does the organisation have the skills needed to deliver? Is there a proven track record? When changes are made are they carefully considered, or knee-jerk? Is the delivery plan realistically deliverable? Is there a clear timescale for delivery? Is there a withdrawal/winding up plan? Does it leave sustainable outcomes? Does the plan consider how delivery will be monitored, for example are metrics and performance indicators agreed at this stage? 	<p>It achieves more than the private sector could do on its own.</p> <p>It offers good value for the taxpayer.</p> <p>People with suitable skills have been recruited or trained.</p> <p>Changes are thoughtfully implemented, taking account of experience or other evidence.</p> <p>Deadlines and targets are clear and realistic.</p> <p>There is a plan for winding up support and replacement arrangements or legacy.</p>	<p>It provides costly interventions or those which might happen anyway.</p> <p>Government is intervening in an area where others are more expert.</p> <p>Risks of non-delivery, slow delivery, and costly delivery are real.</p> <p>Changes ill-thought through, rushed or not well developed.</p> <p>Over-ambitious or unrealistic timescale; alternatively too open ended.</p> <p>Once support is withdrawn, there is no plan for the future, and the outcomes disappear.</p>

SCRUTINY IN PRACTICE ECC Committee reviews take-up of green initiatives

The Environment and Climate Change Committee questioned the Department of Energy and Climate Change on the slow take-up of certain green and fuel poverty initiatives and the levels of underspends which have arisen, and whether the means of delivery chosen have always offered the best route to delivery of objectives, The Department has indicated instances where it has reviewed eligibility criteria or amended programmes to better meet objectives and improve take up.



Member: The budget of £125 million on Green Deal Cashback*, which I think has been raided to the extent of £2.8 million so far, meaning that there is £122 million left in the box, is that going to be distributed next year or is that being transferred to the local authority fund?

Witness: That is the pot of money that is being used for the Green Deal communities.

Member: You have taken the cashback and put it into the Green Deal communities?

Witness: There will still be some cashback funding for individuals that will be there, but we decided we would allocate—because we can't see it all being used by the end of this financial year—a big slug of it to the Green Deal communities because we want that money to be spent on energy efficiency, helping people reduce their bills.

Member: So the cashback advert, "Hurry, get your cash back before it runs out" turns out to be rather truer than we thought?

*The Green Deal Cashback is a scheme where households in England and Wales can claim cash back from Government for energy saving improvements like insulation, front doors, windows and boilers

4. IMPLEMENTATION			
Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> • Programme/project management • Skills • Capacity • Interactions with others (e.g. gov't/private sector) 	<ul style="list-style-type: none"> • Is suitable programme/project management/governance in place? • Are there the right skills in the right place? • Does the organisation have the capacity to deliver? • Are interactions with others (e.g. partners/stakeholders) taking place? 	<p>The accountability structures are clear.</p> <p>The project/programme has clear timetables, governance arrangements, and people with proven skills managing it.</p> <p>The staffing resources are sufficient to manage the programme.</p> <p>There is a framework for involving interested parties and their views are considered and taken on board.</p>	<p>The planning is rushed, ill-thought through and poorly governed.</p> <p>Independent assessment casts doubt on capacity or skills to deliver.</p> <p>Timescales may be over-ambitious and risks not fully considered or managed.</p> <p>There is little interaction with stakeholders and partners or little account taken of their views.</p>

SCRUTINY IN PRACTICE Work and Pensions Committee reviews welfare programme

The Work and Pensions Committee used evidence from the National Audit Office and others to question issues related to the implementation of the Universal Credit programme, which seeks to bring together a number of welfare programmes and better incentivise work. The Committee questioned the Department of Work and Pensions on the reasons for the levels of write-downs in assets associated with the project, slower than originally planned implementation and the Department's governance and risk management arrangements for the project.



Member: With respect, I am not certain it was two and half years ago, but the Secretary of State told this Committee that the system [for Universal Credit] that had been set in place then was working. It clearly was not, because it has had to be changed so often, so what is working now?

Witness: The system that was being built then and the system that was deployed in pathfinder is working. I was in Hammersmith last week sitting with one of our agents watching her using the computer; the system works.

Member: Why then are paper and pencil still being used in certain—

Witness: I did not see any paper and pencil on the table at all.

Member: The Committee has.



The Liaison Committee at work

5. MONITORING

Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> Approaches Measurement of outcomes Information flows 	<ul style="list-style-type: none"> What approach is being taken to monitoring? Are metrics/indicators agreed in advance? Are systems in place to gather information and analyse outcomes? And are they received in good time? Can outcomes be linked to inputs? Is the measurement benchmarked (e.g. against comparable programmes or targets)? 	<p>Clear, measurable indicators and suitable targets linked to aims, consistently used across a period of time to track changes.</p> <p>Evidence of link to spending activity.</p> <p>Benchmarks or comparators with equivalents elsewhere, or activity without spending etc. demonstrating benefits.</p>	<p>Lack of meaningful indicators, long time-lags, or lack of clear linkage to spending activity.</p> <p>Indicators change making trend analysis difficult.</p> <p>No benchmark to compare costs or outcomes against.</p>

SCRUTINY IN PRACTICE Liaison Committee recommends that departments produce Mid-year reports so public can better monitor activities and spending

The Liaison Committee recommended that Government produce Mid-year Reports on spending and performance of Government Departments, to enable Committees and the public to better monitor the activities and spending of Government between publication of Annual Reports and Accounts. After a pilot project with two departments, Mid-year Reports were introduced annually by all major departments, in a form designed to be helpful and digestible to Committees. Committees have used these reports to question Government on various aspects of their work, and will continue to seek further improvements to these Reports in the future, such as better information on major projects.

6. REVIEW EFFECTIVENESS

Themes	Lines of Inquiry	Positives	Negatives
<ul style="list-style-type: none"> Progress Effectiveness VFM Modification Alternatives Feedback 	<ul style="list-style-type: none"> Is progress as expected? Are intended outcomes being achieved? Is value for money being reviewed? Is the programme modified in the light of experience? Are views of those affected considered? And those involved in delivery? 	<p>Progress on track.</p> <p>Outcomes in line or exceeding expectations.</p> <p>Clear cost benefits in line or better than expected demonstrating value of spending.</p> <p>Views of others taken into account to improve effectiveness or value of programme.</p>	<p>Unforeseen delays in delivery and/ or spending.</p> <p>Not clear whether spending has added much.</p> <p>Value less than expected or poor in relation to similar activities.</p> <p>Lessons not learnt for future.</p> <p>Views of partners/ stakeholders ignored.</p>

SCRUTINY IN PRACTICE CLG Committee examines the system for regulating social landlords

The Communities and Local Government Committee examined the system for regulating and assessing the financial viability of registered social landlords (housing associations). The Committee found that the system of regulation had flaws and a full range of assessments of financial viability ratings was not being used. The Committee recommended that ratings used should be reliable and capable of being understood. The Regulator has introduced some changes designed to improve the transparency and confidence in the arrangements.



Chair: I want to pick up on one point... When I look at the ratings... there is a rating of V3: "The provider's financial viability is of concern and in agreement with the regulator it is working to improve its position". That sounds like a problem case to me, yet not a single association is rated in that category.

Witness: We tend to use the governance rating as the way of signalling our concerns about an association, because it is the Board that is responsible for both the financial viability and-

Chair: Why do you have a financial viability rating if you do not use it in those circumstances, then?

Witness: We do use it, but the circumstances-

Chair: It is not used for anybody here. Apart from Cosmopolitan, which is obviously in the bottom section, there is not a single organisation rated in V3. Everyone else is basically good or very good.

Witness: I see the point you are making.

Chair: It is quite an important point, isn't it?

Witness: It is. A conclusion, though, that an association is not viable is a very serious conclusion to come to, because it is not simply saying that there are issues to address.

Chair: The wording is not "not viable". It says, "Financial viability is of concern". Not a single association in the country concerns you with regard to their financial viability.

Witness: The issue that highlights is the difficulty of giving a grading that could trigger a re-pricing.

Chair: So is it not worth the paper it is written on.

Sources of Evidence

Set out below are documents which can be used to scrutinise Government policy.
The Scrutiny Unit can assist committees and their staff in assessing any of these documents

Departments Annual Reports and Accounts Mid-year Reports Estimates (Main and Supplementary) Impact assessments Performance indicators	Parliament Committee reports Oral evidence Written evidence Written Ministerial Statements Hansard debates
Treasury Budget Autumn Statements Spending Reviews	Other sources Value for money studies (National Audit Office) Macro-economic fiscal forecasts (Office for Budget Responsibility) Statistics (Office for National Statistics/OECD) Research papers (think-tanks/universities)

THE SCRUTINY UNIT

What can financial experts from the Scrutiny Unit offer?

We use our expertise to relate it to Committees' examination of government's policies and programmes.

We work closely with Committee staff, whether assisting in inquiries, briefing or questioning, or examining any relevant financial documents which Government and others produce

Examples of the sort of work we can undertake include:

- Reading and interpreting complex financial documents (e.g. Estimates, Accounts, spending proposals)
- Analysing and reviewing evidence, assumptions, others' analysis, comparators etc.
- Economic analysis, review of option appraisal, impact assessments etc.
- Explaining principles in simple terms
- Identifying issues, or distinguishing between issues and non- issues
- Looking for gaps in information, or incomplete evidence or information
- Finding the story in the data

- Framing questions in the right way so that they make best use of information and elicit useful answers
- Interpreting the responses and knowing when and how to follow them up
- Working with others to improve the quality of information provided
- Drawing on experience from past or similar cases, best practice and from other experts to make comparisons
- Comparing and linking spending to published performance information

Please contact us if you think we can help you in these or other ways, either by getting in touch with your regular financial scrutiny contact in the Scrutiny Unit, or by contacting the Head of the Finance team, Larry Honeysett, at honeysett@parliament.uk (020 7219 1354) or scrutiny@parliament.uk

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SCRUTINY UNIT

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