



Treasury Minute on the Second and Third Reports from the Committee of Public Accounts 1994–95

2nd Report: The Sports Council: Initiatives to Improve Financial
Management and Control and Value for Money

3rd Report: Merseyside Development Corporation: Grand Regatta
Columbus and Fanfare for a New World Concert

**Presented to Parliament by the Financial Secretary
to the Treasury by Command of Her Majesty
March 1995**

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TREASURY MINUTE DATED 22 MARCH 1995
ON THE SECOND AND THIRD REPORTS
FROM THE COMMITTEE OF PUBLIC
ACCOUNTS, SESSION 1994-95

Second Report

Department of National Heritage

The Sports Council: Initiatives to Improve Financial Management and Control and Value for Money

On the setting up of the Council Group

PAC conclusion (i): It is essential that proper arrangements are in place to account clearly for the use made of public funds. These arrangements require public bodies, such as the Sports Council, to maintain full arm's length relationships with non-public companies, such as the Trust Company and its subsidiaries. We are therefore concerned that it has taken the Council some four years to recognise the need for such arrangements which are only now being put in place.

PAC conclusion (ii): We note the steps the Council have taken to introduce the necessary degree of separation between themselves and the Trust Company; and the moves to establish an agreement covering the administrative arrangements (service level agreement) between the two parties

1. The Department of National Heritage (the Department) and the Sports Council accept the Committee's concern at the delay in establishing an appropriate framework for the relationship between the Sports Council and other companies in the Sports Council Group, and welcome the Committee's endorsement of the steps that have been taken to regularise the relationship.

2. As reported in the joint memorandum from the Department and the Sports Council at Appendix 4 of the Committee's Report, the Department will make it a condition of the Financial Memorandum between the Department and the Sports Council that the Sports Council should in turn put in place a similar document between itself and the Sports Council Trust Company (SCTC). This document will meet all the objectives of the Committee in securing transparency in and accountability for flows of public money between the Sports Council and the SCTC, the protection of future publicly-funded assets in the hands of the SCTC, and the avoidance of conflicts of interest between the Sports Council and the companies in the Sports Council Group. The SCTC has accepted the terms of the document, and is seeking the formal approval of the Charity Commissioners for its introduction.

PAC conclusion (iii): We are surprised that the formation of the Council Group, which introduced a complex commercial structure involving a high risk of potential impropriety, had only generated £28,000 of profits for the Trust Company in the first two years of operation, following the repayment of £72,000 by the Trust Company to Sportspartner Limited in March 1994. We are also surprised that the Council were not aware of this latter transaction until after the payment had been made.

PAC conclusion (iv): We are therefore disquieted to learn of the real conflicts of interest that arose, which disadvantaged the Council financially in contractual arrangements with Sportspartner Limited and which did not conform with Treasury guidance or with Government best practice. We are also concerned to note that the arrangements with Blenheim SportsCo Limited had put at risk Council funds.

3. The Department and the Sports Council accept the concerns expressed by the Committee about the complexity of the arrangements put in place by the Sports Council and the lack of value for money in the approach adopted, and note that the Sports Council proceeded in this way against the wishes and advice of its sponsoring department at the time, the Department of the Environment. The SCTC has now decided to simplify its company structure and will dispose of its interest in Sportspartner Ltd as soon as practicable. The Sports Council and the various parties are also reviewing the contractual arrangements for the Sports Council's annual Recreation Management (RECMAN) seminar and exhibition, and

Sportspartner Ltd's controlling interest in Blenheim SportsCo Ltd will be considered in that context.

4. The Department and the Sports Council also accept that the Sports Council and public funds were disadvantaged in contractual arrangements with Sportspartner Ltd. The Department has reduced the Sports Council's grant-in-aid in 1994-95 by £73,000 in order to ensure that this does not involve a loss to public funds.

5. The Department and the Sports Council also accept that the contractual arrangements with Blenheim SportsCo Ltd in respect of the RECMAN seminar contained the potential for risk to public funds. The Sports Council will ensure that in future it complies fully in all respects with Treasury guidance on, and best practice in, contractual matters.

PAC conclusion (v): We are particularly concerned that the former Director General and Accounting Officer and the former Finance Director had conflicts of interest, despite numerous reports by this Committee drawing attention to such dangers. We are also surprised that, although the former Director General had resigned as a director of Sportspartner Limited when potential conflicts of interest had been brought to his attention, he had remained a director of the subsidiary company, Blenheim SportsCo Limited. We consider it essential that arrangements are put in place to avoid the risk of further conflicts of interest in the future.

6. The Department and the Sports Council accept the Committee's views on potential and actual conflicts of interest within the Sports Council Group. The document regulating the relationship between the Sports Council and the SCTC stipulates that the SCTC shall take steps to ensure that each of its subsidiary companies operates at arm's length from the Sports Council, and that the Sports Council and the SCTC will ensure that no director or employee of a subsidiary company shall be a member of the Sports Council or hold any remunerated position in it.

7. The Department has also made clear to the Sports Council its firm general view that, where the Sports Council makes grants to a third party, its proper objectives of securing appropriate control should be achieved through comprehensive terms attaching to its support, with observer status, rather than through assuming the direct responsibilities entailed in directorships, which may cause conflicts of interest. The Committee may wish to note that the Sports Council has, in consequence, reviewed and relinquished directorships held by Sports Council members and officers in the National Coaching Foundation and its trading arm, and is reviewing its directorships in other bodies.

8. The Committee may also wish to note that the former Chairman of the Sports Council has resigned as Chairman of the SCTC, and that that position is now held by one of the Vice-Chairmen of the Sports Council. The former Director General of the Sports Council has also resigned his position as Chief Executive of the SCTC. The Chief Executive has not been replaced, and the day to day running of the SCTC's affairs is now in the hands of a Company Secretary and Administrator reporting to the Chairman. The Sports Council has also strengthened its membership of the SCTC, and is in a majority on its board of directors.

9. The former Chairman of the Sports Council has also resigned as Chairman of Sportspartner Ltd, and the former Finance Director of the Sports Council, who is Sportspartner Ltd's Chief Executive, and other employees of the company, have been given appropriate notice.

10. In the Department's view, these steps fully meet the Committee's concerns regarding conflicts of interest.

PAC conclusion (vi): We note with serious concern that the holding company for [the Sports Council's trading] activities, the Trust Company, having been set up apparently to trade outside the control of the Department, was largely publicly funded. We welcome the steps that have now been taken to re-assert the necessary degree of control over the affairs of the Trust Company.

11. The Department and the Sports Council accept the Committee's views and welcome its support for the range of steps that have been taken in relation to the Sports Council Group.

PAC conclusion (vii): We recognise, that for the purposes of this particular study, the National Audit Office have been granted specific access to examine the activities of the companies in the Council Group. But we were concerned that they did not have explicit and continuing access rights. We note that such access rights have now been secured.

12. The Department and the Sports Council note the Committee's points. The document regulating the relationship between the Sports Council and the SCTC stipulates that the SCTC shall grant to the Comptroller and Auditor General and his staff full and complete rights of access for the purpose of:

- (a) the examination of the Sports Council and Sports Council Group's Accounts; or
- (b) any examination pursuant to Section 6(1) of the National Audit Act 1983 (or any re-enactment thereof) of the economy, efficiency and effectiveness with which the Sports Council have used their resources.

The Comptroller and Auditor General may also examine such documents as he may reasonably require which are owned, held or otherwise in control of the SCTC and may require it to produce such oral or written explanations as he considers necessary.

On the relationship between the Sponsoring Department and the Council Group

PAC conclusion (viii): We are very concerned that the Council and the Trust Company took actions on several occasions which they knew were opposed by the sponsoring department. We acknowledge the firm line now being taken to introduce the necessary accountability and control within the Council Group.

13. The Department and the Sports Council accept the Committee's conclusions, and welcome its endorsement of the framework of accountability that has been put in place. Control will be exercised by means of the Financial Memorandum between the Department and the Sports Council, the Financial Memorandum between the Sports Council and the SCTC, and the service level agreements that will govern financial transactions between the constituent parts of the Sports Council Group.

PAC conclusion (ix): We note that on his retirement the Trust Company appointed the former Director General of the Council as their part-time Chief Executive without the post being advertised. We are surprised that the Department had no locus in this matter and were thus unable to ensure that the post was subject to open competition.

PAC conclusion (x): We trust that the new procedures being put in place should ensure that, in future, the Department have a role in such appointments to the Trust Company, as is already the case for the appointment of the Council's Director General.

14. The Department itself can, as a matter of law, have no direct locus in the affairs of the SCTC because of its charitable status. The approach that the Department has adopted to the range of issues which the Committee has raised in relation to the SCTC has therefore been to use its powers in relation to the Sports Council, contained in the Financial Memorandum between the Department and the Sports Council, to ensure that the Sports Council attaches appropriate requirements to its own support for the SCTC.

15. The Financial Memorandum that the Sports Council is putting in place between itself and the SCTC therefore stipulates that the SCTC must seek the approval of the Sports Council before making senior managerial appointments. In turn, the Sports Council will consult the Department before granting its approval. As already noted, the former Chief Executive has not been replaced.

16. The Committee will also wish to note that, in order to strengthen control over terms and conditions in the SCTC, the Trust Company will be obliged to consult the Sports Council on all employment proposals and staff costs, and to ensure that the terms and conditions offered to its employees are the same as those applicable to the Sports Council, except where the Sports Council agrees otherwise.

PAC conclusion (xi): We are concerned that, despite Treasury guidance, the Department and the Council have not secured the necessary safeguards for assets held by the Trust Company. We note the action taken by the Department and the Council to introduce the necessary clawback provisions; particularly those which have secured clawback of all the assets acquired since 1972.

17. The Department and the Sports Council recognise the Committee's concerns, and welcome its support for the measures that have been taken to protect the position of the Exchequer in respect of publicly-funded assets acquired by the SCTC and its predecessor, the Sports Council Trust. The Charity Commissioners have made an Order under the Charities Act allowing the SCTC to comply with clawback on all publicly-funded assets acquired since the inception of the Sports Council Trust in 1972. The provisions of the Financial Memorandum regulating the relationship between the Sports Council and the SCTC have secured the future position through proper clawback arrangements in the event of disposal.

PAC conclusion (xii): We note the Treasury's view that existing guidance is adequate and that most Financial Memoranda between departments and sponsored bodies contain the necessary safeguards. However, we observe that the Sports Council case shows that provisions in Financial Memoranda may be inadequate if they are not supported by specific clawback provisions for individual assets. We recommend that the Treasury should draw this to the attention of departments.

18. The Treasury accepts the Committee's recommendation and will write to departments to draw their attention to the Committee's concerns about the adequacy of general clawback provisions in Financial Memoranda. Departments will be asked to consider in each case, when significant Exchequer funding is being provided to an NDPB to acquire or improve an asset, whether it would be appropriate for a specific clawback provision to be attached to that asset.

PAC conclusion (xiii): We note it was not essential for contracting out purposes to transfer the ownership of the golf course at Lilleshall to the Trust Company. We further note the Council's assurance that the intention of this transfer was not to avoid the clawback of sale proceeds. However, we observe, notwithstanding this assurance, that this transfer resulted in subsequent difficulties regarding clawback.

PAC conclusion (xiv): We welcome the Department's decision to recover £250,000 from the Council in relation to the sale of the golf course at Lilleshall. We note that the Council are reasonably confident of recovering the sum from the Trust Company. We expect the Council to achieve this result.

19. The Department and the Sports Council accept the Committee's views. The Sports Council's grant-in-aid for 1994-95 has been reduced by £250,000 to take account of the anticipated receipt by the Sports Council from the SCTC in respect of the sale of Lilleshall Golf Course.

On contracting out of the Council's exhibition and seminar and management of the National Sports Council

PAC conclusion (xv): We are very concerned that the Council awarded a contract to Blenheim SportsCo Limited for twenty years to manage the Council's annual exhibition and seminar as this does not allow the Council regularly to test the market. We note that the Department accepted that regular testing was necessary to secure value for money.

20. The Department and the Sports Council accept the Committee's concerns. The Sports Council is currently reviewing the existing contractual arrangements with the various parties. The Sports Council will also ensure that all future contracts are for terms which allow for regular testing of the market in order to ensure continuing value for money.

PAC conclusion (xvi): We recognise that the main beneficiary from contracting out the management of the National Sports Centres will be the Trust Company. We note, however, that it is now planned to remove the Trust Company from future management contracts at the National Sports Centres so that financial flows will return to the Council.

PAC conclusion (xvii): We consider that it was clearly unsatisfactory for the Council to award the contract to manage Bisham Abbey to a management buy-out company which had not submitted a tender. We note that the Council and the Department have accepted that this was an improper procedure.

21. The Department and the Sports Council accept the Committee's view that the main benefit of contracting-out at the national sports centres accrued to the SCTC, and welcome the Committee's endorsement of the steps taken to ensure that the financial benefit accrues to the Sports Council.

22. The Department and the Sports Council fully acknowledge that the Sports Council should not have awarded the contract at Bisham Abbey to a company which had not submitted a tender. The Sports Council will ensure that in future it complies fully in all respects with Treasury and other central guidance on, and best practice in, contractual matters.

PAC conclusion (xviii): We are concerned that, although guidance had been issued following a hearing of this Committee shortly before the contract was let, the change in contractor was, nevertheless, made expressly to allow redundancy money to be paid to staff who were then re-employed by the management buy-out company. We note that Mr Pickup has accepted that this was an error. We also note his assurance that this had not been repeated when the other Centres were contracted out.

23. Guidance on Management and Employee Buyouts was issued to the Sports Council by its former sponsor department, the Department of the Environment, in August 1990. The Department and the Sports Council therefore accept the Committee's concerns and note that, in the course of the Committee's hearing, the Sports Council's former Director General agreed that mistakes had been made by the SCTC in handling the contracting out of management services at Bisham Abbey and that an error of judgement had been made in ignoring the guidance. The Sports Council will ensure that in any future management and employee buyouts it complies fully in all respects with relevant guidance.

Third Report

Department of the Environment

Merseyside Development Corporation: Grand Regatta Columbus and Fanfare for a New World Concert

On the Corporation funding

PAC conclusion (i): We deplore the fact that these events have cost the public sector and local businesses in excess of £1 million, with little evidence of any beneficial effect on inward investment. These funds would have been available for regeneration in Merseyside, were it not for the Corporation's mismanagement of the events, which we condemn. We expect the Department and the Corporation to take note of the criticisms and recommendations . . . to ensure that these failings are not repeated.

24. The Department of the Environment (the Department) and the Merseyside Development Corporation (the Corporation) note the Committee's criticisms and recommendations and have taken action to prevent a repetition. When the National Audit Office (NAO) report was published in March 1994, the Department and Corporation agreed an action plan to address the criticisms made by the Comptroller and Auditor General. The measures in the plan increase the effectiveness of the systems of control and accountability and have now been substantially implemented. A copy of the plan went to the NAO in November 1994.

25. Guidance on appraisal of projects both before expenditure is committed and subsequently, if changes are proposed, has been strengthened. Particularly rigorous appraisal is now required in any case where a Development Corporation may wish to enter into a joint working arrangement with private or other public bodies where, as in the case of the regatta and concert, a degree of uncertainty is involved. Such appraisal must include assessment of the resources of potential participants and of the adequacy of the arrangements to secure value for money. Measures must also be taken to ensure that a Corporation's own position is clearly defined and adequately safeguarded.

26. The Department and the Corporation regret the overspending on these events. However, they believe that the events were worthy of support from public funds. The main objectives were to promote a positive image of Merseyside and to boost Merseyside's nascent tourist industry. This is consistent with the Corporation's strategy, set out in its Corporate Plan, of assisting the promotion of a positive perception of Merseyside. The events attracted 2.5 million visitors who were estimated to have contributed extra spending of £17.6 million to the Merseyside economy.

PAC conclusion (ii): We are distributed to note the major overruns of £61,000 on the hospitality and publicity budgets for the regatta and of a further £67,000 on payments to Carroll Communications Ltd for press and publicity work. It is essential that public bodies like the Corporation maintain strong management control over these areas of spending.

27. The Department and the Corporation recognise the need to maintain strong management control over press and publicity expenditure. The action plan agreed between the Department and the Corporation has required the Corporation's Accounting Officer to review the financial control mechanisms which are in place to confirm that they are appropriate to ensure value for money, propriety and regularity in respect of all expenditure and that the performance of these mechanisms is monitored by an audit plan.

PAC conclusion (iii): We question the propriety of the Corporation's use of public money to purchase and distribute free of charge concert tickets worth more than £100,000. We are also concerned that . . . the Corporation's funding of the regatta was used to cross-subsidise a loss-making private sector concert.

28. The Regatta Executive Committee offered hospitality to a number of guests in order to increase the presentational and promotional impact of the regatta and associated events. The cost of providing concert tickets for such guests, which was £44,000, was financed collectively by all the contributors to the regatta budget, including the Corporation.

29. The Corporation purchased further concert tickets to the value of £60,000 on 13 August 1992. It took the view that the extra ticket purchases would assist the presentational impact of the concert itself and the wider regatta events. Of the tickets in question, 92 per cent were made available to the crews of the tall ships which were the mainstay of the whole event.

30. The Department and the Corporation regard the promotion of a positive image of Merseyside as an integral part of the Corporation's role of securing the regeneration of its area. The Corporation's expenditure of £60,000 on concert tickets was undertaken in support of this objective and would therefore have been a proper use of public funds if it had been correctly authorised. However, this £60,000 was part of the total expenditure of £269,000 on the concert for which the Corporation had not sought the Department's approval and which the Department has deducted from the Corporation's grant-in-aid for 1994-95.

PAC conclusion (iv): We note the Corporation's explanation of the terms of the additional £150,000 payment to a separate company formed to stage the concert (Carroll Promotions Ltd) four days before the concert. However, we find it astonishing that the Corporation were required to bail out the concert at such short notice It is also of great concern that . . . some of the contractors working for Carroll Promotions Ltd remain unpaid.

31. The Committee's conclusions are noted. The action plan agreed with the Department requires the Corporation's Accounting Officer to institute more stringent measures to protect and limit its potential financial commitment should any similar events be considered in the future. He has issued appropriate instructions to staff.

32. The Corporation is satisfied that it has no legal or other liability to contractors of Carroll Promotions Ltd (CPL), an independent commercial company.

PAC conclusion (v): We note that £50,000 was paid to a television producer to televise the concert, and to secure future income from video and compact disc sales, in the hope that this would be recouped from any concert profits. We do not consider that the Corporation adequately investigated the return they might receive for this expenditure.

33. The Committee's conclusion is noted. The expected level of television coverage, at the time of the concert and subsequently, was achieved. The video and compact disc sales were not achieved in the event because of the wider financial problems of the company running the concert. The strengthened guidance on project appraisal should ensure rigorous scrutiny of any such proposals in the future.

On planning the events

PAC conclusion (vi): We believe that the Corporation did too little too late in planning these events. Timely and detailed planning is essential to ensure the financial viability of such events and to minimise the call on public funds. It is particularly important to identify an exit strategy whereby the public body concerned can, if necessary, scale down their involvement or even withdraw from the event.

34. The Corporation accepts that the potential contribution to the regatta should have been based on a detailed proposal when the project commenced

in 1986 which should have been reviewed subsequently, especially when the Corporation assumed the leading role in late 1991. Action has been taken to ensure that exit points will be established in any future joint working arrangements such as those established for the regatta or concert.

PAC conclusion (vii): We wholeheartedly endorse the view . . . that plans for such events should be properly appraised and reassessed at appropriate stages

PAC conclusion (viii): We look to the Department and the Corporation to ensure that future project appraisals include a proper evaluation of all the financial implications. Where appropriate, it is vitally important that an appraisal of the track record of potential private sector partners is carried out.

35. The Department and the Corporation accept the Committee's findings. The Urban Development Corporation Guidebook (which relates to all Urban Development Corporations (UDCs)) requires UDCs to carry out full appraisals before committing any expenditure, and this requirement is reflected in the Merseyside Development Corporation's own financial regulations. The Guidebook and the Corporation's financial regulations have been strengthened to require further appraisals if significant changes, for example to costs or outputs, are proposed. They require that a Corporation's own role and responsibilities should be set out clearly and also specifically that, in projects such as the concert, an appraisal of the financial and organisational resources and track record of potential private sector partners be carried out. Corporations are advised to use independent specialist consultants to carry out such analyses if necessary.

PAC conclusion (ix): We are surprised that a detailed and comprehensive regatta budget was not produced until four months before the event, and that the Corporation's knowledge of the concert budget was so inadequate. We are concerned that forecasts of income were based on over-optimistic ticket sales and a level of sponsorship which was poorly researched and not challenged by the Corporation.

PAC conclusion (x): It is astonishing that the regatta events were virtually upon the Corporation without their realising there would be financial losses. Similarly we find it extraordinary that . . . the Corporation claim they were unaware of the extent of the financial problems facing the concert. We consider it essential that both the Department and the Corporation should ensure that budgetary controls are in place and operating to safeguard public funds.

36. The Department and Corporation agree that appropriate budgetary controls must be in place. Under the action plan, the Corporation's Accounting Officer is required to satisfy himself, and confirm to the Department, that this is the case. The Corporation had realised in 1991 that there was a possibility that the regatta would not break even, but accepts that its contribution should have been based on a timely and more detailed proposal. In the case of the concert, the management role and the residual risk lay with the promoters. The Corporation has strengthened its requirements for appraising the resources of private sector partners.

On the concert contract

PAC conclusion (xi): We believe that the Corporation's attempt to transfer the risk of staging the concert to the private sector was a failure and their stance that this was a wholly private sector event is unsatisfactory, given the use of public funds; the pump-priming which took place; and their extensive sponsorship of an event that was taking place on the Corporation's land. We endorse the ... view that ... the Corporation fell between two stools by not being in direct control but being left to bear the bulk of the losses that resulted

PAC conclusion (xii): We are very surprised that alternative proposals to stage this major concert were not sought. We find it extraordinary that the Corporation were prepared to pass responsibility for the event to a shell company with £2 of share capital. The effect of that was to pass on to the creditors of Carroll Promotions Ltd a large proportion of the losses incurred by the concert. We find that extraordinary and unacceptable.

37. The Department and the Corporation note the Committee's views. The guidance to the Corporation given in the UDC Guidebook distinguishes between purchase of a service (on which it is required to seek tenders) and support of business opportunities put to the Corporation by a third party. The Corporation took the view that the proposal from CPL to stage the concert was a business opportunity and accepted it only after rejecting as not viable an earlier proposal for a much bigger and more expensive event. The Corporation entered into an agreement with CPL to grant the company a licence of the concert site and to provide limited advance funding. CPL was fully aware that it was proceeding on the basis of normal business risk.

38. The Department and Corporation will, however, ensure that arrangements involving such companies in future contain certain enhanced safeguards. There are circumstances in which a £2 company can be an appropriate vehicle for certain types of activity, although other forms of backing would need to be available; in part to reflect this, the requirements for appraising the resources of private sector partners have therefore been further refined. In addition, under the action plan, the Corporation has instituted further safeguards to protect its position in any such arrangements with private sector partners. These include a requirement for personal guarantees or bonds to be obtained where appropriate, and for points at which the Corporation could exit from the project to be established. These enhanced safeguards are now incorporated in legal agreements with private sector partners.

39. The Department takes the view that those doing business with a company with which the Government or a body sponsored by the Government may happen to have financial dealings cannot assume that liability for the company's debts has been underwritten or will ultimately be borne by the Government or by that body. In the absence of a specific and public commitment by the Government or its sponsored body in relation to such debts, people dealing with the company must act on the assumption that liability for debts will be determined in accordance with the ordinary rules of insolvency applicable to a limited liability company. The Corporation made no such commitment in this case.

PAC conclusion (xiii): We are disturbed that the contractual arrangements took so long to be finalised and that the Corporation signed the agreement at a point when they knew the concert could make a loss. Their decision that the company had sufficient financial support to undertake the event was ill conceived We look to the Corporation to review very carefully . . . future proposals of this nature.

40. The Corporation's relationship with CPL was supported by a deemed contract, and the Corporation believed that the company was solvent when the agreement was signed. Nevertheless, the Department and the Corporation accept the Committee's recommendation. There is now a specific requirement in the UDC Guidebook and the Corporation's financial regulations that in any future projects such as the concert an appraisal of the financial and organisational resources and track record of potential private sector partners should be carried out.

PAC conclusion (xiv): Given its pump-priming of initial expenditure and the potential commitment of public funds, we are most surprised that the Corporation did not follow up the expenditure returns for the concert from Carroll Promotions Ltd or take up their right under the agreement to examine the books and records of the company.

41. The right to examine the concert promoter's books was intended to enable the Corporation to ensure proper distribution of surpluses, and therefore would only have taken effect when the account had moved into profit. The agreed action plan requires that, in any future projects of this nature, external consultants appraise the proposed controls so as to protect the Corporation's financial position and secure value for money. In appropriate circumstances, this will involve the Corporation examining the books of its private sector partners.

On the wider public interest

PAC conclusion (xv): We note that, in entering into the agreement with Carroll Promotions Ltd, the Corporation limited their own liability, but in so doing paid scant regard to the wider public interest. We are dismayed at the Corporation's actions . . . particularly given the Corporation's past experience with the Garden Festival site and our predecessors' past criticisms.

PAC conclusion (xvi): We note the legal position of the Corporation in relation to the creditors, and recognise that this matter is still being pursued through the liquidator. However, we are extremely concerned that a number of contractors may have been misled by the Corporation's actions into believing that the concert had the full backing of the Corporation.

PAC conclusion (xvii): We are particularly concerned that the Corporation did nothing to dispel the widespread impression that they were more closely associated with the concert than was legally the case. We would expect that in future the responsibilities of all parties in such cases are clearly laid down at the outset; and we emphasize that publicly financed bodies have a responsibility to conduct themselves with regard to the wider public interest, and in a way that avoids any ambiguity which could lead to later misunderstandings.

42. CPL have unpaid debts of £375,000. Of this, £164,000 is owed to Brendan Carroll, Carroll Communications Ltd and the other promoters of the concert, and £51,000 owed to the Corporation. The remaining £160,000 is owed to 29 creditors, of which four are local Merseyside organisations.

43. UDCs frequently enter into arrangements with private sector firms to enable private finance to be employed in securing their regeneration objectives. The private sector partner enters into such an arrangement on the basis of normal business risk. The Department does not consider that it is the responsibility of the UDCs to protect those partners, or the firms with which they may contract, from this normal risk.

44. In this case the Corporation's specific legal advice is that it does not have legal liability to the creditors of CPL. The Corporation has considered very carefully with its advisers whether it could be held to have represented the arrangements to contractors in a way that might give rise to a legal or moral liability; the Corporation is confident that at no time did it, or anyone acting with its consent, represent the Corporation to third parties as the promoter of the concert.

On oversight of the Corporation

PAC conclusion (xviii): We are extremely concerned that confusion could arise over the approvals for expenditure. We look to the Department to assure us that in future the terms and conditions of financial approvals are clear and unambiguous. We note that the Department have taken action to prevent a recurrence. We trust that the revised procedures will be effective.

45. The Department now uses a standard form of words for its approvals of the Corporation's expenditure, which ensures clarity and certainty. The Corporation has made clear to its staff that the Department's approvals will always follow the standard form and that no approval should be assumed if the standard wording is not used. The Corporation and the Department will review annually the effectiveness of the new procedures.

PAC conclusion (xix): We find it unacceptable that the Corporation made payments in connection with the concert before obtaining the necessary approval from the Department. We seek the assurance of the Department that they will ensure that their procedures for exercising financial oversight are properly adhered to.

46. The Department and the Corporation accept the Committee's findings. The Department is strengthening its monitoring of expenditure on projects approved by the Corporation under its delegated authority as well as on those which have received the Department's approval. The Department will keep procedures for exercising financial oversight of the Corporation under review.

PAC conclusion (xx): We are surprised and concerned that . . . the Department . . . were apparently unaware of the extent of which Corporation funds were being committed before final approval. We urge the Department to take all the necessary steps to ensure that they are kept better informed of what is going on in their non-departmental public bodies.

PAC conclusion (xxi): We are not calling for more detailed rules. But. . . rules must be set in a framework which includes effective systems of control and accountability, and above all responsible attitudes on the part of those handling public money.

47. The Department recognises the Committee's concerns over the commitment of funds prior to approval, the need for an effective overall framework of control and accountability and the need also for responsible attitudes towards the handling of public funds. The Department has provided a framework for each executive Non-Departmental Public Body (NDPB) in a Financial Memorandum which is reviewed regularly in the light of reports from the Committee and guidance from the Treasury. Financial memoranda require NDPBs to provide financial information as requested by the Department. The Department will continue to keep under review whether this information, as well as information from internal and external auditors, strikes an appropriate balance between enabling NDPBs to manage their affairs in a responsible fashion and providing adequate assurance to the Department on the use of public funds.

PAC conclusion (xxii): The report by the Comptroller and Auditor General provides a good example of the NAO using their inspection rights to examine the activities of public sector bodies of which they are not the appointed external auditor but which, nonetheless, are responsible for spending significant sums of money. We welcome the work of the NAO in such areas and look forward to Parliament continuing to receive reports on the activities and use of public funds by non-departmental public bodies.

48. The Government notes the Committee's conclusion.



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