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DCMS 2002-03 RESOURCE ACCOUNTS COMMENTARY

General information about expenditure

The Resource Accounts give the consolidated results of both the Department and the Royal Parks Agency (RPA) for the year ending 31 March 2003. Schedule 1 of the accounts (pages 19-20) shows that the DCMS "Group" underspent its Estimate by £97m, in terms of its Total Resources (£109m underspend in 2001-02) and underspent its Net Cash Requirement by £257m (£51m overspend in 2001-02). The underspend on Total Resources consisted of an underspend of £93m on the Department's Request for Resources (RfR) 1 expenditure (£77m in 2001-02) and an underspend of around £4m on its Request for Resources (RfR) 2 (BBC) expenditure, (underspend of £31m in 2001-02).

There was an underspend in administration costs of £5.6 million (£16m overspend in 2001-02), of which £1.6m was accounted for by non-cash costs. The underspend was made up of a number of small underspends across the DCMS's expense heads. Comparisons with 2001-02's consolidated administration costs are not particularly meaningful given that in 2002-03 all RPA administrative expenditure has been re-classified as programme expenditure.

The substantial difference in the size of the underspend on the Net Cash Requirement compared with that on Total Resources is largely the result of the changes in working capital, (see Schedule1), and was caused by a prepayment of grant-in-aid to certain of our NDPBs of £153 million, which had to be accounted for in the 2001-02 accounts.

The resource accounts are consolidated accounts, which include the results of the RPA. In order to analyse the accounts in a way useful to DCMS, we need to strip out the figures relating to the RPA. The following table shows the total administration costs (made up of pay and non-pay costs) and the balance sheet fixed assets, analysed between DCMS and the RPA, followed by a commentary on what we can deduce from the figures. (Costs and asset values are in £000)

	Non-pay Administration Costs		Staff Costs/Numbers				Fixed Assets	
	2002-03	2001-02	2002-03		2001-02		2002-03	2001-02
DCMS	19,113	16,069	17,238	473	15,515	437	27,293	22,730
RPA	-	23,989	-	238	2,375	223	29,511	33,256
Total	19,113	40,058	17,238	711	17,890	660	56,804	55,986

Administration costs

The following figures apply only to the Department and ignore the RPA.

- A 19% increase in DCMS non-pay administration costs between 2001-02 and 2002-03 from £16,069, to £19,113, caused mainly by an increase in legal and rental expenditure.

- The average cost per staff member (DCMS only) rose by 2.7% from £35,503 to £36,444. However, staff numbers rose by 8.2%, as a result of the full effect over a whole year of the functions we inherited as part of Machinery of Government transfers and the implementation of Touchstone. This indicates that we have control of our staff costs even though numbers have risen. It also suggests that the majority of staff recruited have been in the lower grades - although PCSD have not been able to confirm this.

- Staff costs as a proportion of Net Admin costs fell from 49% in 2001-02 to 48% in 2002-03, reflecting the large increase in non-pay costs.

- Net Admin costs rose by 15% from 2001-02 to 2002-03, which was within the rise in Net Admin costs of 18% in the Resource Estimates between the two financial years.

- Net Admin costs for DCMS as a percentage of total net operating cost (including programme) remained constant over the period 2000 - 2003 at 3%.

Programme costs

Note 7 (pages 36-42) gives a detailed analysis of the RfR 1 programme underspend, caused mainly by large underspends on two DCMS programmes, (in themselves accounting for 72% of the RfR1underspend). In addition, there were a number of smaller underspends by certain DCMS sponsored bodies. The most notable underspends on RfR1 are as follows:

- Spaces for Sport and Art - £40.4 million. As with last year, Local Education Authorities continue to be slow to draw funds from their grant awards.

- Listed Places of Worship - £26.5 million, (made up of £21.5 million and £5 million). Similar to Spaces for Sport and Arts, i.e. the number of applications being submitted is fewer than expected.

- Arts Council - £5 million. This underspend relates to the Creative Partnerships programme which has taken longer to roll out than was expected.

- National Heritage Memorial Fund - £4.2 million. Caused by the HLF claiming funding from the Exchequer as part of the NHMF GIA budget for the bulk transfer of staff pensions into the PCSPS, when this should have come from the Lottery. These funds have therefore been recovered from NHMF and constitute the underspend.

- Culture-on-Line (COL) - £2.9 million. Caused by the lead times in COL's development phase and in project commissioning work. This phase was completed early in 2003-04 and the outflow of funds is now rising.

- UK Sport - £3.3 million. Caused by a delay in the National Governing Bodies Modernisation Programme, and slow take-up by the NGBs in bidding for funding for modernisation from the Programme.

- Designated Museums Challenge Fund - £2.4 million. Caused by the slow take-up and disbursement of grants by Re:source.

- The underspend on the RfR 2 (BBC) programme of £4 million was caused by the changes in money due to and from the BBC which is difficult to predict.

Some of the underspends indicate that we need to take into account lead times for implementing new programmes and to ensure there are robust models which profile the expected demand for the programmes. We also need to incorporate sensitivity analysis within our plans should demand be slow to develop: the figures outline the importance, where necessary, of obtaining a commitment from the funding source (e.g. CMF) that the programme can continue beyond the planned end date, to counter the risk of losing funding and the programme failing to achieve its objectives.

Balance Sheet (page 22)

DCMS has a small fixed asset base with a net book value of £27 million, with the RPA having a slightly larger base. Of this, £24 million is the value of its land and buildings, £22 million of which relates solely to land to the north of St. Pancras. This asset makes no contribution to our business and instead is responsible for a cost of capital charge of £1.2 million on our administrative expenditure, (and accounts for about 86% of the DCMS's total cost of capital charge). From 2003-04 the reduction in the capital charge rate from 6% to 3.5% should help offset valuation increases, but even so, we can expect a capital charge of close to £1 million in 2003-04. Divesting ourselves of this asset should be considered.

Working capital also contributes to the capital charge. Working capital is the difference between the balances of current assets and current liabilities. At the balance sheet date, DCMS has net current liabilities of £14.7 million, i.e. our current liabilities exceed our current assets, and therefore the Department appears to be technically insolvent. However, we are neither insolvent or at risk of failing as a going concern, because:

- £30 million of creditors due within one year relate to amounts due back to the Consolidated Fund for unspent cash drawn down from our Vote. The Department will receive this amount from the Treasury with next year's Supply, so in reality it is not surrendered; and
- the underspend on our Net Cash Requirement means that we have additional funds within our Vote upon which we could draw to clear these liabilities.

- Prepayments have reduced significantly compared to 2001-02, but this is because the 2001-02 prepayments were inflated by the £153m prepayment of grant-in-aid. Ignoring this, prepayments have still fallen by around £1m (34%). This is good as it also reduces exposure to the capital charge.

- Accruals have risen by £1.9 million, (30%), and have continued to rise over the last few years. This rise in accruals has been assisted by Group Finance Managers taking a more pro-active role in identifying accruals than in previous years, and points to greater financial awareness and accuracy of reporting in divisions. This too is a positive trend as it also reduces exposure to the capital charge, by reducing the value of net current assets.

Schedule 5, Resource by Departmental Aims and Objectives (page 24)

Schedule 5 analyses the resources spent by the Department across its six SR2000 PSA objectives. Overall, net operating costs rose by 13% from 2001-02 to 2002-03 and this rise was reflected in Objectives 3 and RfR 2 (BBC). There was a substantial rise in expenditure in Objective 4 (35%), and a larger than average rise in Objective 1 (19%). There were below trend rises in Objectives 2 and 6 (7%), and an actual fall in Objective 5 (18%).

In the previous year, the rise in expenditure was more or less consistent across all the Objectives. So in the light of these statistics, Schedule 5 in 2002-03 poses questions the Department should consider. Are the changes across the Objectives the result of:

• natural developments as methodologies in compiling the data for Schedule 5 improve? Or

• an indication that divisions are re-focussing their efforts on the new Spending Review priorities? [The rise in Objectives 1 and 4 might be explained in that these Objectives are re-iterated within the PSA for SR2002 (Objectives 1, 2 & 3). In addition, there is less emphasis in the SR2002 PSA on urban regeneration and social exclusion (Objective 6), and no mention of the Lottery at all (Objective 5). The below trend rise in Objective 2 is baffling as access remains an important theme in the SR2002 PSA and features in two of the four key priorities - although with a realignment of emphasis away from "admission" to "participation"].

Conclusions

Financial statements usually pose more questions than they answer, and these are no exception, but the following conclusions may be drawn:

• The Department had its administrative costs under control during the year.

• The underspend on our programme funding might indicate that we are not hitting the milestones set in delivering our PSA objectives. The fact that the underspend is confined to a small number of programmes suggests that these programmes may be the only ones affected. Notwithstanding this, it would help the Department manage these programmes more effectively if we:

- took into account more realistic lead times when profiling programme funding spanning a number of accounting periods;
- obtained commitment from the funding source, <u>at the programme's inception</u>, that unspent funds at the end of a programme will not be clawed back, with the option for the programme to continue beyond the end-date;
- for sponsoring divisions to maintain pressure on our bodies to deliver their Funding Agreements.

- We should dispose of the land to the north of St. Pancras as soon as is practicable to reduce our exposure to the capital charge.

- We should keep developing the Group Finance Manager role as this appears to be delivering improvements in the way we are managing our budgets and working capital.

- The Department should consider the questions posed earlier about Schedule 5.