



HM TREASURY

Improving spending control

April 2012



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Any queries regarding this publication should be sent to us at: public.enquiries@hm-treasury.gov.uk.

ISBN 978-1-84532-937-2

PU1227

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Foreword

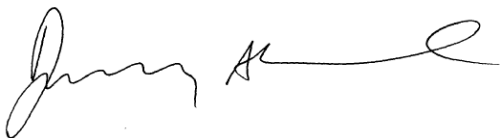
Faced with an unprecedented fiscal challenge, we have had to take tough decisions to reduce Britain's largest ever peacetime deficit. The action we have taken to bring the public finances under control has helped to keep interest rates low, supporting businesses and families in difficult times. Fiscal discipline is not ideological; it is core to good government. The Government is looking after people's money at the highest level with a responsible approach to the public finances. We must ensure that we are spending people's money responsibly and in the best way possible.

To do this, strengthening and improving control over public spending is an absolute necessity. This issue has not always been given the attention it merits. We took action at the Spending Review to improve control, and support the delivery, of what are tough spending settlements. But there is more to do. By improving our knowledge of where money is spent, introducing and enforcing a framework that improves spending control, boosts value for public money and prevents waste, we can ensure that we deliver our plans and cut the deficit fairly.

Controlling spending is what any well-run organisation should be doing as a matter of course, and with an annual budget of over £700 billion, the Government should accept nothing short of the most robust spending control possible. All organisations spending public money, from Arms Length Bodies to Whitehall departments to devolved administrations, must work together to play their part in permanently improving financial performance. Each of these organisations must eliminate inefficient practices, tighten up procurement and generally deliver real value from every penny they spend. In this way, services can improve even whilst public spending is under firm control.

This document provides a new, more robust framework for improving spending control. Departments, devolved administrations, and their Arms Length Bodies will be expected to monitor and manage information about spending effectively, including improving the skills needed, in order to help them deliver their spending plans. The degree of central Treasury control will depend on performance, with the right incentives in place to reward those with a record of good financial management.

This renewed effort to systematically, consistently and fairly control public spending would not have been possible without the close involvement of departments in this process. I am particularly grateful for the valuable insights shared by Finance Directors, which are so vital for ensuring this framework and its implementation are supported throughout Government. I have full confidence that with this shared commitment to improve public spending control, combined with the existing spending framework and budgeting rules, we can reduce the deficit, deliver the fiscal mandate and bring our economy on to a more stable and sustainable path.



Danny Alexander

Chief Secretary

April 2012

1

Introduction

Context

1.1 The Coalition Government inherited one of the most challenging fiscal positions in the world. From 2001 onwards, public spending grew steadily as a share of the economy and a structural deficit began to emerge. According to the OECD, by 2007 the UK had the largest structural deficit of any G7 economy. As tax receipts fell away, the persistent gap between spending and revenue widened and public spending had risen to around 47½ per cent of GDP by 2009-10. With the largest budget deficit in the UK's peacetime history, reducing the deficit is one of the Government's most urgent priorities.

1.2 At the June Budget 2010, the Government set out its plan to significantly accelerate the reduction in the structural current budget deficit over the course of this Parliament. Reducing the deficit requires improved spending control. But whilst good progress has been made by some departments and areas of the public sector, the scale of this challenge calls for a more robust and consistent approach to spending control, which will require:

- **Robust, deliverable spending plans**, which allow the Government to reduce the deficit while protecting priority public services and ensuring value for money;
- **A spending framework and budgeting rules** that allow expenditure to be controlled in support of fiscal objectives and provide good incentives to manage public money well; and
- **A more robust approach to spending control**, with better monitoring and management of expenditure, that enables the Government to deliver these plans and objectives.

1.3 This document focuses on the latter point; its purpose is to set out a framework for how spending control can be improved across the public sector and how the framework will be supported by incentives and penalties. It is aimed at all areas of the public sector with a responsibility to control spending – the Treasury, departments, devolved administrations and Arms Length Bodies (ALBs).

1.4 In Scotland, Wales and Northern Ireland, the devolution settlements mean that many of the levers relevant to effective spending control sit with the devolved administrations rather than the Treasury and it is for those administrations to manage their own budgets within the terms of the devolution settlement. References to departments in this document should be assumed to be references to UK Government departments. Nevertheless, the public spending framework is UK-wide and the devolved administrations are expected to play their part in ensuring robust spending control exists throughout the UK. As a result many of the general principles set out in this document do apply to the devolved administrations and similarly, a number of actions identified are also required of the Scottish and Welsh Governments and Northern Ireland Executive. Where actions do apply to the devolved administrations, the document clearly states so.

1.5 This document has been developed jointly by the Treasury and departments. The framework sits alongside, and is consistent with, *Managing Public Money* and the *Consolidated Budgeting Guidance*.

Robust spending plans

1.6 The Spending Review is a Treasury-led process to allocate resources across government according to the Government's priorities. The Spending Review sets firm and fixed spending budgets over several years for each department and devolved administration. It is then up to departments to decide how best to manage and distribute spending within their areas of responsibility.

1.7 The Spending Review 2010 set out plans for how the Government will put the public finances back on track, reducing spending by around £80 billion by 2014-15. Within these constraints, particular focus was given to reducing the costs of welfare, while spending on the NHS, schools, early years' provision, the aid budget and capital infrastructure was prioritised.

1.8 While this means that some departments are delivering larger budget reductions than others, all areas of the public sector will need to deliver savings to live within their budgets while delivering the high quality services that the public relies on.

1.9 The Government is making good progress in delivering these plans. Over £6 billion of savings were delivered in 2010-11; and major reforms to public services are underway, including changes to the welfare system, reforms to public service pensions and to higher education funding.

The budgeting and spending framework

1.10 The budgeting and spending framework has two main objectives:

- To support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the Government's fiscal framework; and
- To provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money to the tax-payer.

1.11 In addition, the Treasury tries to keep down the compliance costs of the budgeting system and of the overall public spending control framework.

1.12 The Government has already taken steps to strengthen aspects of the spending framework. These include changes to the flexibilities offered to departments to move spending between years. At Budget 2011, the Government announced that it was abolishing the "End Year Flexibility" system and replacing it with a new "Budget Exchange" system. The new system, introduced from 2011-12, provides flexibility for departments to deal with slippage in expenditure but does not lead to significant accumulation of liabilities to the Exchequer. The system also encourages more accurate forecasting, since access to the scheme is tied more closely to in-year forecasts.

1.13 The Government has also strengthened the processes for monitoring social security spending and other items of spending not included within fixed spending limits. This spending is known as annually managed expenditure (AME). The *Consolidated Budgeting Guidance* (CBG) 2011-12 makes clear that any changes that would increase AME spending above expectation require Treasury approval, and are likely to involve a discussion of what steps can be taken to offset these increases.

1.14 Details of the spending and budgeting frameworks and their application are set out in the *Consolidated Budgeting Guidance*.

Improving spending control

1.15 Robust spending plans and a framework for delivery are essential to reducing the deficit but, in addition, the Government must also review its approach to:

- **Monitoring spending:** ensuring there is accurate and timely management information about what is being spent in all parts of the public sector. This will allow the Government to monitor progress and intervene when plans go off track;
- **Managing spending:** improving capacity and capability to manage spending and ensure that efficient and sustainable choices are made about how public funds are used. Strengthening the focus on spending control across Whitehall and the wider public sector and employing the right incentives to change cultures and ensure that spending control becomes, and permanently remains, a greater priority. Also, strengthening the systems and processes that allow the Government to act to mitigate risks, and where risks do materialise, managing them within the spending limits set at the Spending Review; and
- **Governance, scrutiny and oversight:** from those responsible for managing public money at Ministerial and Official level and on Departmental Boards, to ensure that progress and practice is regularly reviewed and challenged.

Principles

1.16 There is much strength in the current approach to spending control. There are examples of best practice across the public sector. But the scale of the challenge in delivering this Spending Review means that all departments and organisations in the public sector could and should improve. Robust spending control is no longer an option but a necessity for all.

1.17 The Government believes that the best way to deliver improved spending control will be through:

- **Better information:** In line with the Government's objective to be more collaborative, open and transparent about public spending than ever before, all bodies within the public sector will share information about their spending with Parliament, central government and the public. Withholding information, or other forms of gaming are inconsistent with this open approach and the Treasury will employ a greater set of controls and disincentives to discourage such behaviour;
- **An assessment of risks:** Control and responsibility for spending should be devolved as far as possible to the frontline. The Treasury and central government departments will focus their resources on areas that present significant risks to the Exchequer, rather than micro-managing detailed budgets at a local level; and
- **The right incentives:** The system should reward good performance and discourage poor performance, while minimising perverse incentives. Departments that demonstrate excellent financial management will be given greater freedoms to manage their own resources such as greater access to Budget Exchange and higher delegated authorities.

1.18 Discussions with departments have indicated that greater transparency and consistency about what the Treasury expects from departments on spending control would be helpful. In addition, departments have rightly emphasised the importance of ensuring the system does not reward poor performing departments at the expense of the high performers. Currently, there are inconsistent and limited consequences for departments if they do not meet expected standards.

1.19 To improve spending control across central government, this document:

- Sets out the Government's **priorities for spending control**; and

- Provides greater clarity **about what is expected** from departments, devolved administrations and public sector organisations, and what to expect from the Treasury in return.

2

Monitoring spending

2.1 The public sector, on behalf of the taxpayer, manages over £700 billion of public money per year. It is essential that the Government has good information about what it plans to spend, and what it actually spends. This information should be:

- **Robust and reliable:** so that data is accurate and forecasts are as good as they can be;
- **Consistent:** within and between organisations; and
- **Timely:** so that data is provided on a monthly basis and with minimum delay.

2.2 This is a prerequisite for effective spending control, and is the kind of information that any well-run organisation should have in any case. It enables the Government to monitor progress in reducing spending; intervening where necessary to ensure the Government delivers its plans.

2.3 There is significant scope for the Government to strengthen its approach to monitoring spending and improving forecasting. In many cases, the information that the Treasury and departments use is neither timely nor robust.

2.4 All organisations that are part of the public sector have the same responsibilities to produce and share robust, timely financial information to support the management of the public finances. This duty is entirely consistent with the freedoms and flexibilities that departments and Arms Length Bodies have to manage their money.

2.5 Departments and devolved administrations currently provide financial information to the Treasury via the Combined Online Information System (COINS), which the Government is in the process of replacing with the Online System for Central Accounting and Reporting (OSCAR). The new system will more effectively support the collection, validation, analysis and reporting of consistent, accurate and timely public spending data.

2.6 This information is published in a number of reports for Parliament and the public, providing the main source of central government expenditure data for the Budget, Supply Estimates, Public Expenditure Statistical Analyses (PESA), monthly Public Sector Finances and quarterly National Accounts.

Robust, relevant data

2.7 Decisions about the management of public money must be made on the basis of robust and relevant information. This information must allow frontline organisations, departments and the Treasury to assess whether spending control totals will be met based on current plans and on actual spend to date. And it must allow risks to spending control to be identified and mitigated.

2.8 For the purposes of on-going spending control, all departments and devolved administrations **must monitor and share spending information with the Treasury on a monthly basis**. Departments and the Treasury must agree what information will be provided, focusing on the core information needed to manage the public finances. The exact requirements for each department will be agreed with the Treasury, but will, at a minimum, include **accurate information on actual and planned spend**. Departments and devolved administrations should confirm the accuracy of their COINS data (and OSCAR) by reconciling it to internal management

information. Good practice will be to have COINS / OSCAR fully aligned at every level or to be able to explain any differences.

2.9 All organisations that are part of the public sector have the same duty to produce and share robust, timely financial information. Working with the Treasury, departments should agree with their Arms Length Bodies how this need will be met.

2.10 The Treasury will support departments and devolved administrations by providing clear and comprehensive guidance on the classification of public spending data, and by providing a robust system (COINS / OSCAR) to collect, analyse and report this information. Through the introduction of OSCAR, the Treasury will implement more efficient processes for departments to supply data, as well as simplified data coding, more flexible reporting and strengthened governance.

2.11 Where the information currently provided is insufficient to monitor public spending effectively, the Treasury should agree with departments on the steps that will be taken to rectify this and how the department can be supported to achieve this. In addition to data on actual and planned spend, departments should provide detail on how Spending Review plans will be implemented and achieved.

2.12 Forecasting performance, in particular, must improve. **Departments and devolved administrations must provide robust forecasts of full year spend, and a breakdown of monthly spend, every month from the beginning of the financial year, which reconciles with their internal management information.** Departments should ensure that forecasts are based on their best information, an assessment of risks, and are consistent with their internal management information.

2.13 This is necessary to provide information to Ministers about forecast levels of public spending, both to enable them to monitor the overall fiscal position but also to take spending decisions and to ensure expenditure is allocated in a way that provides value for money. Sound forecasts enable the Government to ensure that departments are not overspending but also to identify in good time, and then reallocate, any underspends.

2.14 Where departments have a good track record of providing accurate and timely information, COINS / OSCAR data will already mirror internal management information, and flexibilities such as Budget Exchange will be fully available to these departments within the rules set out in the Consolidated Budgeting Guidance.

2.15 For departments who produce or share less accurate or incomplete information, the Chief Secretary may take steps to minimise the risk to the public finances and to incentivise improvement. These may include restrictions of access to Budget Exchange and other budgetary flexibilities, lowered delegated authorities and mandating Departmental Unallocated Provision (DUP).

Consistent data

2.16 There must be consistent information about what the Government is spending, both within and between organisations. Data should not be withheld. This ensures that decisions are taken on the basis of financial information that is as accurate and comparable as possible. Data supplied should be consistent with rules as set out in the CBG, and with definitions as stated in the Treasury Chart of Accounts.

2.17 The data provided to the Treasury must be consistent with the data departments use for internal management purposes, so that decisions are taken on the same basis and there is an agreed position on what departments are spending. Departments and devolved administrations should therefore confirm the accuracy of their COINS data (and OSCAR from 2012) each month by reconciling it to their internal management information.

2.18 Sharing of information must also be more consistent. Departments should under no circumstances withhold basic data about public spending. The public has a right to know how its money is being spent. The Treasury is responsible for ensuring that spending is managed effectively, on behalf of Parliament. This fundamental role on behalf of the taxpayer cannot be fulfilled without complete transparency about what is being spent. **Departmental Boards, supported by their Non-Executive Directors, are responsible for ensuring that the data provided to the Treasury is consistent with the information used internally.**

Timely data

2.19 Without timely information, the Government cannot take action to prevent plans going off track before it is too late.

2.20 There is significant variation across the public sector as to the timeliness of public finance information. In some areas there is information available shortly after the end of the month, for other departments and ALBs, data is only available on a quarterly basis in arrears.

2.21 There is much work to do before all areas of the public sector reach the level of the best performers. **As a first step, departments and devolved administrations should work with the Treasury to agree what steps are needed to deliver the core data, covering their frontline organisations as well as the main department. A minimum of monthly data should be the presumption for spending departments and devolved administrations, and it should usually be available no more than one month in arrears.**

Box 2.A: Actions

- 1 All departments and devolved administrations must monitor and share spending information with the Treasury on a monthly basis. Departments and the Treasury must agree what information will be provided, focusing on the core information needed to manage the public finances. All organisations that are part of the public sector have the same duty to produce and share robust, timely financial information. The exact requirements for each department will be agreed with the Treasury, but will, at a minimum, include accurate information on actual and planned spend. Departments and devolved administrations should confirm the accuracy of their COINS data (and OSCAR) by reconciling it to internal management information. Good practice will be to have COINS / OSCAR fully aligned at every level or to be able to explain any differences.
- 2 The Treasury will support departments and devolved administrations by providing clear and comprehensive guidance on the classification of public spending data, and by providing a robust system (COINS / OSCAR) to collect, analyse and report this information.
- 3 Departments and devolved administrations must provide robust forecasts of full year spend, and a breakdown of monthly spend, every month from the beginning of the financial year, which reconciles with their internal management information.
- 4 The data provided to the Treasury must be consistent with the data departments use for internal management purposes, so that decisions are taken on the same basis and there is an agreed position on what departments are spending. Departments and devolved administrations should therefore confirm the accuracy of their COINS data (and OSCAR from 2012) each month by reconciling it to their internal management information.
- 5 Departmental Boards, supported by their Non-Executive Directors, are responsible for ensuring that the data provided to the Treasury is consistent with the information used internally.
- 6 A minimum of monthly data should be the presumption for spending departments and devolved administrations, and it should usually be available no more than one month in arrears.
- 7 As a first step, departments and devolved administrations should work with the Treasury to agree what steps are needed to deliver the core data on a monthly basis, covering their frontline organisations as well as the main department.

3

Managing spending

3.1 Good business planning is an essential part of managing spending. Each public sector organisation should plan to use the limited budget that it has to achieve good value for money and ensure that efficient and sustainable choices are made about how public funds are used. This means keeping an eye on the medium and long term picture, re-assessing risks and evaluating alternative ways of achieving policy objectives.

3.2 In order to better manage spending, departments will need to assess risks and change priorities effectively. Key to this is:

- **Good risk management;**
- **A robust approach to contingency** so that when risks do materialise, they can be managed within existing budgets;
- **Having the right skills and embedding spending control in the culture of public sector organisations;**
- **Controlling spending throughout the year;** and
- **Efficient cash management.**

Risk management

3.3 The Spending Review delivers the most ambitious deficit reduction plan in the UK's post-war history. With such a significant reform programme, there are risks to delivering the level of savings required.

3.4 The Treasury has put in place strengthened risk management processes, based on its principle of devolving responsibility for managing spending as far as possible. In particular:

- Treasury Spending Teams work closely with their respective departments to identify and monitor risks to delivering the deficit reduction plans set out at the Spending Review;
- Those risks of the highest order, which would have a significant impact on the Government's overall deficit reduction programme, are monitored by the Chief Secretary on a monthly basis, when the latest intelligence on likelihood and scale of risks, and departments' plans to mitigate these are scrutinised;
- The Chief Secretary conducts a programme of bilaterals with the relevant departments on a regular basis, to discuss how these risks are being managed, agreeing any further actions that are needed to ensure the Government's deficit reduction plan is delivered; and
- The Chief Secretary updates the Quadrilateral on a regular basis, ensuring that the Prime Minister, Deputy Prime Minister and Chancellor have oversight of the top level risks.

3.5 However, the Government can do more to ensure it manages the risks inherent to delivering a historic Spending Review. In particular, this requires:

- *A more rigorous approach to assessing risk*, with departments conducting an evidence-based assessment of the likelihood and scale of risks occurring, and sharing this with the Treasury. **To support this, departments should regularly review their departmental financial risk management systems in discussion with the Treasury, agreeing priorities for improvement.**
- *A proactive and collaborative approach to risk management*: Public sector organisations, departments and the Treasury should work together to mitigate risks before they hit the public finances, using early warning systems to intervene in a timely way. Currently, these discussions do not always take place until the risk has materialised and departments submit a Reserve claim or the AME forecast shows a significant increase in expenditure. **Departments should share their in-depth assessment of spending risks with the Treasury on a monthly basis, agreeing mitigating actions and monitoring systems as presented to departmental boards;** and
- *On AME in particular, there needs to be a strengthened approach to management*, as set out in the Consolidated Budgeting Guidance. AME should be continually monitored, and an understanding of the volatility of the area of spending should be used to identify when spending is off track and where interventions should be made to bring costs back to planned levels so that forecasts are met.

Approach to contingency

3.6 Strengthened risk management systems should mean financial risks materialise less frequently, and when they do materialise, they are smaller in scale. However, it is inevitable that unforeseen events will occur, and new pressures and priorities will arise.

3.7 Achieving the Government's Spending Review plans will require departments to absorb the costs of all new Government priorities that they are responsible for implementing. This is a long-standing rule, set out in the Consolidated Budgeting Guidance, but in the past some departments have expected additional funding from the Exchequer to meet evolving priorities. This is no longer affordable.

3.8 This means that, apart from in a small number of exceptional cases, departments will need to manage new pressures within their existing budgets. Some departments have already demonstrated how this can be done without compromising the quality of public service delivery.

3.9 Many departments have strong reprioritisation and contingency mechanisms already in place, holding Departmental Unallocated Provisions and managing significant unforeseen pressures through flexibility in their budgets. However, there is not a consistent approach across departments.

3.10 Departments that have previously counted on support from the Reserve will need to strengthen their approach to contingency. This may be through holding unallocated provision within their budget or through having a list of contingency plans for how the department could reprioritise resources should this ever be necessary.

3.11 All major spending departments will be asked to identify around 5 per cent of their allocated Departmental Expenditure Limits (DEL) that could be reprioritised to fund unforeseen pressures in their area of responsibility, and to share these plans with the Treasury. This amount can be made up either by contingency plans or by a Departmental Unallocated Provision, or a combination of the two. While recognising the differences between DEL and AME, departments with particularly large non-pension AME spending should consider options for reprioritisation

across **Total Managed Expenditure**. The Chief Secretary to the Treasury bilateral will provide the opportunity for departments to discuss contingency plans with the Treasury. The level of assurance required by the Treasury on this will depend on the Spending Team's judgement of the level of risk presented to the Exchequer.

The Reserve

3.12 The last Spending Review reduced the size of the Reserve to ensure that the maximum possible resources could be allocated to government priorities. As a result, the Treasury has had to take steps to tighten the rules around access to the Reserve, ensuring it is spent on genuinely unforeseen, unaffordable and unavoidable pressures, or certain special cases of expenditure that would otherwise be difficult to manage, as agreed with the Chief Secretary. In the Consolidated Budgeting Guidance, the Government sets out that support from the Reserve must be repaid the following year by means of a reduction in the Department's DEL and will preclude carrying forward an underspend through Budget Exchange.

3.13 However, some departments are still applying to the Treasury for Reserve support too often. The incentives to manage pressures without access to the Reserve need to be strengthened. As a result:

- The Chief Secretary will ask for a lessons learned review in each case where Reserve support is approved. This review will be an independent or peer review as appropriate;
- The process for assessing Reserve claims will take account of the department's or devolved administration's capability and past performance. This will include an assessment of the amount of Reserve funding allocated in the past, the number of Reserve applications received, and any cases where Reserve funding has been allocated and gone unspent in previous years;
- Particular conditions and/or penalties will be applied to Reserve claims that relate to failures of financial management or are inappropriate;
- Departments and devolved administrations will be expected to pay back Reserve funding in the following years.

3.14 The Chief Secretary may consider further remedial action for those who break the rules or clearly fall below expectations. This may include asking the NAO to investigate the value for money that the Department achieves, conducting a financial management review, reducing delegated authorities, removing access to Budget Exchange and/or making deductions to administration budgets. In all cases, the Treasury retains the right to apply whatever penalties are appropriate to incentivise good financial management and value for money.

3.15 All additional funding from the Exchequer should be presumed to be a Reserve claim, except where agreed as part of the Budget Exchange system or explicitly stated otherwise in writing by the Chief Secretary.

Box 3.A: The process for making Reserve claims

Departments and devolved administrations should contact their spending team at the earliest possible opportunity if they are considering applying for Reserve support, to ensure they have sufficient time to present their case. Where a decision is required urgently, and convincing evidence has not been provided, the presumption will be that the pressure can be managed by the Department or devolved administration.

Applications for Reserve support must be supported by written evidence, which includes a credible and detailed assessment of offsetting actions that have been taken and could be taken to manage the pressure and absorb it. More detail is set out in the CBG.

The drawdown of funding from the Reserve is subject to an assessment of need, realism and affordability at the time at which the funds are released. The final draw down of Reserve claims approved by the Chief Secretary will therefore be decided, and voted on, at Supplementary Estimates when such an assessment can most easily be made. Reserve claims must be repaid the following year by means of a reduction in the Department's, or devolved administration's, DEL.

Skills and culture

3.16 As well as setting out the framework for robust spending control, finance professionals across the public sector must be supported with the right skills to manage this improvement. The Government's Finance Transformation Programme (FTP) aims to strengthen financial discipline and achieve a fundamental shift in public sector culture – putting financial consideration at the centre of decision-making.

3.17 The FTP encompasses a number of initiatives to improve systems and processes for capturing and reporting financial data and management information. These include Project OSCAR (see Chapter 2 above). Better financial information enables improved financial management.

3.18 The FTP also aims to raise the financial awareness of all civil servants and further develop the skills of government financial professionals. These needs are being addressed through a variety of training and development programmes.

3.19 The FTP is sponsored by the Economic Secretary to the Treasury and supported by the Head of the Government Finance Profession and the Finance Leadership Group (which includes the Finance Directors of the largest spending departments).

Controlling spending throughout the year

3.20 Good spending control demands that public sector organisations monitor performance against objectives through the year and make adjustments to stay on track. This requires prompt and accurate management information systems coupled with active top management engagement.

3.21 There is no place for excess expenditure or low-value spending in the last quarter of the financial year. **Any evidence of excessive spending at the year-end in areas that will not generate savings in future years will be taken into consideration in future decisions on spending issues, including the allocation of funding.**

3.22 Spending must be properly managed throughout the year and Accounting Officers are in breach of their duties if they permit expenditure to be incurred without the due approvals in place.

Cash management

3.23 Together, public sector organisations handle a great deal of public money and carry out many financial transactions every working day. It is essential that these are handled in a way that is efficient and safe for the Exchequer as a whole. Accounting Officers are responsible for the credit risk to which public funds are exposed when held in commercial banks. It is important that they manage this risk actively, so that it is kept to a minimum.

3.24 For most public sector organisations, this in practice means using the Government Banking Service (GBS). Any excess cash is automatically entered into the Exchequer accounts at the Bank of England, both during and at the end of each working day. This enables the Debt Management Office (DMO) to manage the Exchequer's cash position efficiently by financing any net government overnight debt or investing any overnight balance. Any other arrangement would expose the Government to increased credit risk and mean greater government borrowing, costing the Exchequer more overall.

3.25 Each public sector organisation should run its cash management and money transmission policies to minimise the cost to the Exchequer as a whole. This would normally mean using the Government Banking Service.

Box 3.B: Actions

Risk management

- 8 To support better risk management, departments should regularly review their departmental financial risk management systems in discussion with the Treasury, agreeing priorities for improvement. Departments should share their in-depth assessment of spending risks with the Treasury on a monthly basis, agreeing mitigating actions and monitoring systems as presented to departmental boards.

Contingency

- 9 All major spending departments will be asked to identify around 5 per cent of their allocated Departmental Expenditure Limits (DEL) that could be reprioritised to fund unforeseen pressures in their area of responsibility and to share these plans with the Treasury. This amount can be made up either by contingency plans or by a Departmental Unallocated Provision, or a combination of the two. While recognising the differences between DEL and AME, departments with particularly large non-pension AME spending should consider options for reprioritisation across Total Managed Expenditure.

The Reserve

- 10 The Chief Secretary will ask for a lessons learned review in each case where Reserve support is approved. This review will be an independent or peer review as appropriate.
- 11 The process for assessing Reserve claims will take account of the department's or devolved administration's capability and past performance. This will include an assessment of the amount of Reserve funding allocated in the past, the number of Reserve applications received, and any cases where Reserve funding has been allocated and gone unspent in previous years.
- 12 Particular conditions and/or penalties will be applied to Reserve claims that relate to failures of financial management or are inappropriate.
- 13 Departments will be expected to pay back Reserve funding in the following year.
- 14 The Chief Secretary may consider further remedial action for departments who break the rules or clearly fall below expectations.

Controlling spending throughout the year

- 15 Any evidence of excessive spending at the year-end in areas that will not generate savings in future years will be taken into consideration in future decisions on spending issues, including allocation of funding.

Cash management

- 16 Each public sector organisation should run its cash management and money transmission policies to minimise the cost to the Exchequer as a whole. This would normally mean using the Government Banking Service.

4

Governance, scrutiny and oversight

4.1 Robust governance, scrutiny and oversight are integral to ensuring that spending is controlled effectively. This means ensuring that:

- The authorities for departments to spend or commit public funds without prior Treasury approval are delegated in a way that reflects the level of risk to the Exchequer; and
- Mechanisms are in place through which those accountable for managing public money at ministerial and official level can ensure that the Government's spending control objectives are delivered.

Delegated authorities and approvals

4.2 The Treasury controls public expenditure. Parliament looks to the Treasury to make sure that:

- Departments use their powers only as it has intended; and
- Revenue is raised, and the resources so raised spent, only within agreed limits.

4.3 This means that formally, Treasury consent is required for all commitments to expenditure. Without it, expenditure is irregular or illegal. This applies to both resource and capital spending.

4.4 Treasury approval:

- Must be confirmed in writing, even where initially given orally;
- Cannot be implied in the absence of a reply; and
- Must be sought in good time to allow reasonable consideration before decisions are required.

4.5 In practice, however, the Treasury delegates authority to departments to enter into commitments and to spend within predefined limits without specific prior approval. This is important for ensuring that those closest to the decisions on the ground have the authority to manage public money efficiently and effectively.

4.6 The Treasury agrees these delegated authorities in writing with each department, so there is clarity about where Treasury approval is required. Authorities are considered carefully to ensure they strike the right balance between the need for the Treasury to account to Parliament for the use of public money, and for the Government to function efficiently.

4.7 Though this system has worked well, there is still scope for improvement on its approach. The Treasury can do more to reflect departments' latest risk assessment in delegated authorities. This assessment can take greater account of departments' capability in setting the level of delegated authority, strengthening the incentives for departments to control spending effectively and ensuring that Treasury resources are focused on areas of highest risk.

4.8 On approvals, it is essential that big projects are appraised critically as business propositions. For large spending projects, the Treasury published new guidance on major project approvals in April 2011, standardising the process that all projects needing Treasury approval must follow.

The key features of the new guidance are that Treasury approval is required at a minimum of three stages – Strategic Outline Case; Outline Business Case; and Full Business Case.

4.9 The Treasury will not normally approve business cases unless an assessment of delivery confidence has been carried out by the Major Project Authority in the Cabinet Office, or before receiving an up-to-date Approval and Assurance Plan.

4.10 Treasury will decide the level of scrutiny appropriate for each project approval under the Treasury Approval Point Framework, full details of which can be found at: http://www.hm-treasury.gov.uk/psr_major_projects.htm

Ministerial governance

4.11 The Chief Secretary of the Treasury conducts a rolling programme of bilateral meetings with the main spending departments, challenging progress in delivering their deficit reduction plan and the steps departments are taking to strengthen their approach to spending control. Where these conversations relate to major government reforms, these meetings are supported by the Minister for Government Policy. The Chief Secretary reports to the Cabinet, which oversees progress at the highest level.

4.12 It is for Secretaries of State to ensure delivery of their own departmental deficit reduction plans. The Treasury has a role in scrutinising these plans, ensuring that the overall plan is delivered.

4.13 Separately, the Chief Secretary conducts a rolling programme of bilateral and quadrilateral discussions with Finance Ministers in the devolved administrations to discuss areas of common interest and matters relating to ensuring effective spending control in the UK.

4.14 In addition, the Public Expenditure Cabinet Committee meets to consider issues relating to public expenditure when needed.

Official level governance

4.15 The Accounting Officer role is a strength of the UK budgeting system and ensures that every public sector organisation has someone whom Parliament may call to account for the stewardship of the resources within its control. Accounting Officers are responsible for ensuring their organisation meets specific standards, as set out in Chapter 3 of *Managing Public Money*. These standards include:

- Respecting Treasury spending limits and achieving sustainable spending plans;
- Ensuring that forward spending plans are sustainable in the medium term;
- Operating effective management information systems so that the department can give timely, accurate and realistic reports of its business to the Treasury;
- Acting within the law and meeting Parliament's expectations about transparency;
- Avoiding fraud, waste and other misuse of public funds; and
- Securing good value for the use of public money in the furtherance of Ministers' objectives.

4.16 Accounting Officers in departments are appointed by the Treasury. The Chief Secretary of the Treasury will write to the Secretaries of State and the Head of the Civil Service where he is concerned that Accounting Officers may fall short in fulfilling their responsibilities for managing public money.

4.17 Departments have indicated that more opportunities for Finance Directors to learn from each other's experiences and benchmark performance would also be helpful. As part of the

Finance Transformation Programme, departmental financial management will be reviewed and best practice identified for further dissemination. The Treasury will look for further opportunities to support this, particularly through the existing Finance Leadership Group, which includes the Finance Directors of the largest spending departments. This group provides a forum to help ensure that best practice is shared across departments, and that solutions to common issues can be discussed.

4.18 In relation to the devolved administrations in Scotland, Wales and Northern Ireland, the Treasury will continue to explore opportunities to promote the sharing of best practice through regular quadrilateral meetings with each of the devolved administrations.

Departmental Boards

4.19 Each department is led by a Board chaired by the senior Minister in the department and supported by several Non-Executives with relevant business experience. The board guides the Permanent Secretary in implementation of the department's policies and spending plans. Members of the board are expected to challenge the department constructively to ensure that plans are robust and effective. They also seek to assess the more remote or subtle risks the department faces so that contingency plans can be put in place.

4.20 An effective board is able to view the department's business in a broad context, enabling it to improve its delivery, its readiness for exogenous shocks and its resilience. Such support for the permanent staff underpins the department's capability, including its ability to live within its budget.

4.21 The Government has already taken action to strengthen Departmental Boards. In July 2011 the Chief Secretary and the Minister of the Cabinet Office published a revised Code advising on governance in central government departments. It includes an 'Enhanced Departmental Boards: Protocol'. This reinforces the importance of the role of Non-Executives of Department Boards, in particular the Lead Non-Executives, in advising and challenging departments on their quality of delivery, financial management, and achievement of Spending Review outcomes.

4.22 Non-Executive Directors have a significant role to play in good management within departments including strengthening spending control through supporting and challenging the executive's decisions around the management of the department's business. The senior Non-Executives from each department form a network, led by Lord Browne, which enables good practice to be propagated and can promote accurate delivery of spending plans. Lead Non-Executive Directors give a high priority to improving management information and risk management systems within departments, and are working closely with their departmental boards to drive changes in these areas.

Scrutiny

4.23 It is important that departments secure good value for money for the resources they deploy. It is good practice to work cooperatively with the NAO, where studies of particular areas of departments' business can suggest greater efficiency or other improvements.

4.24 Departments that do not operate effective control and management systems, or which achieve poor value for money, can expect censure from the NAO.

Box 4.A: Actions*Ministerial governance*

- 17 The Chief Secretary of the Treasury conducts a rolling programme of bilateral meetings with the main spending departments.

Official level governance

- 18 The Chief Secretary of the Treasury will write to the Secretaries of State and the Head of the Civil Service where he is concerned that Accounting Officers may fall short in fulfilling their responsibilities for managing public money.

5

Plan of action

5.1 This document has set out the Government's priorities for spending control and provides greater clarity about what is expected from departments, devolved administrations and public sector organisations, and what to expect from the Treasury in return.

5.2 It is for departments, ALBs, devolved administrations and the Treasury to agree together how to implement these improvements to spending control. These improvements will be driven by the actions and guidelines set out below.

Monitoring spending

1. All departments and devolved administrations must monitor and share spending information with the Treasury on a monthly basis. Departments and the Treasury must agree what information will be provided, focusing on the core information needed to manage the public finances. All organisations that are part of the public sector have the same duty to produce and share robust, timely financial information. The exact requirements for each department will be agreed with the Treasury, but will, at a minimum, include accurate information on actual and planned spend. Departments should confirm the accuracy of their COINS data (and OSCAR) by reconciling it to internal management information. Good practice will be to have COINS / OSCAR fully aligned at every level or to be able to explain any differences.
2. The Treasury will support departments and devolved administrations by providing clear and comprehensive guidance on the classification of public spending data, and by providing a robust system (COINS / OSCAR) to collect, analyse and report this information.
3. Departments and devolved administrations must provide robust forecasts of full year spend, and a breakdown of monthly spend, every month from the beginning of the financial year, which reconciles with their internal management information.
4. The data provided to the Treasury must be consistent with the data departments use for internal management purposes, so that decisions are taken on the same basis and there is an agreed position on what departments are spending. Departments should therefore confirm the accuracy of their COINS data (and OSCAR from 2012) each month by reconciling it to their internal management information.
5. Departmental Boards, supported by their Non-Executive Directors, are responsible for ensuring that the data provided to the Treasury is consistent with the information used internally.
6. A minimum of monthly data should be the presumption for spending departments and devolved administrations, and it should usually be available no more than one month in arrears.
7. As a first step, departments and devolved administrations should work with the Treasury to agree what steps are needed to deliver the core data on a monthly basis, covering their frontline organisations as well as the main department.

Managing spending

Risk management

8. To support better risk management, departments should regularly review their departmental financial risk management systems in discussion with the Treasury, agreeing priorities for improvement. Departments should share their in-depth assessment of spending risks with the Treasury on a monthly basis, agreeing mitigating actions and monitoring systems as presented to departmental boards.

Contingency

9. All major spending departments will be asked to identify around 5 per cent of their allocated Departmental Expenditure Limits (DEL) that could be reprioritised to fund unforeseen pressures in their area of responsibility and to share these plans with the Treasury. This amount can be made up either by contingency plans or by a Departmental Unallocated Provision, or a combination of the two. While recognising the differences between DEL and AME, departments with particularly large non-pension AME spending should consider options for reprioritisation across Total Managed Expenditure.

The Reserve

10. The Chief Secretary will ask for a lessons learned review in each case where Reserve support is approved. This review will be an independent or peer review as appropriate.
11. The process for assessing Reserve claims will take account of the department's or devolved administration's capability and past performance. This will include an assessment of the amount of Reserve funding allocated in the past, the number of Reserve applications received, and any cases where Reserve funding has been allocated and gone unspent in previous years.
12. Particular conditions and/or penalties will be applied to Reserve claims that relate to failures of financial management or are inappropriate.
13. Departments and devolved administrations will be expected to pay back Reserve funding in the following year.
14. The Chief Secretary may consider further remedial action for departments who break the rules or clearly fall below expectations.

Controlling spending throughout the year

15. Any evidence of excessive spending at the year-end in areas that will not generate savings in future years will be taken into consideration in future decisions on spending issues, including allocation of funding.

Cash management

16. Each public sector organisation should run its cash management and money transmission policies to minimise the cost to the Exchequer as a whole. This would normally mean using the Government Banking Service.

Governance, scrutiny and oversight

17. The Chief Secretary of the Treasury conducts a rolling programme of bilateral meetings with the main spending departments.

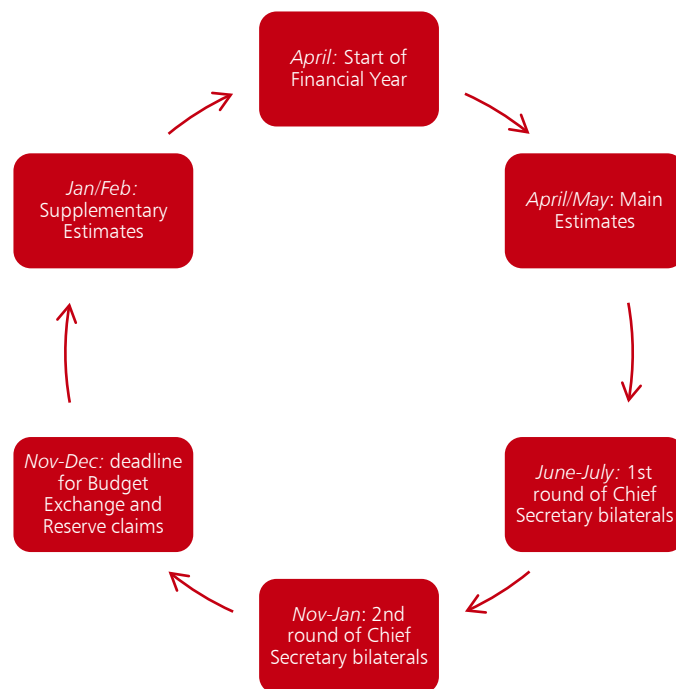
18. The Chief Secretary of the Treasury will write to the Secretaries of State and the Head of the Civil Service where he is concerned that Accounting Officers may fall short in fulfilling their responsibilities for managing public money.



The annual spending control cycle

Monthly recurring actions:

- ✓ OSCAR returns
- ✓ Publication of the Public Sector Finances statistical bulletin.



HM Treasury contacts

This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-1-84532-937-2

