Treasury Minute on the Twenty-fifth Report from the Committee of Public Accounts 2003-2004

25th Report: Managing resources to deliver better public services

Presented to Parliament by the Financial Secretary to the Treasury by Command of Her Majesty July 2005

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Twenty–fifth Report

HM Treasury

Managing resources to deliver better public services

The Treasury welcomes the Committee's report, which represents a further positive contribution to the development of financial management in government.

The Committee's report is based on a report by the Comptroller and Auditor General of December 2003[1] *and oral evidence to the Committee by Treasury and other department officials in January 2004. Further substantial progress in improving financial management in Government has been made since January 2004 and continues to be made, as outlined in this Minute.*

PAC conclusion (i): Departments need to better understand resource accounting and budgeting if they are to manage their resources effectively and get the best out of the financial freedoms granted by Treasury in recent years….

1. The Treasury agrees with this recommendation.

2. The Treasury welcomes the Committee's acknowledgement of the changes the Treasury has implemented since 1998 to help departments make better use of their resources and to improve the quality of the services they deliver, including preparing budgets and accounts on a commercial style basis. Departments have continued to achieve further significant improvements in the quality of their resource accounting during the past year:

- the number of accounts qualified by the Comptroller and Auditor General on 'true and fair' grounds fell further to just two qualifications in 2003-04, compared with three in 2002-03 and 12 in 2000-01;
- the number of Excess Votes has also continued to fall – to just two in 2003-04, compared with six in 2002-03 and 10 in 2001-02.

3. The Treasury further welcomes the positive comments by the Comptroller and Auditor General in his General Report published in March 2005[2], which highlighted "the good progress departments have continued to make in meeting the challenge of resource accounting and in improving the quality of accounts submitted for audit".

4. A number of initiatives have been launched since 2003-04 aimed at achieving a more business-like approach to managing resources in government.

5. In 2004 the Treasury launched a review of corporate governance across central government. As a result, a "Code of Good Practice" in corporate governance in central government departments is being developed. The aim is that the Code should consolidate and build on existing practices and developments that have taken place over the years in governance, use of boards and audit committees. The intention is to offer for the first time a set of principles to be applied in the context of departmental circumstances, to ensure that each department, under the leadership and direction of its Minister, should be managed by an effective board that has a balance of skills, knowledge and experience appropriate to the needs of its business.

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[1] *"Managing resources to deliver better public services" – HC 61, Session 2003-04*
[2] *HC 366, Session 2004-05*

6. Underpinning this, and in response to recommendations from the Committee and the Cabinet Office Strategy Unit, the Treasury led a two year programme to improve risk management, with a final report to the Prime Minister in December 2004. The Comptroller and Auditor General's report *"Managing Risks to Improve Public Services"*[3] and the Committee's report of June 2005[4] have also provided helpful recommendations in considering further action. To maintain progress, a sub-group of the Civil Service Management Board, chaired by a departmental Permanent Secretary and supported by the Treasury, has been established to oversee the steps departments are taking to improve further their management of all types of risk, including financial risk.

7. In January 2005, a cross-government working party was set up under the Professional Skills for Government agenda to develop a programme to enhance the financial skills of all civil servants at Senior Civil Service and Grade 7 level. The required financial competences have been identified and agreed with department Finance Directors; work is now in hand to ensure that departments have access to training to ensure that civil servants meet those competence levels.

8. In order to simplify and strengthen the wider financial control environment, the Treasury has initiated a review of the information needed to run government finances. The review will be the first fundamental reappraisal since the introduction of resource accounting and budgeting of Treasury data requirements, of the way in which they are fulfilled and their impact on financial management both in departments and across government. The review aims to articulate better the financial control model and relevant data needs by improving the coherence of financial management frameworks, integration between departmental reporting of inputs and outputs, guidance for departments and data transfer mechanisms.

9. In 2002, the Treasury developed a 'Public Spending Guidance' website on the Government Secure Intranet (GSI) to provide departments with a broad range of guidance on all aspects of public spending control issues. Once the latest update of the information on the site has been completed, a CD ROM of the site will be produced for those departments that still cannot access the GSI. The Treasury also publishes on the GSI technical guidance on the budgeting regime and on how expenditure should be recorded. The Treasury will be publishing a new version of this guidance in summer 2005.

10. This is a major programme of initiatives which, taken together, is designed to deliver further significant improvements in financial management in government by helping departments derive full benefits from the new resource based approach.

PAC conclusion (ii): The Treasury should identify and promote examples of good practice in resource management and the benefits that have been derived, to encourage others to follow suit….

11. The Treasury agrees with this recommendation.

12. The Treasury has published a number of booklets in the *"Managing Resources"* series[5] designed to provide guidance to departments on a wide range of aspects of improving financial management in government. As part of the *"Managing Resources"* series, three editions of the 'Green Guide': *"Better decision taking in departments"* have been published, identifying specific examples of

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[3] *HC 1078, Session 2003-04, published in October 2004*

[4] *15th Report, Session 2004-05, "Managing risks to improve public services" (HC 444)*

[5] The *"Managing Resources"* series of guides is available at http://www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_index.cfm

improvements departments have made as a result of the introduction of the new resource based system. Aspects covered include improvements in asset management, cash and working capital management, costing, budget planning and delegation, training and development and performance monitoring.

13. The Treasury will continue to keep the *"Managing Resources"* series under review and issue further guides as necessary.

14. The Spending Review 2004 White Paper[6] announced that the Treasury would conduct a department-by-department review of the effectiveness of financial management in government through an objective assessment of each department against a common framework. Reviews of 12 major spending departments are under way or have been completed. Each review results in a department action plan highlighting development priorities. Common issues and examples of good practice identified in the course of individual department reviews are being taken forward in discussion with Finance Directors across government.

15. Improving the financial control environment in the Treasury is essential to promoting better financial management in departments. In preparation for the next Spending Review, the Treasury aims to:

- simplify and strengthen the 'top down' message that financial management matters;
- work with the Cabinet Office on opportunities for Ministers and Permanent Secretaries to develop their skills in financial management and risk;
- promote the importance of linking the use of input resources with outcomes; and
- take action on balance sheet management and the development of medium term forecasts to manage cash flow risk.

16. We will also continue to explore ways to improve the skills and tools available to Treasury spending teams to help them perform their financial control role most effectively.

PAC conclusion (iii): Departmental Boards need to address unproductive activities where these are identified….

PAC conclusion (iv): Accruals-based financial reports should feature as a specific agenda item at monthly departmental board meetings, and at Audit Committees….

17. The Treasury accepts recommendations (iii) and (iv) in relation to the work of departmental boards. The Government is committed to maximising efficiency within public sector, minimising bureaucracy, and eliminating unproductive work to free-up more resources for front-line services. The 2004 Spending Review announced further steps to improve financial management and the efficiency of public services and ensure that increased resources are focused on most productive activities. This will enable the Government to release significant extra resources for front-line services and deliver further improvements in the performance of the whole public sector. The Accounting Officer has overall personal responsibility for prudent and economical administration and avoidance of waste and extravagance.

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[6] *"Stability, security and opportunity for all: Investing for Britain's long term future" (Cm 6237)*

18. The Committee's recommendations in relation to the work of boards are being considered in the review of corporate governance referred to in paragraph 7 above. The conclusions of this review would provide an opportunity for the Treasury to advise departments that the board should satisfy itself that it is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties in respect of all of the activities of the department, including the work of executive agencies and arms' length bodies. Such information would depend on the matters which it has determined should be reserved for board decision, but should include reports of:

- monthly management accounting information relating to the actual use of financial and human resource, as well as periodic in-year forecasts of the expected outturn against financial budgets of resource and capital expenditure, of income and of salient balance sheet information;
- progress in relation to outputs and outcomes (performance targets); and
- the identification and management of risk.

19. In addition, work has been initiated with departmental Finance Directors to improve the design (i.e. the nature and frequency) of management information made available to departmental boards. The work is focusing on three financial areas – cost monitoring and prediction, balance sheet evolution and cash forecasts – as well as considering the performance and risk management data included in monthly board reports. The aim is to exchange "best practice" rather than mandate specific reporting requirements, given the very different businesses operated by departments.

20. This work will inform and be informed by the recently initiated Treasury project, referred to above, to review the information requested from departments by the centre in order to simplify and strengthen the processes and frameworks used to manage government finances.

21. The Treasury agrees that audit committees also have a key role to play. Departments are expected to establish audit committees in accordance with the Audit Committee Handbook prepared by the Treasury. The audit committee should advise the board on accounting policies and the accounts, including the process for the review of the accounts, and review the systems used by the board in its oversight of financial monitoring and control processes. It is expected to provide an independent view and assurance to the Accounting Officer and the board on the appropriateness and effectiveness of risk management, governance and internal control, and to consider the annual draft departmental resource accounts and the Statement of Internal Control before they are finalised and signed by the Accounting Officer.

PAC conclusion (v): Departments should take positive steps, including succession planning, staff transfer or direct recruitment, to meet the Treasury's requirement for their Finance Directors to be qualified accountants, or staff with equivalent skills and a proven track record….

22. The Treasury agrees with this recommendation.

23. The Treasury introduced, from December 2003, a requirement for departmental boards to include a Finance Director, superseding the former Principal Finance Officer role. Finance Directors had to be either qualified accountants or have working for them qualified staff of sufficient stature to operate at the most senior

levels. As a further step, the 2004 Spending Review White Paper[7] announced that all departments would have a professional Finance Director reporting to the Permanent Secretary with a seat on the departmental board, at a level equivalent to other board members, by December 2006.

24. Action is currently being taken to achieve the December 2006 target, including work in hand with specialist recruitment firms, Civil Service Commissioners and Permanent Secretaries to facilitate the recruitment process. The Treasury welcomes the positive comments by the Comptroller and Auditor General in HC 366, which "warmly welcomed the steps being taken by the Treasury and departments to improve the professionalism of the finance function, not least the decision that, from December 2006, all departments will have qualified accountants as board level Finance Directors".

25. Since the written evidence submitted by Treasury officials to the Committee in June 2004, the overall proportion of departments meeting the target has increased to 53 per cent. The Treasury is continuing to provide guidance and support to Permanent Secretaries on key aspects of the recruitment and appointments process.

26. The Treasury, with departments, is also looking at ways to increase the 'pipeline' of qualified professionals below Finance Director level. This will help departments with their succession planning as well as developing their next generation of Finance Directors. Under the Professional Skills for Government agenda, the Treasury has identified the gateway standard for senior finance professionals, which includes an accountancy qualification. Secondments and loans are being explored to help departments manage the challenge of transition.

27. For the medium term, two cross-government working groups have been set up to develop programmes to encourage faster progress in improving the organisation and capacity of departments' finance functions and ensuring there is sufficient 'value added' in the finance process. These groups are looking at the development of procedures for the recruitment and training of trainee accountants new to central government and improved career development for finance personnel.

PAC conclusion (vi): Departments should make better use of end year flexibilities and extend their use to agencies and other delivery partners….

28. The Treasury agrees with this recommendation.

29. Departments have been encouraged to cascade end year flexibility (EYF) entitlements to their agencies and non-departmental public bodies wherever possible. This is intended to ensure that the incentives EYF brings to manage resources to best effect are also applied to lower level budget holders. The Treasury has set out a variety of approaches that departments can use in seeking to reconcile their overall budget management requirements with greater entitlement for budget holders to EYF and has asked departments to consider which approach would best suit their particular circumstances.

PAC conclusion (vii): Departmental Boards should use resource accounts to make sure their assets are used efficiently, disposing of those that are surplus to need….

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[7] *Cm 6237*

30. The Treasury agrees with this recommendation.

31. In December 2004, Sir Michael Lyons published his report to the Chancellor *"Towards Better Management of Public Sector Assets"*[8], in which he made a number of important recommendations. The Government has welcomed Sir Michael's report, which recognised the importance of resource accounting and budgeting in managing assets, and sees the report as providing a sound framework for further improving asset management and asset disposal across the whole of the public sector.

32. Since January 2005, as part of the Efficiency Programme led by John Oughton, departments have begun to implement Sir Michael's recommendations. Departments are currently focusing on their planned disposals covering the 2004 Spending Review period, which will contribute to the Government's objective of £30 billion of asset disposals by 2010.

33. At the same time, departments have been asked to develop departmental asset management strategies which are fully integrated into their normal business planning to inform the next Spending Review. They are also taking forward the recommendation that departmental asset management plans should become the responsibility of departmental Finance Directors and that the plans should be fully considered and approved at board level.

34. Equally importantly, and in line with Sir Michael's recommendations, departments have also been asked to cascade existing asset management disposal freedoms and flexibilities throughout their organisations, agencies and sponsored bodies to ensure that there are sufficient incentives at business unit level to manage and, where necessary, dispose of surplus assets.

35. Taken together, these measures demonstrate the Government's strong commitment to better asset management and disposal across the public sector.

36. To underpin this, the common framework against which the current financial management reviews of departments are being conducted stipulates that departments should have an asset management strategy, extending over a time period relevant to the department's business, which optimises the use of the current asset base, underpins investment priorities and determines plans for disposal of relevant capital assets. The asset management strategy should be kept under review by the departmental board.

PAC conclusion (viii): Departments should take steps to improve the management of debtors and creditors, inventory and cash….

37. The Treasury agrees with this recommendation.

38. The common framework against which the financial management reviews of departments are being conducted requires that:

- there should be formal arrangements for delegating responsibility for working capital management to an appropriate level of operational management responsibility in the department and in arms' length bodies;

[8] Available at http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/assoc_docs/prebud_pbr04_lyons.cfm

- financial and other corporate service or programme activity systems are well integrated and do not rely on significant re-keying or other manual interface, including for working capital management (e.g. inventory or loan/debtor collection) and related financial systems; and
- stretch targets are set and achieved for working capital management, including debtor collection and compliance with prompt payment legislation.

39. The management of working capital is one of the areas of continuing focus by Treasury spending teams in their interaction with departments.

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