House of Commons

Committee of Public Accounts

Managing resources to deliver better public services

Twenty–fifth Report of Session 2003–04

Report, together with formal minutes, oral and written evidence

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The Committee of Public Accounts

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Mrs Cheryl Gillan MP *(Conservative, Chesham and Amersham)*
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Introduction

Departments and their agencies spend some £421 billion a year and are responsible for assets and liabilities respectively of £334 billion and £112 billion. Since 1998 a number of HM Treasury-led changes have been implemented to help departments make better use of their resources and, in turn, to improve the quality of services they deliver. The changes include Resource Accounting and Budgeting (preparing budgets and accounts on a commercial style accruals basis), three-year budgets, public service agreements and flexibility to carry forward unspent resources at the end of the year.

Resource accounting and budgeting provides for the first time a sophisticated means for departments to identify on a consistent basis the full costs of their activities, rather than knowing simply what is paid out in cash. If used effectively the new arrangements provide departments with the information to determine the relative efficiency of different activities and to identify areas of waste or low productivity. A 1% improvement in the utilisation of the total £1,447 billion allocated to departments over the next three years would save nearly £15 billion, significantly contributing to the delivery of the efficiency savings now required from departments. The recommendations below detail the actions that departments now need to take, if they are to achieve greater efficiency and improved services.

On the basis of a Report by the Comptroller and Auditor General we took evidence from HM Treasury, the Highways Agency, the Housing Corporation, the Teacher Training Agency and the Serious Fraud Office on how the new initiatives were working in practice, the areas where departments need to do more to realise the benefits, and the role of the Treasury in achieving this.[1]

1 C&AG's Report, *Managing resources to deliver better public services* (HC 61-1, Session 2003–04)

Conclusions and recommendations

1. **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.** While around a quarter of departments have made good progress, many others still have a significant way to go to change the focus of control from cash to accruals, and to demonstrate the skills and capacity to use accruals-based information to better manage their finances and activities.

2. **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.** The Treasury provided guidance, training and support to departments in advance of the introduction of resource accounting and budgeting. Where departments continue to struggle they need to be shown, through emerging practical example, how others are making a success of this initiative.

3. **Departmental Boards need to address unproductive activities where these are identified.** Resource accounting and budgeting provides the means to assess the efficiency of departments' activities by comparing the full costs of different activities on a consistent basis, allowing for the identification of areas of poor productivity or unnecessary back-office functions and overheads.

4. **Accruals-based financial reports should feature as a specific agenda item at monthly departmental board meetings, and at Audit Committees.** As well as providing information on efficiency, resource accounting and budgeting provides regular information about the financial health of an organisation, including the timely identification of emerging risks or adverse trends.

5. **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.** In January 2004 only 39% of departments' finance directors were qualified accountants compared to at least 84% of FTSE 100 companies.

6. **Departments should make better use of end year flexibilities and extend their use to agencies and other delivery partners.** Despite having greater freedom to carry forward resources into future financial years, three quarters of departments in 2001–02 still exhibited bias towards spending in the last two months of the financial year, indicating a lack of understanding of this new facility, and how to make best use of it.

7. **Departmental Boards should use resource accounts to make sure their assets are used efficiently, disposing of those that are surplus to need.** Resource accounts show for the first time the value of assets and liabilities as well as information about their associated costs. Few departments are, however, as yet in a position to use accruals-based information to manage actively their assets and future investment strategy.

8. **Departments should take steps to improve the management of debtors and creditors, inventory and cash.** Accruals accounting has highlighted weaknesses in departments' management of their working capital including poor management of debtors and excessive levels of stock.

1 Improving departments' resource management

Modernising the management of resources

1. From 1998 HM Treasury introduced a number of fundamental changes in how departments manage their resources. These changes include a public spending and control regime which allocates resources to departments over a three year period and gives more flexibility to carry forward unspent resources to encourage well planned investment and reduce the risk of unnecessarily rushed spending; Public Service Agreements to concentrate departments' efforts on achieving sustainable improvements in core services; and the introduction of accruals accounting and budgeting to improve information on the cost of services, which came into full effect in 2001–02.[2]

2. The changes were intended to address long standing weaknesses in the way resources were managed by departments in the past. For example, funding departments on an annual cash basis with any unspent money usually having to be returned at the year end provided little incentive for longer-term planning and investment and led to potentially wasteful year end surges in expenditure. With cash accounting, the values and costs of assets and liabilities were not brought into account, which meant that departments did not know how much it really cost to deliver a service or to make the investment required to improve it.[3]

Progress towards improved resource management

3. The new resource management tools have the potential to bring a range of benefits for service delivery and efficiency **(Figure 1)**.[4] Despite a seven year lead time for the introduction of resource accounting and budgeting, however, only 28% of departments have made good progress in implementing accruals based accounting and are using it as an effective resource management tool.[5] Over one third of departments still rely mainly on cash based budgets and management information and prepare accruals based financial statements as a separate one-off exercise at the year end to meet external reporting and accounting requirements.[6]

4. Departments have identified three main barriers to progress: 63% of departments considered that insufficient financial expertise had held up progress; 39% considered the main barrier was raising awareness and understanding among operational managers, who often lacked the necessary financial expertise; 11% considered that their IT systems were inadequate to produce integrated financial and output performance information.[7]

2 C&AG's Report, para 1.10

3 *ibid*, para 1.8

4 *ibid*, Figure 1

5 Q 2; C&AG's Report, paras 2.11–2.13, Figure 14

6 Q 1; C&AG's Report, para 9

7 C&AG's Report, para 2.15

Departments have concentrated on procuring and putting in place new systems and then ensuring these systems are capable of producing reliable accounting information. The emphasis is only now turning to how the new accruals information can be used to improve the quality of management information and the delivery of core business.[8]

Figure 1: Resource management can improve both public service delivery and efficiency

RESOURCE MANAGEMENT REQUIREMENT	**BENEFITS**	
	Service delivery	**Efficiency**
Targets and objectives are clearly defined and underpin the way resources are allocated.	Resources can be directed at achieving key outcomes such as raising educational standards rather than simply putting money into an activity.	Non core activities can be identified providing opportunities to shift unproductive resources to front line delivery.
Resources can be used flexibly and expenditure is not constrained by short term annual cycles.	Expenditure can be better matched to service needs ensuring more consistent delivery throughout the year. Unspent resources are not lost but available to redeploy to other priorities.	Risks associated with the rush to spend all money at the year end are reduced such as nugatory expenditure and poor value for money because of limited time to confirm that expenditure is justified and to determine the most cost effective procurement approach.
Full cost information on an accruals basis is available and used to monitor and review performance and influence the allocation of resources.	The full cost of delivering a service is known including its consumption of assets. Costs can be assessed to determine whether they are reasonable for the level and quality of outputs delivered. Information on the consumption of assets can inform future investment.	Inefficient use of assets can be more easily identified and remedied. High cost, inefficient processes and working practices can be eliminated. Resources tied up in unproductive and inefficient activities can be more easily identified and redeployed.
Resource allocation and management are aligned throughout the service delivery chain.	If all the key organisations contributing to a service have targets which are mutually supportive and underpinned by resources that are allocated on a consistent basis the potential to deliver higher quality services is increased.	Supporting activities which involve duplication or are delivered out of sequence or late or are over or under resourced can be identified and addressed.
Performance and resource utilisation is regularly reviewed at a senior level and informs future resource allocation.	Reliable performance information allows shortfalls in service quality to be identified sufficiently early for remedial action to be taken.	Trends in the unit costs and the overheads of delivering services can be monitored and where practicable benchmarked to identify poor use of resources.

Source: C&AG's Report[9]

8 Q 3

9 C&AG's Report, Figure 1

2 Securing the benefits of better resource management

5. There are eight areas departments need to address if they are going to use the new resource management tools to deliver improved services and value for money.

The resource management skills of departmental boards

6. The new resource management initiatives have raised the importance of financial monitoring and decision making in departments.[10] Making the best use of the information in resource accounts and other resource management tools depends on Accounting Officers and other board members having the commitment to make the new arrangements work, as well as their having the relevant financial experience and expertise.[11] Yet it remains unclear what training board members have received in this area.[12]

Qualified finance directors

7. A recent step by the Treasury towards improving financial management in departments has been the introduction, from 1 December 2003, of a requirement for departmental boards to include a Finance Director in place of the former Principal Finance Officer role. For the first time they are either to be qualified accountants or have working for them qualified staff of sufficient stature to operate at the most senior levels.[13] Currently only 39% of departments' Finance Directors are qualified accountants,[14] in contrast to 84% of Finance Directors in the FTSE 100 companies.[15]

Matching expenditure to service need

8. Under cash accounting the requirement to spend cash budgets before the year end or else surrender unspent sums, led to increased spending by departments in the last quarter of the financial year to avoid losing money. This increased the risk of poorly focused and wasteful expenditure in the haste to beat the 31st March deadline.[16] Yet despite the introduction of the new end year flexibilities to carry forward unspent resources the pattern of end year expenditure surges still persists. In almost three quarters of departments, the bias towards spending in the last two months of the financial year has remained unchanged and in three cases this pattern has increased **(Figure 2)**.[17] There are, however, some notable exceptions; for instance, the Highways Agency has been able, over a

10 C&AG's Report, para 2.7

11 Qq 25, 49–50

12 Ev 23

13 HM Treasury press statement, *Finance Directors for Government Departments* (124/2003, 1 December 2003)

14 Ev 23

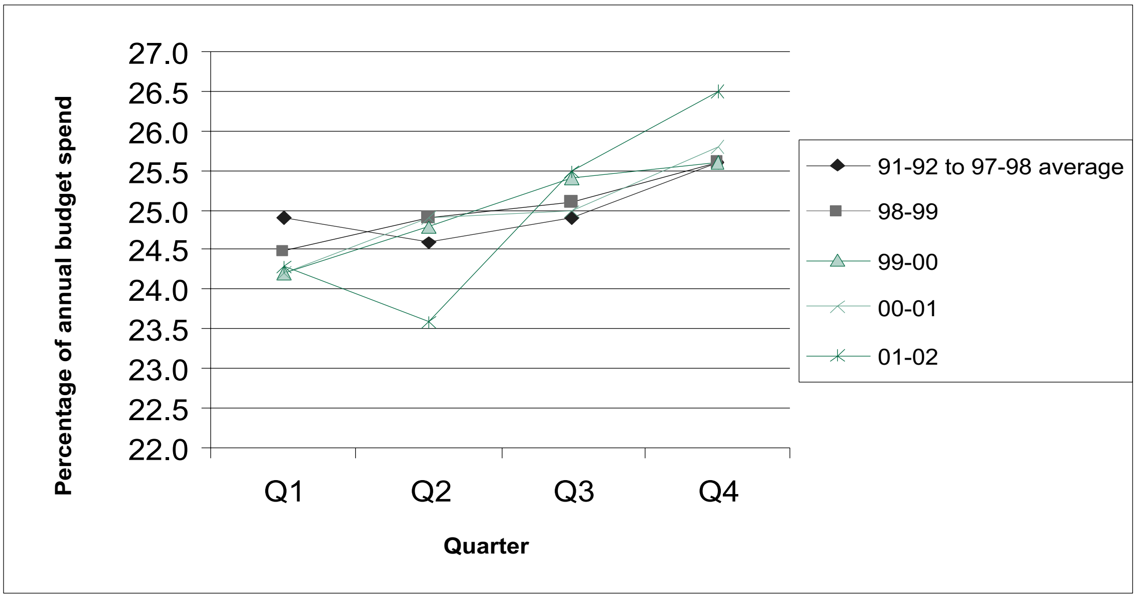
15 Ev 25

16 C&AG's Report, para 1.8

17 Qq 70–75, 84, 127

four year period up to and including 2002–03, to reduce its March expenditure as a proportion of total expenditure from 20% to 9%.[18]

Figure 2: Departments' spending in the last three months of the financial year



Source: C&AG's Report[19]

9. The continuation of end year surges of expenditure arises for two reasons: departments still learning to use the new flexibilities; and end of year flexibility not being passed down to executive agencies or other delivery partners. In some cases this was because the partner organisation was considered to have a poor delivery record and departments wanted to keep a tighter rein on their financial management.[20]

10. In some instances departments do not have accounting systems that would enable them to record expenditure throughout the course of the year. This has resulted in them bringing some expenditure to account after the year end as a one-off accounting exercise, thereby distorting their annual expenditure profile with potentially misleading reporting of their overall performance.[21]

11. The Treasury has issued guidance for departments on the delegation of end year flexibility to agencies and non-departmental public bodies. While it continues to monitor departments' spending profiles, it does not yet fully understand why the new flexibilities have not helped reduce the problem.[22]

18 Q 72

19 C&AG's Report, Figure 19

20 *ibid*, para 2.19

21 Qq 70–71; C&AG's Report, para 2.21

22 Qq 70, 84, 127

Reducing under and over spending

12. In its report on excess votes in 2001–02 the Committee of Public Accounts concluded that many could have been avoided if departments had done more to implement full accruals accounting, employed sufficiently skilled and trained finance staff and had considered fully the financial consequences of operational developments or decisions.[23] The Treasury discussed the reasons for the excess votes with the departments and took steps to prevent their recurrence in 2002–03.[24] Results for that year show that the number of excess votes had fallen from ten to six.[25]

13. Some 17% of departments have also identified significant underspending in their programmes since 2001–02, and capital underspending totalled £2.3 billion in 2002–03 (8.7% of the total capital budget for the year).[26] When expenditure started to grow rapidly in 2001–02 departments did not initially have the capacity to deliver ambitious investment programmes with expenditure and activity being deferred into future years.[27] The main causes of underspending were weaknesses in departments' forecasting and project management, especially in using accruals based information, as well as a poor understanding of the capacity of partners to deliver.[28] Information obtained by the Treasury on departments' investment performance as at November 2003 shows an increase in levels of planned investment and suggests an improving capability and capacity within departments to use the resources provided.[29]

Using better information on assets and liabilities

14. Under cash accounting assets such as buildings bought in previous financial years were usually treated as free goods by departments with limited account taken of their consumption in delivering services or the cost of financing them.[30] Resource accounting requires departments to produce an annual balance sheet setting out the value of their assets, and the costs associated with the reduction in their useful life, as well as the cost of financing the assets (the 'cost of capital').[31] Having to recognise these costs in their own accounts has provided departments with a strong incentive to make better use of their assets.[32] For example, capital charges of £175 million on an estate valued at £2.7 billion, have stimulated the Court Service to identify the potential to release spare capacity and make better use of under-utilised courtrooms.[33]

23 7th Report from the Committee of Public Accounts, *Excess Votes 2001–02*, (HC 503, Session 2002–03)

24 Qq 9–11

25 Ev 23

26 C&AG's Report, paras 2.25, 2.28–2.29

27 Qq 76–78

28 C&AG's Report, para 2.30

29 Qq 76–78

30 C&AG's Report, para 3

31 Assets will typically include land, buildings, stock and equipment.

32 C&AG's Report, paras 2.31–2.34

33 *ibid*, Figure 25

15. Correctly differentiating between capital expenditure, used to purchase assets that will last more than one year, and current expenditure on items such as in-year maintenance, has been an area that continues to cause difficulty for some departments, and is one of the main reasons why many resource accounts have been qualified since 1998–99.[34] The number of qualified resource accounts has, however, decreased from 30 in 1998–99 to three in 2002–03.[35]

16. As well as assets, resource accounting requires departments to account for liabilities in their balance sheets and to take responsibility for managing the associated costs and risks.[36] For example, the Department for Health has determined the full scale of future clinical negligence costs and set aside £5.2 million in 2001–02 in the form of a provision on the balance sheet to meet this liability. Better understanding and reporting of these liabilities has stimulated action to both prevent and better manage the risks to service delivery including increased use of mediation and faster processing of claims to reduce legal and other costs.[37]

Managing working capital

17. Government departments hold considerable amounts of working capital in the form of short term assets such as cash, debtors, stock and work-in-progress (£36 billion in 2001–02) and short-term liabilities such as creditors (£73 billion).[38] Under cash accounting departments did not have to account for working capital, but resource accounting requires the disclosure of such items.[39]

18. Better information on working capital has already led to improved management of these resources. For example, the Ministry of Defence has been able to significantly reduce unnecessarily high levels of stock.[40] Accruals based information enabled the Serious Fraud Office to identify the full value of its debtors, including £4 million in debts stemming from uncollected cost awards made against convicted fraudsters. This highlighted a wider failure on the part of the Court Service to collect fines and costs awards throughout the criminal justice system.[41] Following qualification of its resource accounts in 2001–02, the Serious Fraud Office has also introduced improved arrangements for forecasting and monitoring the monies it owes barristers for the work they carry out on fraud cases.[42]

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34 Q 145; C&AG's Report, Figure 15

35 Ev 23

36 Liabilities typically represent obligations arising from a transaction or other event that has already occurred but has not yet involved the department in any payment.

37 37th Report from the Committee of Public Accounts Report, *Handling clinical negligence claims in England* (HC 280, Session 2001–02)

38 C&AG's Report, Figure 5

39 Q 64

40 Q 62

41 C&AG's Report, Figure 24

42 Qq 37–42, 62–64

Using resource based information to improve efficiency

19. To monitor and control overheads the Treasury sets each department an annual Administration Cost budget, which includes civil servants' salaries.[43] The current administrative cost information does not, however, differentiate fully between departments' expenditure on overheads and front line delivery and, as yet, resource based information is not generally widely used by departments as a means to improve and monitor efficiency, including such measures as the balance between direct costs and overheads, and productivity.[44] The Treasury is conscious of the need to develop effective measures of departmental overheads and productivity and to ensure that the additional £61 billion of resources provided to departments in Spending Review 2002 are being used to deliver improved frontline services.[45]

20. Resource accounting and budgeting provides departments with the means to improve efficiency, but it remains unclear what level of savings the Treasury and departments are planning to achieve. Departments will be required to set out detailed plans for improving efficiency and justifying the numbers of civil servants in the forthcoming Spending Review 2004. Departments' capacity to deliver improved services will inform decisions on resource allocation.[46]

Reduced administrative effort for small departments

21. Around half of all departments consider that the administrative effort involved in making requests for resources to the Treasury every second year is onerous for smaller organisations. For example, the Serious Fraud Office is a small department, with a small finance team overseeing annual expenditure of around £28.7 million and assets valued at around £2 million. Yet it has to provide the same information to fulfil the requirements of the Parliamentary Supply procedure as large departments such as the Ministry of Defence.[47] The Treasury has acknowledged the concerns of smaller departments and is currently completing a study of the burdens placed on them.[48]

43 Qq 5, 15–18

44 C&AG's Report, para 3.24, Figure 33

45 Qq 5, 15–18

46 Qq 5, 15–18

47 C&AG's Report, para 2.8

48 Q 7

3 The role of the Treasury in improving resource management

22. The Treasury has been the chief architect of the initiative to improve resource management and, to support its implementation, has provided practical guidance and training to departments. Just over a quarter of departments examined by the National Audit Office had made good progress in implementing accruals accounting and were using it effectively, a third were progressing towards accruals reporting while a further third still relied mainly on cash-based information.[49]

23. The Treasury has overriding responsibility for expenditure control and monitors departments' expenditure to identify problem areas, and has sanctions it can apply where departments demonstrate poor resource management.[50] In the event of overspending, for example, it can reduce the next year's budget by the amount of the excess. In 2000–01 the Foreign and Commonwealth Office overspent its budget which was then reduced by £5.7 million in 2001–02. Also in that year the Lord Chancellor's Department and the Charity Commission exceeded their budgets while the Serious Fraud Office exceeded its administration cost limit. On those occasions the Treasury imposed no reduction, preferring to work with them to avoid the problem recurring in later years.[51]

24. The Treasury said that it had placed two departments on 'special measures' following a number of occasions in recent years when the departments have needed to claim funds from the Reserve.[52] In 2002–03 the Department for Constitutional Affairs made a Reserve claim of £412 million and the Home Office had an Asylum Reserve claim of £825 million. Departments under 'special measures' provide the same routine financial and management information as other departments, but the level at which the reports are sent and discussed is escalated from official to either Ministerial or Permanent Secretary level.[53]

25. As part of Spending Review 2004 the Treasury will be advising Ministers where departments' financial management is poor, so that they can consider whether improvement should be one of the conditions of the settlement letter at the end of the Spending Review process.[54]

49 C&AG's Report, para 9

50 Qq 167–168

51 Ev 23

52 Qq 179–184

53 Ev 24

54 Qq 122–126

Formal minutes

Monday 17 May 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Jim Sheridan
Mrs Angela Browning	Mr Gerry Steinberg
Jon Cruddas	Jon Trickett
Mr Brian Jenkins	Mr Alan Williams

The Committee deliberated.

Draft Report (Managing resources to deliver better public services), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 25 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twenty-fifth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Wednesday 19 May at 3.30 pm

Witnesses

List of written evidence

List of Reports from the Committee of Public Accounts Session 2003–04

First Report	Tackling fraud against the Inland Revenue	HC 62	*(Cm 6130)*
Second Report	The new electricity trading arrangements in England and Wales	HC 63	*(Cm 6130)*
Third Report	The Sheep Annual Premium Scheme	HC 64	*(Cm 6136)*
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137	*(Cm 6155)*
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206	*(Cm 6175)*
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207	*(Cm 6155)*
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253	*(Cm 6155)*
Eighth Report	The English national stadium project at Wembley	HC 254	*(Cm 6155)*
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305	*(Cm 6175)*
Tenth Report	Purchasing and managing software licences	HC 306	*(Cm 6175)*
Eleventh Report	Helping consumers benefit from competition in telecommunications	HC 405	*(Cm 6191)*
Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406	*(Cm 6191)*
Thirteenth Report	Excess Votes 2002–03	HC 407	(N/A)
Fourteenth Report	Inland Revenue: Tax Credits	HC 89	*(Cm 6244)*
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429	*(Cm 6244)*
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120	*(Cm 6191)*
Seventeenth Report	Hip replacements: an update	HC 40	*(Cm 6271)*
Eighteenth Report	PFI: The new headquarters for the Home Office	HC 501	*(Cm 6244)*
Nineteenth Report	Making a difference: Performance of maintained secondary schools in England	HC 104	*(Cm 6244)*
Twentieth Report	Improving service delivery: the Veterans Agency	HC 551	*(Cm 6271)*
Twenty-first Report	Housing the homeless	HC 559	*(Cm 6283)*
Twenty-second Report	Excess Votes (Northern Ireland) 2002–03	HC 560	(N/A)
Twenty-third Report	Government Communications Headquarters (GCHQ): New Accommodation Programme	HC 65	*(Cm 6302)*
Twenty-fourth Report	Transforming the performance of HM Customs and Excise through electronic service delivery	HC 138	*(Cm 6302)*
Twenty-fifth Report	Managing resources to deliver better public services	HC 181	

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 7 January 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Richard Bacon
Jon Cruddas
Mr Ian Davidson
Mr Frank Field
Mr Brian Jenkins
Jim Sheridan
Jon Trickett
Mr Alan Williams

Mr Tim Burr, Deputy Comptroller and Auditor General, National Audit Office, further examined.

Mr Brian Glicksman, Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Managing resources to deliver better public services (HC61-I & 61-II)

Witnesses: **Mr Archie Robertson OBE,** Chief Executive, Highways Agency, **Mr Ralph Tabberer,** Chief Executive, Teacher Training Agency, **Dr Norman Perry,** Chief Executive, Housing Corporation, **Mr Robert Wardle,** Director, Serious Fraud Office, **Mr Nick Macpherson,** Managing Director, Public Services, HM Treasury and **Professor Sir Andrew Likierman,** Managing Director, Financial Management, Reporting and Audit, HM Treasury, examined.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts. Today we are looking at the Comptroller and Auditor General's Report on Managing resources to deliver better public services and we welcome Archie Robertson, who is Chief Executive of the Highways Agency, Dr Norman Perry, who is Chief Executive of the Housing Corporation, Robert Wardle, who is Director of the Serious Fraud Office, Ralph Tabberer, who is Chief Executive of the Teacher Training Agency, Nick Macpherson, Managing Director of Public Services Directorate, HM Treasury and Sir Andrew Likierman, one of the Managing Directors of the Treasury. You are all very welcome. Perhaps I could start with you, Mr Macpherson, if I may. Could you please look at the main Report and look at paragraph 9 on page 6? If you read that you will see that over a third of departments still operate on cash-based management information. What does that say about the success of your project to bring in Resource Accounting?
Mr Macpherson: I think what it suggests is that there has been a lot of progress in terms of moving to Resource Accounting but there is still quite a lot to be done if we are going to get its full benefits.

Q2 Chairman: This idea of Resource Accounting has been around since 1995. You have taken a hell of a long time to get it right, have you not?
Mr Macpherson: I think it is one of the projects which, if it is going to be got right—and I think we are well on course to make it right—it is very sensible to plan and implement it over a long period. Sir Andrew, who is sitting beside me, happens to have been masterminding the project since its inception.

Q3 Chairman: All right, Sir Andrew, over to you. Why have we still got a third of the departments currently relying mainly on cash-based information systems?
Professor Sir Andrew Likierman: Chairman, as you indicated, we have been at this a long time. If we look at the phases through which the project has gone, departments had, first of all, to procure and then put in new systems. They then had to make sure the systems worked, they then had to use the systems to publish true and fair accounts with them and that has been the main emphasis of the progress so far. There is no doubt at all the emphasis is now changing from the production of accounts based on the new systems to better management information inside departments to enable them to do their business better. So you are right, of course, this has been a long time but this has not been a project where we have been seeking to do everything simultaneously. It has been a project in stages.

Q4 Chairman: Are you satisfied, Sir Andrew, that civil servants, particularly perhaps in small agencies, have the necessary skills to cope with Resource Accounting or are you placing a burden upon them?
Professor Sir Andrew Likierman: The picture is patchy. Some departments, large and small, have got a good level of skills, have hired well and are producing their accounts and their management

accounts internally on a much better basis. Some have not. So I do not think it is something which is either universally good or universally bad. There is no doubt at all that departments are making significant progress in the way in which they are developing skills, not just in hiring professionals but, also, making sure that non-professionals understand accountancy.

Q5 Chairman: Thank you. Sir Andrew or Mr Macpherson, in the current round of spending we have got £61 billion extra made available. How are you ensuring that this better information that is available to you is being used on the front line and not simply being consumed by extra overheads? I know that is a 61 billion dollar question, as it were and difficult to answer briefly, but do your best. If you find it difficult to expand briefly on the theory, give us a few practical examples of success and failure.

Mr Macpherson: I think the first thing I would identify is the Public Service Agreement framework where at the time these plans were set out in July 2002 there were 125 odd PSA targets setting out clear outcomes which departments would seek to achieve alongside them. We have put a lot of effort into monitoring performance against those outcomes. We now have a website which is accessible through the Treasury website to show how each department is performing against each target at any point in time. That, I think, is a major step forward in terms of transparency. In particular, underpinning those PSAs is a series of value-for-money targets which we are also monitoring, and that is very important. I think it is also worth drawing attention to other reforms which are supporting the public spending system: the creation of the Office of Government Commerce, I think, is having quite a significant effect in terms of ensuring that there is better procurement, better investment and better project management. I am hopeful—indeed confident—that the Resource Accounts which are being prepared, and being prepared in a much more timely manner, are producing important management information which both departments and the Treasury, in terms of monitoring, can draw on. One priority we have across the Treasury is actually ensuring that the spending teams in the Treasury have the right expertise to be able to ask the questions of departments which come out of the excellent work of the NAO in terms of drawing up accounts.

Q6 Chairman: Other Members can come in and they can allude to particular examples of waste if they wish. Let us go to one problem, one particular agency. Perhaps I could ask you, Mr Wardle, if I may, to refer to the Case Studies Report and look at the main bullet on page 24. Before that, on page 23, you will see that you had an Excess Vote in 2001–02 and ". . . it acknowledged that the absence of monthly or at least quarterly information on accruals and creditors masked overspends until after the year-end . . .". Why have you not been able to make better use of this new accruals information, which is, apparently, available to you or should have been available to you?

Mr Wardle: During that year we simply got it wrong. We thought we had systems in place which were going to alert us in a timely way to any possible overspend. I am afraid that we got it wrong that year. Things have changed; we now have regular monthly meetings with each of the operational divisions and we have monthly information on an accrual basis. I think part of the problem was that there was a cultural resistance to the change, perhaps, in the operational divisions; people did not realise the difference that this was going to make. All I can say is it did happen, we very much regret it and we have put a number of things in place to ensure it happens not again. For example, we have had a major review of our finance function by an outside firm of accountants. Certainly we are going to have to look at the skills we have got there, look at the accountancy expertise available to them and integrate our operational work much more with the financial side.

Q7 Chairman: In a small department like yours does Resource Accounting put you under an undue burden?

Mr Wardle: This certainly has put us under an additional burden together with the problems that small departments face with the burdens we get from the centre. I am pleased that the Treasury is recognising that these problems exist and is trying to do something about it. There is a draft report on the problems that small departments face in this type of respect, but certainly we are anxious to use our resources for what we are there to do, which is investigate and prosecute financial fraud, and maybe we have not concentrated as we should have done in the past on our systems.

Q8 Chairman: Let us look at another example. Dr Perry, if you look at the Case Study Volume again, paragraph 17, page 19, you will see that you are asking for lots more information from registered social landlords. What impact has this actually had on the number of houses built or provided to people?

Dr Perry: The information that we asked for is to improve the quality of data that is available primarily for policy making rather than for checking on the completions of housing. As the Report shows, over time the increase, in particular, in land prices in the South East has affected the number of homes per £100 million of investment we have been able to produce, but all of these have been agreed with Treasury in advance, and the Corporation has met all its targets each year. Our information-seeking requirements are primarily to increase the effectiveness of the decisions which the ODPM and ourselves can make about policy.

Q9 Chairman: All right. Can I come back to you, Sir Andrew, please? Could you please refer to page 33, paragraph 2.26. You will see there that there has been a considerable increase in overspending against

departments' budgets since the introduction of Resource Accounting. Why is this and what are you doing about it?
Professor Sir Andrew Likierman: Are you referring to the vote excesses?

Q10 Chairman: Yes.
Professor Sir Andrew Likierman: First of all, on the question of excess votes, this last year was the first one in which departments have been monitored in terms of their excesses against a resource total rather than against cash alone. I am not saying that we expected—but we suspected—that there would probably be some early problems in the first year in which this was put in. In fact, there were a number of problems. What we have done is look at the reasons for those problems, talk with departments about the reasons for them, make sure that the next year, wherever possible, those same problems would not recur, either in that department or indeed elsewhere in Whitehall. We understand, from what we have seen from progress so far in the second year, that a number of these problems have been remedied and we hope that the number of excess votes will be considerably reduced.

Q11 Chairman: You are the architect of all this. If you actually look at this page, it shows that the Ministry of Defence, an excess of £602 million; the Department of Transport, Local Government and the Regions, an excess of £562 million? Are you happy with this?
Professor Sir Andrew Likierman: Of course not, Chairman, and I am never happy with a single pound of excess vote, never mind £600 million of it. In the case of each of these departments, there was a reason why the Department had an excess. If I look at the Ministry of Defence, for example, this was to do with the writing down of equipment at a time before a supplementary could be obtained from Parliament. So this is not an overspend in terms of cash, it is an overspend because there was a write down. That is something which the Department, bluntly, was doing because it was unfamiliar with the system. We very much hope that will not happen again. There is no reason why it should.

Q12 Chairman: Let us just go to another example. Mr Tabberer, if you would go to page 31 and look at figure 17, you will see there an underspend of £9.8 million in 2001–02. What were the consequences for delivering teacher training as a result of this underspend?
Mr Tabberer: I think it was managed in order that the consequences were very few. This underspend was mainly due to an element on training bursaries where we knew that, in the year in question, we would be underspending by about £6 million on training bursaries if we wanted to carry this forward into the next year when we had greater pressures on teacher recruitment. The underspend shows in our accounts because we thought we had agreed with the Department to transfer this in carry forward at end of year flexibility. It proved at the end of the year that they could not give us that flex, therefore we had to make the adjustment in the next year. Its net effect on teacher recruitment was effectively nil; we could manage the pressures in other ways.

Q13 Chairman: Mr Robertson, can I ask you about page 44, paragraph 3.21 where you are increasingly depending on the capabilities of contractors to manage and deliver road construction projects. Do they have the skills to do this?
Mr Robertson: To deliver road construction?

Q14 Chairman: Yes.
Mr Robertson: Yes, they have and, during the past few years, we have focused down on the number of contractors that we are using for maintenance but we are also working more closely with a number of increasingly specialist contractors in road construction and I am confident that, with them and with the work that our current people do with them, we do have the skills that we need. There are issues that will need to be addressed by the industry as a whole, not limited to roads but construction in general, with the availability of qualified people coming out of the universities.

Q15 Chairman: One last question to you, Mr Macpherson. Can you look at figure 33 on page 46 and in particular look at the point down the bottom of the page about productivity. Because of the changes that we have been talking about in terms of Resource Accounting, what have you actually achieved in terms of productivity? There has been considerable publicity recently about the increased number of civil servants. What are you doing to ensure that we deliver this extra £61 billion which the Chancellor has given us into the front-end service delivery and not into backroom operations and more civil servants?
Mr Macpherson: I think this is a very, very important issue. We have an administration cost regime which seeks to limit the amount of expenditure which goes on, in a sense the overhead of Government, in particular departments, civil servants and so on. We are entering the spending review, which will complete in the summer just now and efficiency is going to be a very important component of that. The Chancellor and Prime Minister have invited Sir Peter Gershon to undertake a review of efficiency across Government and we will be scrutinising departmental plans and, in particular, taking a very, very close look on civil servant numbers and so on.

Q16 Chairman: Remind me of the percentage increase of the number of civil servants and actual numbers over the last, say, five years.
Mr Macpherson: I do not have the figures to hand.
Mr Bacon: Chairman, it has gone from 460,000 to 512,000. I think that is about right.

Q17 Chairman: Is that broadly correct?
Mr Macpherson: I would have to check the figures.

Q18 Chairman: You are on the Treasury. You must have a rough idea, surely.

Mr Macpherson: It is pretty clear that numbers have expanded. There is an issue here around how civil servants are defined and so on. Not all civil servants are pen-pushers. Many of them actually are involved in front-line delivery like through, for example, the New Deal where personal advisers who are helping people connect with jobs are actually taking an active role in terms of service delivery. We need to be careful. There has always been a problem around how you define running costs and so on. For example, prison officers count as part of the administration cost regime. We just need to be clear on that.

Q19 Mr Bacon: Sir Andrew, would it be fair to say that the shift from cash accounting to accrual accounting is essentially replicating what happens in the private sector to some degree?
Professor Sir Andrew Likierman: Yes. I need to be careful about the word "replicating" because there are elements, as you know, that are not an exact read-across.

Q20 Mr Bacon: Essentially, accruals accounting is what goes on in the private sector.
Professor Sir Andrew Likierman: And indeed the rest of the economy.

Q21 Mr Bacon: How long has accruals accounting gone on in the private sector?
Professor Sir Andrew Likierman: It depends. On some definitions, 500 years. If you look at the present system of financial reporting, it has developed within the last 100 years.

Q22 Mr Bacon: It would be fair to say that it is not new.
Professor Sir Andrew Likierman: It is not new.

Q23 Mr Bacon: That is the answer I was looking for, thank you. Mr Macpherson, how many accounting officers are there including all the delegated ones?
Mr Macpherson: I cannot tell you offhand but my colleague, the Treasury Officer of Accounts who is here, will be able to.

Q24 Mr Bacon: The number I carry around in my head is about 600; does that sound off the pace?
Mr Macpherson: Including all the very small agencies, yes.

Q25 Mr Bacon: How much financial training do accounting officers receive?
Mr Macpherson: They receive increasing amounts of financial training. One of the key findings over the last two years, especially which has been brought to a head with Resource Accounting, is that if departments and agencies are truly to utilise the information in Resource Accounts, that needs to be led right from the top.
Mr Bacon: What I would like you to do—and I know that this is going to be a bit of an exercise but I think it cuts right to the quick of this whole subject—is supply to us in a note a summary of how much training each accounting office has had in the last five years and what it has been on. I think that would be very interesting to see.[1]
Chairman: Can you do that?
Mr Field: Would it be a long note or a very short note?
Mr Bacon: Would you supply us with a schedule in the name of each accounting officer, how much training they have had and on what? You will just have to ask them. You know who they all are, do you not?

Q26 Chairman: We are not going to waste time on thinking whether you can do it.
Mr Macpherson: We will consider that one.

Q27 Mr Bacon: Is it correct that now most departments of state have a finance director?
Mr Macpherson: Yes
Professor Sir Andrew Likierman: May I just add something? There has been a change in the last few weeks. As from 1 December, departments have Finance Directors and not Principal Finance Officers anymore. There is a requirement that the finance director should sit on the board and should be qualified.

Q28 Mr Bacon: How many of the Principal Finance Officers/Finance Directors are accountants?
Professor Sir Andrew Likierman: At the moment, I think it is 23%.

Q29 Mr Bacon: Is that all?
Professor Sir Andrew Likierman: That is a significant increase on what it was before. Can I add, just to complete the picture, that there are departments where, for one reason or another, it may not be appropriate to have a Finance Director on the board, but the stipulation is that there should be someone who is financially qualified who is credible at all levels of the department if there is not a qualified finance director on the board.

Q30 Mr Bacon: Perhaps I could ask the National Audit Office, Mr Burr—and it may be too much trouble, in which case I will get my researchers to do it—is it possible that the NAO could look into, say, the top FTSE 100 or the top FTSE 250, the major public companies in this country, and see how many have finance directors who are accountants?
Mr Burr: Certainly.[2]

Q31 Mr Bacon: I mean what percentage it is, whether it is 70%, 23% or whatever because I think that would be an interesting comparison and, if that is possible, I would be very grateful.
Mr Burr: Yes, if the data is available.

Q32 Mr Bacon: Mr Wardle, on page 24 of the case studies, it says that your office, the Serious Fraud Office, plans to develop a new case monitoring system. To anyone who is a public expenditure scrutineer, that phrase strikes a degree of terror. Are

[1] Ev 23
[2] Ev 25

you familiar with the implementation of the National Probation Service Information Systems Strategy?
Mr Wardle: No, I am not.

Q33 Mr Bacon: Could I recommend that you look at this National Audit Office Report on the implementation of the National Probation Service Information Systems Strategy?
Mr Wardle: I will, indeed.

Q34 Mr Bacon: I am sure they will send you a copy because it is about a case recording system that went horribly wrong.
Mr Wardle: Can I perhaps explain the case monitoring systems that we have because it may of help to you. We have two. First, what we call the case tracking system which we are trying to integrate with our finance system. It is a very old one; it is one of the first, I think, which was introduced early in the 1990s. In addition, we have the document management system which is a much more sophisticated computer based imaging system. So, all of the documents we obtain, whether it be in searches or using our powers under Section 2 . . . We have a number of systems running.

Q35 Mr Bacon: Forgive me interrupting you but I have a limited amount of time. It is the fact that it is sophisticated and that it is computer based that scares me because this is exactly the sort of thing that we see. I am sure the NAO will send it to you; it is for April 2001 and you will find it very useful. Are you familiar with the Libra Projects in the Magistrates' Courts?
Mr Wardle: No.

Q36 Mr Bacon: I think you ought to take a look at that report as well which was about a system for a national IT system for Magistrates' Courts. Again, case recording and so on which went horribly wrong. I think you would find reading both of those fruitful. On page 24 right at the beginning, it says, "Monitoring barristers' fees has been a particular problem as they often bill up to a year in arrears."
Mr Wardle: Yes.

Q37 Mr Bacon: What I cannot understand is, just because they bill up to a year in arrears—I mean, one is familiar with the fact that solicitors take about 18 months to pay a barrister normally—why is monitoring it a problem?
Mr Wardle: Because we try and insist that they send us bills on a monthly basis. That was how we were monitoring the amount of work they were doing. Because of the problems we were having, we now have a different system whereby we agree the number of hours they will be spending on a case in advance and we get an idea from their clerks if, for example, the case is in court and a lot of extra work is being done on it, the amount of work that is being done in order that, in terms of the accruals, we know at a much earlier stage what the amounts are going to be.

Q38 Mr Bacon: Your active caseload target was 77 cases during the year, was it not?
Mr Wardle: Yes.

Q39 Mr Bacon: You did not quite reach that but you nearly did. What is your current number of active cases?
Mr Wardle: The current number of active cases is about 71.

Q40 Mr Bacon: So, at any one time, you have 71 active cases with one or more barristers working.
Mr Wardle: Yes, probably.

Q41 Mr Bacon: Typically, how many barristers work on one case?
Mr Wardle: Usually two, possibly three.

Q42 Mr Bacon: So, you have somewhere between 140 and 210 barristers roughly working at any one time on the cases. It is not a huge number. If you had a clerk with a spreadsheet you ought to be able to track that through time quite easily, I would have thought, and without using a quill pen.
Mr Wardle: I would respectfully disagree. With the amount of work they are having to do over the life of a case, the agreement with the case plans, they come to the conferences, we use task sheets, we use case investigation plans where we try and agree what people are going to be doing—not only barristers but other contractors such as accountants—I do not think it is quite as simple as that.

Q43 Mr Bacon: If you bring me those reports I would be grateful. How much did you spend on counsel? It says "Counsel plus accountants from outside: 6.7", but how much of that is barristers?
Mr Wardle: It is about 5.

Q44 Mr Bacon: So most of it. Also, referring to planned versus actual in the Report, what was the actual expenditure? 6.7 was the planned. It is page 21 of the Case Study Volume, paragraph 2. A ". . . total budget of £28.7 million . . ." was the phrase which caught my eye. I was wondering whether you hit your planned expenditure.
Mr Wardle: It was approximately that. I can give the exact figures later.[3]

Q45 Mr Bacon: Mr Tabberer, it says in the Case Study document that the Teacher Training Agency has got innovative new methods for getting teachers. Indeed, in the main document on page 44 it refers to the need for you to be more flexible. Paragraph 3.20: ". . . both [that is you and one of the other agencies] have recognised that better performance requires a more flexible approach." Has your flexible approach extended to doing anything specific about older people, like my constituent, whom we spoke about?
Mr Tabberer: We have introduced a whole range of new approaches to teacher recruitment in order to underpin our marked improvement over the past four years. One of the most striking of those has been

[3] Ev 22

to introduce a graduate teacher programme which offers on-the-job training for people who want to change career. We are taking in, in this year, something like 5,500 people on this new route. It is proving particularly useful for career changers—people with graduate status who want to change career but perhaps do not want to go back to college. It is our best example, probably, of the way we develop a new idea, test it small-scale, but after it has proved its worth at that scale we gradually raise it to a manageable innovation.

The Committee suspended from 4.02 pm to 4.08 pm for a division in the House.

Q46 Mr Bacon: Mr Tabberer, you were talking about the graduate teacher-training programme, and I understand that one in 10 training places is now through that route, which is encouraging. You will recall my constituent had a problem in that he was trusted enough by the country to design electronic control systems for Trident nuclear submarines but it was unlawful to offer him an employment contract to teach physics to 14-year-olds—physics, of course, like mathematics, being a priority subject. His problem was getting qualified teacher status, and it was going to take him until he retired to get it. My question was what have you done since we last spoke (which was sometime ago) to improve the opportunities for older people?
Mr Tabberer: If I can remember the details of your case, part of the difficulty was over your constituent not being a graduate.

Q47 Mr Bacon: That is absolutely right.
Mr Tabberer: That entitles him to design nuclear submarines but does not, at this stage, entitle him to teach children.

Q48 Mr Bacon: The point I wanted to make—because at the end of the day I think the answer was it is really down to the university granting the degree—is that if the TTA is seriously interested in getting more people in it cannot not be interested in the attitude of university grant-making bodies, or degree awarding bodies, such as the Open University, who take a unilateral decision that an HND that used to have a value of 290 points or 240 points suddenly only has 160 points, thereby extending by several years the period that is required to become a qualified teacher. That is something, surely, the TTA must be interested in?
Mr Tabberer: We are interested in it. We have concentrated, with the agency, on moving, over the last four years, from there being only two conventional routes into teaching—the undergraduate and postgraduate route—which are fairly highly regulated by these sorts of arrangements. We have now moved from those two to, I think it is, 16 different routes into teaching. What we have tried to design to support that is a lot of individual support for people interested in becoming teachers to guide them towards the right route. Each of those routes is becoming increasingly competitive and I cannot guarantee that every candidate who comes forward to become a teacher will necessarily get accepted. It is for people on each of those routes to make their own judgments, not just on the qualifications of people but on the quality of people. What I think you will find, in the case of your constituent, is we can give them personal service through our call centres and professional advisers to try and find them the right route, but I must admit I am not up-to-date as to whether we have found that individual a place in teaching.

Q49 Mr Bacon: Thank you. Chairman, just one final question to the Treasury. This Report is about £61 billion extra spending going in. Just through sitting on this Committee and looking at the figures that we see—National Audit Office figures, in some cases Government White Paper figures, and in some cases other figures produced by the Government—I have calculated that the Government is wasting, or just losing or foregoing, somewhere between £29 and £44 billion a year. You said that only 23%, or so, of principal finance officers (or finance directors, as you now call them) are financially qualified. You hesitated when I asked if you would be able to supply a schedule of the financial training experience that the accounting officers have had. Accounting officers exist to account to Parliament on how money is spent, yet you are apparently very cautious about being able to supply to us how much financial training they have had. Can we have any confidence that this £61 billion is not going, to a substantial degree, to be wasted?
Mr Macpherson: I think the Government has made it very clear that it is happy to be judged by its record in terms of delivering public services, and across a range of services there has been encouraging progress; for example on waiting times in the NHS, on crime and on education standards. It is worth making the point on accounting officers that you seem slightly mesmerised by the term "accounting officer". You are absolutely right, the chief executives of various organisations are held to account by you and Parliament, but they are chief executives. It is the finance directors who you would expect to have financial expertise.

Q50 Mr Bacon: Yes, and only 23% of them do.
Mr Macpherson: As Sir Andrew has set out, the fact is we are actually introducing a substantial reform in terms of moving away from the traditional sort of generalist civil servant, who was the principal finance officer, towards injecting real expertise and having proper finance directors, as the NHS has, for example. It is the wholly right direction of travel, but if you were to introduce that reform overnight there would be a huge dislocation. I think you are right to identify the need to have expertise and professionalism, and that is what a lot of the reforms going on in the Civil Service at present are about.
Mr Bacon: Thank you very much.

Q51 Jon Cruddas: Just carrying on from that, in terms of the history of resource or accruals-based budgeting, despite the fact that it has existed in the

private sector for 500 years when was the decision made by Government to implement it within government?
Professor Sir Andrew Likierman: The decision on budgeting was taken in 1995, as I recall. The accounting decision was taken in 1994.

Q52 Jon Cruddas: Then the Government Resource and Accounts Act 2000 set up the infrastructure for it.
Professor Sir Andrew Likierman: Yes.

Q53 Jon Cruddas: So it has only been relatively recently that the actual decisions have been made to introduce this framework pan-government?
Professor Sir Andrew Likierman: In essence, the full mechanism has been in place only since April 2003 because that is when the results of the 2002 Spending Review took full effect. Therefore, from that time budgeting control and reporting were all on the new basis.

Q54 Jon Cruddas: How long has the debate existed within government, as far as you are aware, about the desirability or otherwise to move to this new system? In a sense, has it been around since time immemorial in terms of alternative ways of accounting in the public sector?
Professor Sir Andrew Likierman: There was only one occasion, as I recall, when this was on the cards, and that was after the First World War when a number of businessmen were drafted in to government to try and improve its efficiency. The scheme lasted in parts of the Ministry of Defence until 1926 and then was abandoned.

Q55 Jon Cruddas: When was the key turning point for this new system to be agreed to be implemented? Would it have been 1995 or 2000, or when? I am trying to earmark a specific date.
Professor Sir Andrew Likierman: 1995. That was the White Paper.

Q56 Jon Cruddas: When was the new system supposed, in 1995, to be totally up and running?
Professor Sir Andrew Likierman: We said that we wanted to have the budgeting in by 2001 and indeed we did have, because the 2000 Spending Review was the transitional Spending Review which incorporated the new accruals principles.

Q57 Jon Cruddas: You say it is only from April last year that the final, total infrastructure, if you like, is set in place?
Professor Sir Andrew Likierman: Yes.

Q58 Jon Cruddas: In anticipation, presumably, for the next 2004 Spending Review to be the first that runs with this whole new system?
Professor Sir Andrew Likierman: No, the 2002 Spending Review was done wholly on this basis. In other words, the key element is the budgeting. The control is now on that new basis as from April 2003. There is no intention of changing the system further; it is a question of, maybe, modification but not changes.
Mr Macpherson: I think this is a good point. In terms of learning from how we planned it last time round, I think that the next Spending Review will be even more effective in that respect because this is a long transition and a long learning process.

Q59 Jon Cruddas: So we could say that the real test will be the 2004 deliberations around spending and the subsequent planning around that. In 1995 and since then, did you have projected costs, in terms of the transfer from one system of accounting to another across government, for the total cost? Did you model that?
Professor Sir Andrew Likierman: No, we did not model it. One of the reasons why we had this extended timescale of introduction was to allow departments to incorporate the new elements to systems as part of the replacement cycle for IT systems. We also knew that we needed to have training, so we did not have a cost model simply because we did not want to have huge additional costs; we wanted simply to incorporate these additional elements into the IT replacement cycle.

Q60 Jon Cruddas: So you never had any figure on how much it would cost to introduce this new system as a discrete figure?
Professor Sir Andrew Likierman: No.

Q61 Jon Cruddas: Presumably you must have had some estimates about what the likely efficiency savings would be for the Government, even if it was from department-to-department and then an aggregate figure, in terms of where you wanted to get to?
Professor Sir Andrew Likierman: No, we did not have an efficiency number.

Q62 Jon Cruddas: Therefore you have no ready-reckoner about the savings it has generated to-date and what it is likely to do in the future?
Professor Sir Andrew Likierman: It is quite difficult to separate out the incremental costs associated with this particular change from all the other changes that have taken place, for example, all the specific training associated with better financial management from all the training that would have taken place anyway—just as it is quite difficult to separate the elements associated with the benefits. If I take one example: this Committee is very familiar with the Ministry of Defence stocks saga. Ministry of Defence stocks have fallen very significantly. One of the reasons why we believe they fell is because the systems which have been put in as part of Resource Accounting and Budgeting have forced the Ministry of Defence to have a much better account of their stocks, but we cannot say that of the £6 billion reduction. £4 billion is due to this and £2 billion is due to something else. We cannot tease out the benefits precisely.

Q63 Jon Cruddas: I was not really asking for precise quantification of the benefits, I was more trying to probe about whether you had a general assumption about where you would be in terms of anticipating efficiency savings in general for the Government from moving to this new system of accounting. I am not an accountant, but it does seem to me that you would have had some sort of cross-benefit analysis in terms of the numbers, the economics of this, of where we are 1995, where we are in 2000, where we are in 2004 and where we will be in 2007.
Professor Sir Andrew Likierman: If I may reverse the implication of the question, in 1995, the assumption was that we would move simply because cash accounting was not satisfactory as a method by which Government should manage its affairs.

Q64 Jon Cruddas: Why? Is it because of the way in which expenditure is concertinaed into a two-month period from February/March or whatever or because of the underspend and overspends? On what do you base that?
Professor Sir Andrew Likierman: May I give you two examples. One is that, under cash accounting, the whole of the expenditure is accounted for when you pay for whatever it is, whereas, under accruals accounting, it is charged over its life. Secondly, we took absolutely no account of the working capital which is employed by Government—the debtors, the creditors and the stock. Working capital does not appear under cash accounting. What we have discovered by putting in this new basis, is that central government has a vast amount of working capital and we are now able to manage it much better. That was the kind of thing which we envisaged when we took the decision to move ahead to the new system.
Mr Macpherson: If I can give another example. I was involved in controlling spending in the Treasury in the very early 1990s. The Government of the day, quite understandably, wanted to put a brake on spending and because there was no distinction between current and capital spending, capital took the hit. If you look at the capital time series, it is plain for all to see.

Q65 Jon Cruddas: That comes out in this Report in terms of the time lost.
Mr Macpherson: And separating the current and capital budget. As Andrew said, this was a decision taken in the mid-1990s. It is unambiguously a good thing in terms of planning.

Q66 Jon Cruddas: But you cannot quantify it in terms of the relative efficiency of resource deployment across the public sector.
Mr Macpherson: It is very difficult because you would then have to take a view . . . Obviously, each spending review, even in the pre-Resource Accounting world, distinguished capital spending and current spending, but there was complete freedom for the capital to leak into current spending so you would have to take a view, for a given set of plans, as to how much leakage there would be and it is actually quite difficult. I am absolutely certain, given experience, that that leakage would be quite considerable because that is the way incentives always work.

Q67 Jon Cruddas: Take, for example, the next spending round. Presumably, one of the factors in the deliberations with the Treasury will be the relative effectiveness of introducing the new accounting systems in terms of resource utilisation, effective financial management, expenditure through the year and the like. So, you are factoring in, in terms of your decision making if you accept that point, that this will lead or will not lead to greater efficiency in terms of public expenditure, the point being that we could never quantify that in terms of how successful either departments are or the Government will be in terms of achieving that because it is so ill-defined in terms of quantifying it, if you see what I mean.
Professor Sir Andrew Likierman: We will never know what the counter-factuals are. We will never know what might have been if we did not have the current system in. I do not want to evade the question about whether we know exactly what the consequences are but I could not give you an honest answer to this question because, conceptually, it cannot be given. That is the problem.

Q68 Jon Cruddas: But you see where the question comes from given the fact that we trying to monitor the relevant effectiveness of public expenditure and these systems were introduced explicitly because of leading to more rational efficient forms of public expenditure but we cannot quantify them.
Professor Sir Andrew Likierman: Can I give you one piece of circumstantial evidence. All around the world, governments are looking at ways of planning and controlling expenditure. The move is consistently towards this method of doing things. We are the third country in the world to have done this and there are a dozen others who are at various stages of implementing it. Nobody is considering going from accruals to cash. Everybody can see that this is manifestly a better and more transparent way to conduct your affairs.

Q69 Chairman: Which were the first two countries?
Professor Sir Andrew Likierman: Australia and New Zealand.

Q70 Mr Allan: This is addressed to Mr Macpherson again carrying on that line of questioning. The Report that we have before us, particularly in paragraph 2.19 which is about end of year spending and the famous February and March bonanza for all government suppliers, there is quite a lot of evidence here which suggests that very little has changed. We read that, in 74% of cases, there has really been no discernable difference and, in three cases, the level of expenditure in the last two months has actually increased. So, what are you doing about it and what confidence can we have that there really has been a change when we see figures like this?

Mr Macpherson: You are quite right to identify this. This is something we monitor. I suppose I am slightly surprised at the persistence of this end year spending. It relates primarily to capital spending and not current spending.

Q71 Mr Allan: I think that is even more worrying because it is a classic case of the computers which are never taken out of their boxes.
Mr Macpherson: Which is why we are continuing to look at it. I do not think it is the classic, "Let's go out and blow the budget on computers." My hunch is that it is something less sinister than that. It is to do with how individual agencies and departments account for spending which actually is going on across the year. My guess is that my colleagues to my left will actually be able to illustrate that by reference to their own experience.

Q72 Mr Allan: They could present some interesting evidence as to why you spend far more in January, February and March.
Mr Robertson: I cannot help you very much with the Highways Agency because, in the last four years, we have reduced our March spend from 20% for the total year to 9%, so we have very much gripped this and intend to keep it gripped.

Q73 Mr Allan: You are one of the good guys! Mr Wardle?
Mr Wardle: We tend to have a lot of cases starting in January. It is as simple as that. There is the psychological part: we do not want to start before Christmas, let us start the first week in January. So, you do tend to get a big spend at that stage, but that is revenue expenditure, it is not capital expenditure.

Q74 Mr Allan: Mr Tabberer?
Mr Tabberer: We are on the side of the angels on this one! Our expenditure is 24% first quarter, 17%, 31% and 28%. So, that has helped us to get some control.

Q75 Mr Allan: Dr Perry?
Dr Perry: We are apparently not one of your angels! The periodicity of our bidding rounds when we invite housing associations to bid plus the fact that the way that our grants are structured gives associations quite a lot of money for initial acquisition of sites and less money at the end reduces the incentive to report completions to us. So, in practice, activities being carried out are going on throughout the year but we will make a special effort to try and capture the data in time for the year end. It is a situation that probably can be and should be improved.

Q76 Mr Allan: Maybe an area for a National Audit Office study of some sort would be of interest. Mr Macpherson, can I take you to paragraph 2.25 when we are looking at avoiding underspends and overspends. Here we have 46% of departments having overspent on individual programmes, 78% related to poor quality project management. This is again a perennial, an absolute perennial, and nothing seems to be changing. What are we doing? We cannot keep saying, "Oh, yes, we overspent and it is poor quality project management."
Mr Macpherson: I think this is, as you say, absolutely critical and I am extremely pleased that the NAO and this Committee continue to apply pressure to ensure that project management improves. Seriously, the Office of Government Commerce has, over the last two or three years, introduced the Gateway Process where not only large capital projects but ultimately every project potentially can be subject to the Gateway Process and I think this is having an effect. Clearly, it would be nice if it had an even bigger effect. Progress is being made and it comes back, in a sense, to the professionalisation of the Civil Service which is absolutely critical if money is going to translate into better performance and increase delivery of services. So, this is a key issue.

Q77 Mr Allan: And will remain a key issue?
Mr Macpherson: It will do. More generally on overspends, there is a real trade-off. On the one hand, you have departments that are underspending and, on the other, you have ones with individual programmes underspending and other ones that are overspending and obviously the incentives are always that you get into trouble with Parliament if you overspend. The balance of incentives is such that you would expect departments to underspend.

Q78 Mr Allan: Whilst we are talking about Resource Accounting here from a political level, we still do cash accounting. All our political propaganda is about how much money we spend rather than necessarily what we have bought with that money. When we look at the overspends that have been coming through and, if there are significant underspends within here, whether those are not as a result of political pressure to put money into purchase that just cannot be spent because the machinery is not there.
Mr Macpherson: With regard to the issue of underspends and overspends, I think there was a real problem at the point when expenditure started growing more rapidly around 2000–01 around whether departments actually had the capacity in place to deliver ambitious investment programmes and I think there was slippage. Expenditure continually moving to the right which meant that, every year, the Treasury would be projecting so much public investment and, every year, the outturn would be slightly lower or significantly lower than the projections. I am encouraged that the capacity is increasingly in place and, certainly looking at this financial year, things are looking pretty good in terms of the levels of investment going on, certainly up until the last statistics were published, which I think were for November. So, I think that problem is reducing.

Q79 Mr Allan: If I could lastly come in with a couple of individual points. Mr Wardle, you had earlier raised the question of the expenditure on IT projects. The case study says on page 23 that you bought this

Docman system in 2002–03 for £0.5 million and it says that it will deliver benefits when fully operational. Are there any fears that it will not become fully operational?
Mr Wardle: There is always that fear but I think that, this time, we probably have it right. This is the third time that we have tried to develop a system of this sort. The first time we tried to do it ourselves but we realised that we did not have the skills to do it; the second time we tried the PFI route and that did not work very well; so, we are now doing it with a combination of our in-house skills, the people who will have to run the system, and some outside consultancy together with a number of companies bringing in expertise of particular areas. So, it is a much more gradual approach. We are trying it on cases as we go along. We have two or three cases running on it at the moment and of course we do have experience of using scanning and that sort of thing, which goes into the Docman project. So, I think that this time it is probably going to work.

Q80 Mr Allan: Does it relate to the Criminal Cases Review Committee System or is it completely separate?
Mr Wardle: No, it is completely separate.

Q81 Mr Allan: Looking at the Housing Corporation side, Dr Perry, we mentioned the Office of Government Commence Gateway Review Process and I think I read something last year where you were going ahead with an IT purchase when the OGC tried to red light it or were not comfortable with it going ahead. Does that ring any bells?
Dr Perry: Yes. The project is now in the final stages of successful implementation, you will be glad to hear. The OGC Gateway Process, which has been mentioned before, has very welcome elements of rigour. I have to say that we also found it very burdensome for a relatively small organisation and a relatively small capital project, but the project is now through and being implemented.

Q82 Mr Allan: Did you reach accommodation with the OGC?
Dr Perry: The red light was an error.

Q83 Mr Allan: On your part?
Dr Perry: We managed to sort that out very quickly and we are now on to the post-implementation Gateway review. So that was Gateway stage 2, I think, and we are now on stage 5. That is all past.

Q84 Chairman: I think, Mr Macpherson, you rather dodged this question that Mr Allan was, I think, very properly asking you, particularly based on paragraph 2.19, about the fact that since the introduction of the new flexibility there has been found no discernible difference yet in the annual spending profile in 74% of departments. I think this is a very serious issue. Then you sought to answer this question to the Committee by referring to a few of your colleagues who happened to be sitting beside you. Would you try again?
Mr Macpherson: I think it is a very serious issue. *Ex ante*, I always thought that the move to full end-year flexibility should reduce this problem because there is no incentive to spend at that point because the money could be rolled forward to the next year. Following various analyses of this the Treasury then put out more guidance around actually delegating EYF to agencies and NDPBs and also delegating full three-year plans. Those three-year plans are now in place and generally there is a high degree of end-year flexibility. As someone who tends to focus on the incentives of the system it is slightly puzzling; normally people respond to incentives; if you give some free money people generally take it. You only have to look at Individual Learning Accounts, for example.

Q85 Mr Field: We did.
Mr Macpherson: Which you did, and you produced an excellent Report which we are learning from. We are continuing to look at it. It is serious, you are right, and it is not something which we are wholly happy about. I think we need to continue to analyse it and, hopefully, we will crack the problem.

Q86 Mr Field: Sir Andrew, can I draw attention to your modesty before the Committee to Mr Cruddas a moment ago? You gave the timetable of this historic changeover. You have actually been trying to persuade government to make this change for some considerable time, have you not?
Professor Sir Andrew Likierman: Yes.

Q87 Mr Field: When you were doing so I was not aware that you were trying to bring the public sector up to where much of the private sector had been 600 years previously. So congratulations on the success you have made on this. I would like to ask Mr Wardle some questions which, in a sense, do not directly relate to the Resource Accounting issue. Sir Andrew will tell you my eyes used to glaze over when he was evincing on this, and because we had such an able clerk and I knew she understood it all I did not actually get to grips with it in the way I should have done. I would like to take the discussion on a stage, but if you cannot answer I fully understand because you are not here to answer these questions. One side of Resource Accounting was for us to know more clearly where, in a sense, the taxpayers' money in the public sector was going. There is also the huge question about fraud in the public sector. On page 22 you give the breakdown of your current workload and where you think it might lead. Could you tell me, because I do not know, how cases are referred to you?
Mr Wardle: They come from a variety of sources. They can be referred by the police, they can be referred by other government departments—for example the Department of Trade and Industry; they can come from regulators—from the FSA or perhaps the Office for the Supervision of Solicitors; they can come from private individuals and, more likely, from office holders, such as liquidators or people who have been looking at companies that have gone into liquidation for one reason or

another. They can also come nowadays from the Office of Fair Trading with the extension of the criminal liability for cartels. So there is a variety of places from which cases can come. They can also come from overseas where they are spin-offs from investigations there where they are discovered there, or they can come, as I think is referred to in the Case Study, from the Financial Fraud Information Network—a group of government regulators and similar who get together to see the problems that are taking place. So those are the usual areas that we will get cases from.

Q88 Mr Field: Do you have a threshold below which you say "It really is too small for us"?
Mr Wardle: Yes. We would not normally take a case of less than £1 million, unless there was a very strong public interest.

Q89 Mr Field: Can I go back to Mr Bacon's questions about accounting officers in the departments? Given the size now and for a long time of these budgets, how many cases have been referred to you by the accounting officers for what they think are suspected frauds in the contracts which they have placed?
Mr Wardle: Specifically by accounting officers I am not sure that we have ever had any. We have certainly had referrals by departments that the accounting officers have been aware of. I have certainly had one this year, possibly more, and similarly in previous years. I could not give you numbers.

Q90 Mr Field: Is the one this year the one we have read about in the papers, involving the Department of Health?
Mr Wardle: No, it is not. In fact, that was referred either last year or the year before as a result of the Joint Vetting Committee with the Crown Prosecution Service, which I think is also referred to in the Case Study. That was referred, as I say, through that source. The one that was referred this year has not come into the public domain and I do not think I am in a position to help you with that.

Q91 Mr Field: Would it be possible for you to give us a note on the proportion of your work that actually comes from within the public sector?
Mr Wardle: Yes, certainly.

Q92 Mr Field: Not just accounting officers because I see the distinction you are making, but those who are actively trying to police taxpayers' money within departments.
Mr Wardle: I can certainly do that; say, over the last five years?[4]
Mr Field: That would be very helpful. Thank you very much.

Q93 Jim Sheridan: Following on from what Mr Field has said, you say that most of your work is case demand, and I think you indicated that you took on cases of more than £1 million. How do you prioritise that, given there are limited resources? How do you prioritise cases?
Mr Wardle: When a case comes in it is examined by an assistant director who is the Vetting Officer. What we try and look at is the public interest importance of a case—whether it is a fraud on a government department or whether it is a fraud on an overseas government—and we look at the numbers of victims and the impact on victims. For example, if it is a fraud involving people's pensions we would be more likely to take that than, say, a high-yield investment fraud where somebody had put in £2 million hoping to get £3 million back in 30 days. We look at the complexity, the need for our powers under Section 2 of our compulsory evidence gathering powers and we look to see whether there is a strong overseas element, because fraud nowadays is very often international. No fraudster worth his salt is going to be stupid enough to hide his money in the country where he steals it; if he has got any sense his victims will be in countries other than where he lives. So we look at that. We are looking at the complexity, the public interest and the difficulty of investigating the case. Really, we are saying "Is this something that we have to deal with because it would, frankly, be an outrage if it was not investigated?"

Q94 Jim Sheridan: You talk about cases of government interest. Have you ever been pressurised by other agencies to investigate one case as opposed to another?
Mr Wardle: Yes, certainly.

Q95 Jim Sheridan: Who makes that decision?
Mr Wardle: I do. I can accept any case.

Q96 Jim Sheridan: You have made comments about fraud being more of an international scene, and following on from the comments that Mr Bacon made about accountants and how well-trained or not they are, your staff, in terms of dealing with international fraud, will have to have, I would imagine, IT skills of the highest level?
Mr Wardle: Yes.

Q97 Jim Sheridan: But also have investigative capabilities as well.
Mr Wardle: Yes.

Q98 Jim Sheridan: Do you have difficulty in keeping or recruiting such people?
Mr Wardle: Yes, we do. I think it is fair to say, particularly on the specialist computer forensic skills, which is a very rare commodity, we certainly have difficulty recruiting and retaining people with those skills. We tend to train them ourselves and we do see them go for salaries that we cannot match. To a certain extent that is the same with accountants; we are never going to be able to match the big firms in terms of the amounts they pay their people. On the other hand, we are finding quite a lot of people come to us, maybe midway through their careers, when they want a change and they want to do something a little bit more interesting. The quality of the work

[4] Ev 22

we do certainly has that attraction for them. Certainly we have had partners from firms who have joined us, both from the accountancy firms and indeed from some of the larger solicitors firms.

Q99 Jim Sheridan: Do you use external forces and external agencies to assist you?
Mr Wardle: Yes, indeed. We bring in outside accountants when we need to. We normally investigate in conjunction with the police, although there is a problem there which is referred to in the Case Study. Even there, however, there is some glimmer of hope because there has been a move by the City of London Police to increase their resources available for fraud working on our cases. So we will bring in such skills in such numbers as we need for a particular case. In the case that Mr Field referred to, the National Health Service case, which I think I can refer to at this level, we have additional funding in order to be able to get in teams of accountants to do the necessary work to discover what has happened and whether there are going to be grounds for bringing a criminal prosecution.

Q100 Jim Sheridan: Again, in practical terms, given that you are not going to reach your targets for either prosecution or investigative cases, it must be somewhat frustrating, I would imagine, if you are partway through an investigation and you have to leave it, for whatever reason, to concentrate on a bigger case. Have there been cases where people under investigation have walked away as a result of the lack of investment or resources available to your department?
Mr Wardle: No, not in those terms. I think there have obviously been cases which we have not taken on over the years which we might have done, although we are really demand-led and we will not refuse a case purely on resource grounds. There have been cases, I am afraid, where we did not go ahead with a prosecution because of the time it had taken to obtain evidence from overseas. I think it was approximately seven-and-a-half years from sending the letter of request to the jurisdiction concerned until getting the evidence. It was simply too late to be able to do anything about it.

Q101 Jim Sheridan: But there have been cases of fraud that you have been aware of that you have had to let go simply because of a lack of resources?
Mr Wardle: We have not taken cases on. Where we have taken a case on we have pursued it as best we can.

Q102 Jim Sheridan: You have identified a case that you think was a fraud and you have made a judgment "We cannot afford to pursue it", therefore that individual, whether it is in the public interest or not—
Mr Wardle: If a case does not come to us it may be investigated by the police, it may not be, or it may be dealt with in another way. I think one of the important things is that we meet together with the other regulators, the police and the other people involved in this and, nowadays, of course, the Asset Recovery Agency. If a prosecution is not going to be practical—and it is not just a question of resources, it is a question of whether you are ever going to get the evidence, for whatever reason—then is there another way of dealing with it: maybe getting the assets, at least, or maybe taking them out of the market, disqualifying them as directors or subjecting them to civil penalties perhaps by the Financial Services Authority. Or, maybe, in the case of professionals, having the matter dealt with by the Law Society or the Office for the Supervision of Solicitors or perhaps by the Joint Disciplinary Scheme with the Institute of Chartered Accountants. It may be second-best but we do try to make sure that something is done.

Q103 Jim Sheridan: Finally, on the question of assets, has the Proceeds of Crime Act, which has the ability to arrest assets, been beneficial for your department?
Mr Wardle: Yes. Certainly since the powers of the Criminal Courts Act came into force we are restraining people's assets in more cases and we are getting more orders for confiscation. I think the difficulty with that is two-fold: firstly it puts an extra strain on our case workers, our lawyers and our accountants, because there is additional work to be done and, secondly, I think there has in the past been a difficulty in recovering money which has been ordered to be confiscated. If you look in your Case Studies, it mentions the cost. That was principally a cost owed by one defendant where an order had been made against him in the Crown Court but, in fact, ahead of that was an order for the confiscation of £2.9 million which has never been paid and instead he was further imprisoned.

Q104 Mr Davidson: I wonder if I could start off with Mr Robertson and ask about a matter and maybe I will want to follow this up with some of the others. Do you think it is sufficiently clear what Government and the Treasury are actually seeking to have you achieve in this area and is there any contradiction at all between the various objectives, tactical objectives that you have been set in a way that negates perhaps the overall effect?
Mr Robertson: For the Highways Agency, which has a large asset to look after and a very significant 10-year plan of road improvement to deliver, it is very important for us to have that plan; it is very important for us to have three years' spending ability; it is important for us to have flexibility; and it is important because the average road project lifetime is something like ten-and-a-half years.

Q105 Mr Davidson: I understand, in a sense, all that but what I seek to clarify, by almost a "yes" or "no", is whether or not everything we are seeking to get you to achieve is easily comprehensible by yourselves or whether or not there are any internal contradictions between the objectives you are being set and, if so, could you clarify those for us.

Mr Robertson: The only one that I would draw to your attention is the simple culture change of moving people, engineers in particular, from a cash-based mentality to a resource-based approach. That is a significant cultural change which we have not yet completed but is very much a feature of our training programme.

Q106 Mr Davidson: That is your problem of implementing what the Treasury and we want you to do. That is not exactly what I am asking you. What I am seeking to clarify is whether or not there are all these internal contradictions within the things that you are being asked to do that cut against each other. Somebody earlier on—I think it was Dr Perry—mentioned the question of the regulations being unduly burdensome and I just seek to clarify whether there are any other areas like that that you wish to draw to our attention.
Mr Robertson: There is a challenge but no contradictions.

Q107 Mr Davidson: You are entirely happy. Dr Perry, you also mentioned "burdensome". Are there any particular contradictions within which you are being asked to operate?
Dr Perry: Not in Resource Accounting and Budgeting. That suits our kind of operation pretty well and it is long term; it needs to have commitment to accounting and accruals accounting. As with any new system, it is just the sheer wet towel stuff learning to understand it and enthusing that throughout the organisation, but it is absolutely the right thing to do in principle.

Q108 Mr Davidson: You mentioned earlier on the question of some of the systems being burdensome. Is there a way around that? Is there something that you have drawn to the Treasury's attention? Is it possible to have this amended or do you accept that there is no alternative to what you have been asked to do?
Dr Perry: In the particular incident I mentioned about the OGC Gateway Process, we have had very constructive discussions with the senior staff of the OGC to point out that the impact of the Gateway Process on relatively small organisations for relatively small capital projects can be burdensome and I am satisfied that they have taken those lessons on board.

Q109 Mr Davidson: What does "taking those lessons on board" mean? That sounds a little like, "I hear what you say", which is what somebody says when they are not intending to do anything about it.
Dr Perry: No, I think it is better than that. Hopefully, I will not have to go through another Gateway Process with the OGC, but I am satisfied that they have been looking very carefully at the way the system impacts relative to the scale of the project being implemented. I have no experience other than the one that I have of the project we have been doing ourselves, but I have no reason to believe that they were not absolutely serious in wanting to learn those lessons.

Q110 Mr Davidson: Mr Tabberer, can I ask you on the same point.
Mr Tabberer: I think this whole area is one of a complex of parallel improvements in project management, resource management and Resource Accounting and what we are trying to do in this area is very much what we are trying to do with clearer outcomes, better planning, better management information and all these things fit very well together. It is actually why sometimes it is difficult to say what this particular contribution is going to make compared with others. The fact that they are all converging and going in the same direction is very helpful. There are real tensions in delivering it on the ground. I think that the greatest tensions are not actually about what we do at accounting officer level because we can often get the skills of a consultancy or the advice to give a proper account at our level. The real problems come in that, in order to affect good front-line delivery, we have to devolve these skills to front-line teams and that means taking their time for training them in Resource Accounting, in training them in expert recruitment, in training them to collect the right sort of management information and there is a real difficulty, certainly for me as a manager, in prioritising between how much time we ask them to get on and deliver the job and how much to give an account of a job. That is a natural tension and I am certain that, if I do not say it, some of the front-line teams would.

Q111 Mr Davidson: But these are in a sense problems of implementation rather than contradictions in objectives.
Mr Tabberer: Indeed.

Q112 Mr Davidson: Mr Wardle, can I ask you on the same point.
Mr Wardle: I think the importance is in getting it over to the front-line troops that they are using resources and that, the more they think about it and the better they plan it, the more resources they will probably have to use on a given case. When they are sitting down and the case controller who is a lawyer, and the accountants, the support staff, the computer forensic people, the police and everybody else is sitting down to work out how we are going to get into one of these cases which in itself is a project and they are thinking, they should be thinking, what is the best way of doing this? What is the quickest way? How can we focus it best? What skills do we need? What tools do we need? I see the importance of my job is to give them the sort of infrastructure that enables them to do that with the best available tools, which in turn reports back to me and the management board the information we need to make sure the office is running properly.

Q113 Mr Davidson: To what extent have you been successful in achieving that degree of cultural change and awareness amongst your front-line people? To what extent do they accept that the Treasury are perhaps not introducing these new changes in the rules for badness but are actually doing it in order to achieve better value for money?

Mr Wardle: I would not pretend that we do not get a certain amount of griping and complaint about it, of course. They want to get on with doing the job and they see restraints on that as sometimes unreasonable. Sometimes, they accept that it has to be done. I think if you can get over to them that the intention of this is to enable us to use our resources better, they accept it. They are sophisticated people; they are lawyers and they are accountants; they understand these problems and they are prepared to work with us and go along with it. Some more so than others, of course.

Q114 Mr Davidson: You use the term "restraints". To what extent are these rules seen as facilitative and helpful as distinct from restraints that are burdensome? Is it fairly obvious to people within a relatively short period that this is actually trying to help them? To what extent is that full battle still to be fought? I have difficulty in assessing how people at the sharp end feel about many of these things. Mr Robertson mentioned the change in culture of engineers which is always a difficult concept.
Mr Wardle: I think the problem is that they do not see a great change at the moment between cash and accrual resource because essentially we are a business that has no assets, we are spending money buying in resources and spending it on our staff, we have very little in the way of capital. So, they do not see a huge difference in the way that we are doing it. They just see a difference in the timing and the way it is accounted for. I think the fact that we have had to be stricter with that after the excess has definitely led to a better focusing and a better approach to the use of resources and I do not detect a great deal of resentment against the Treasury, certainly no more than there was before the introduction of accrual accounting.

Q115 Mr Davidson: My final point is also to Mr Wardle. I am struck by the extent to which comment is made in the Report about your targets and so on being blown off track by the decision of the police to pull out resources. I am just seeking clarification at this stage as to how something like that happens and to what extent we essentially ought to be seeking to establish a greater degree of liaising and co-operation in order that we do not have one agency scuppering the plans of a whole number of others. This is not only them affecting you, but one action by one agency could then affect a whole number of others and, given that you yourselves are meant to be quasi autonomous, how do you manage to strike that balance and are there are lessons that you could learn?
Mr Wardle: The problem of course is that this has been happening over a very long period and we are not dealing with one agency, we are dealing with 43 forces. The larger ones, obviously being the Metropolitan Police and the City of London Police, are particularly affecting us. As far as the Metropolitan Police are concerned, they are very sympathetic but they have huge demands on their times, on their expertise, on their detective expertise especially. Terrorism, problems with murders—

Q116 Mr Davidson: I understand all that.
Mr Wardle: Exactly. I think that what one has to do is bring out the importance of fraud and its effect on people, on the economy and on life generally.

Q117 Mr Davidson: Maybe I expressed myself badly. I was not arguing the point about your particular circumstances, it is the general question of one agency or a group of agencies taking actions that then affect the running of another. Short of running everything from the centre, I am not quite sure how you best overcome those difficulties. Do you have any suggestions for us?
Mr Wardle: The only thing that we can do is to make sure that we talk, for example, to the police, to the Association of Chief Police Officers. For example, we are now part of the Economic Crime Sub-Committee together with other agencies. With the Court Service for example, it is very important there that we get the necessary courtrooms available, that we get the judges who have the experience, time and ability to deal with these cases. There are a number of pressures and we understand that, but I think it is vitally important that you set up some sort of structure in order that you can discuss these things together in order that, as you rightly say, people are not just going off doing their own thing without any sort of regard for the effect it is going to have on others. In fairness, the reference in the Report in the case study to the Financial Fraud Information Network is a good example of that where it does work quite well because at least we see what is coming in and at least we can discuss the effect of dealing with one case if somebody deals with it or somebody else does not.

Q118 Mr Jenkins: Mr Macpherson, when you read the Report, did you feel mildly surprised, pleasantly surprised or disappointed with regard to the contents of the Report itself?
Mr Macpherson: First, I thought it was a very good Report and I think the case studies are extremely useful and I would hope that agencies and departments across the public sector read the Report and learn from it. I think what struck me was that progress is being made but there is still much to do and that is the challenge.

Q119 Mr Jenkins: It is a challenge, yes, and one of the challenges that we have in the public area when we are spending taxpayers' money is that we do not have the discipline of the market there. The only discipline that we have effectively is the Audit Office and Committees such as us with very often pressed MPs who have very little time to read or update themselves on these reports to ask questions to see if they can maybe focus your mind. One of the things I always did when I was running an authority and taxing people was to make sure that the pound I took off them was better spent by me than it could have been by them, otherwise why was it taken off them? If we put this Resource Accounting in place and implement it fully, it could yield savings of £14.5 billion over three years. Would you agree with that sort of figure?

Mr Macpherson: My recollection of the figure is that it is a simple arithmetic assumption, but clearly I would support your view that, in spending taxpayers' money, it is very important that all parts of the delivery chain, from the Treasury right down to the operation which is seeking to spend that money, are clear that it is going to deliver something valuable to the taxpayer.
Chairman: That is a very unremarkable statement!

Q120 Mr Jenkins: Do you think there are savings accrued at the end of the day by implementing this management took to make decisions?
Mr Macpherson: I am absolutely certain that the new—

Q121 Mr Jenkins: "Yes" or "no" will suffice.
Mr Macpherson: Yes.

Q122 Mr Jenkins: We know in the Report it says that departments are more or less up to speed here trying to get the situation right but others are lagging. If they are lagging and if we believe they will save money by getting on board, what are we doing to ensure that they get on board a little quicker?
Mr Macpherson: I think that a huge amount is going on. Sir Andrew, sitting next to me, has a whole wad of different coloured training manuals. This is something which is very important. We are putting a lot of time into training, explaining, encouraging and also actually being a little nastier than that and saying, "If you expect to get more resources from the taxpayer, you will be doing X, Y and Z." So it is a system, in a sense, of carrots and sticks. Sir Andrew has spent many of his days selling the message.
Professor Sir Andrew Likierman: May I respond, also, to your question?

Q123 Mr Jenkins: You must have been a scrumhalf in a previous life!
Professor Sir Andrew Likierman: You will see in the Report that the National Audit Office has used a scale of one to five derived from the Public Audit Forum model. This indicates how much progress departments have made in their internal financial systems. You will see they have scored departments between one and five. We are working with departments to try and make sure that they move up from where they are now to a higher figure in a defined timescale.

Q124 Mr Jenkins: Are we going to suggest, maybe, reducing their budget by 1% over the next year until they do get that standard, because that is the only incentive that will make them concentrate their mind on getting there?
Professor Sir Andrew Likierman: If I may, Mr Macpherson is in charge of budgets!

Q125 Mr Jenkins: Excellent.
Mr Macpherson: I am not quite sure who the scrumhalf is here. The Spending Review is about to get under way. We are particularly keen to pursue a rigorous Spending Review. We do not want the Government to put money into organisations who will potentially waste that money, especially because resources, as ever, are scarce. So this is going to be a fundamental part of the review process. We will be advising ministers about not only departments' capacity to deliver but, also, about their financial management, and where financial management is poor the Spending Review is a unique opportunity to build that into the settlement letter. At the end of the Spending Review the Chief Secretary writes a letter which says "Here are your spending ceilings for the next three years, and as a condition of receiving that money we will be expecting you to do X, Y and Z". On occasions we have been known to put departments on to "special measures" because we are not convinced that the level of financial control and management is of the sort which we find desirable.

Q126 Mr Jenkins: So we can expect some rigorous discipline to be brought on these departments to ensure they get to the standard?
Mr Macpherson: Yes.

Q127 Mr Jenkins: Some good academic thinking. When Mr Allan asked about the two months at the end of the year and this splurge of spending, your rigorous mind came into play and you said "Yes, I am surprised. My hunch is . . .". I thought "my hunch"!—I can go into the local pub and get my hunch. I want to know, if it was a surprise, what investigations you conduct as to what the reason is for this, not what your hunch is. With the greatest of respect, I expect a bit more rigour.
Mr Macpherson: I am encouraged by your remarks and we will certainly be approaching this with rigour. At any point in time it would be nice to know the answer to everything, and if I knew the answer to your end-year surge you would not be asking the question because it would be a self-evident truth. However, we need to learn from that, we do take it seriously, we will continue to be rigorous and I am optimistic that we will be able to give you the answer in the future.

Q128 Mr Jenkins: Thank you very much. Mr Robertson, on roads, in the Case Study Volume, on page 2, figure 2, we have a diagram of the time it takes to do a road plan, which can take $10\frac{1}{2}$ years. We are going to miss the boat if we do not bring it down to five years. How are we going to get down to five years?
Mr Robertson: We have put in place plans that would reduce these major projects to between five and seven years. In fact, this chart shows, I think, that we are doing that.

Q129 Mr Jenkins: And we will do that? Do you give your word on that? We will get down to $5\frac{1}{2}$ years?
Mr Robertson: I cannot give you my word because it has not happened yet and I have no means of assuring that, but when you look at the individual components—

Q130 Mr Jenkins: Can you try and make sure it gets there?

Mr Robertson: Absolutely, because I agree with you entirely we will not meet the congestion targets unless we can deliver.

Q131 Mr Jenkins: One of the roads which comes close to my constituency is the Birmingham North Relief Road. I take it you have had a lot of consultation with this developer and you have seen how they have produced this road—albeit the construction element—and they have met their target, on time and it opened on time. Is that a good benchmark for you to use in future with construction?
Mr Robertson: Yes, certainly we will learn the lessons that they have learned in that project, and from every other. I believe they have been using similar approaches to what the construction industry is generally based on, on sort of Latham and Egan principles.

Q132 Mr Jenkins: The difference is it was their money. That is why it was built on-time and to price. They had no fallback by saying to the taxpayer "Will you put some more money into the pot here to bail us out?" That is the difference we have got and where the distinction should be made when we have constructions in future. Can I ask Mr Tabberer about teaching? We have got a shortage of maths teachers in this country and we have got regional difficulties with teachers as well. What plans have you got to overcome this problem?
Mr Tabberer: A whole range of plans. Part of it is to introduce a lot of new routes into teaching so that we attract later entrants and career changers, and not necessarily go for all the recruits from recent graduates. If we wanted to get all the maths people we needed in a single year we would have to recruit something like 42%—

Q133 Mr Jenkins: One thing has always struck me as strange: is the B-Ed still a four-year course?
Mr Tabberer: Mainly, no. Mostly now the undergraduate course is down to three years. There are three or four sites where it is still running four-year courses.

Q134 Mr Jenkins: If I went for a post-grad certificate in Education you get a bursary, but for a four-year course you have to pay fees for four years. Is that not a disadvantage?
Mr Tabberer: If you look at it like that it looks odd, but if you compare teaching undergraduate courses with other undergraduate courses you do not get bursaries to do other undergraduate courses, so we are not treating the B-Ed any differently from the way we treat undergraduate courses in any other subject. The reason why we have got bursaries in the postgraduate course is to try to ensure that we incentivise people who have already got three or four years in another degree under their belt to stay on that additional year.

Q135 Mr Jenkins: I want to ask Dr Perry just one or two questions. First of all, the regional balance. I know a regional balance is quite difficult in housing in this country. Does it cause you concern that you have got houses which are empty and yet over-demand in other regions in this country?
Dr Perry: Very much so. There are clearly dysfunctional housing markets operating in different parts of the country. They are dysfunctional in the South because there is overheating, and they are dysfunctional in the North and parts of the West Midlands because of low demand. There are very complex reasons for this. Part of it is that a lot of housing is of very poor quality which people lived in because there was, obviously, no alternative and now there is an alternative with new, edge-of-town estates so people have exercised choice and moved to them.

Q136 Mr Jenkins: I have no time left now but can I ask one more thing: innovation by social landlords in the provision of housing. Just how much effort do you put in to allow them to use innovative ideas and strategies, development plans and construction to overcome the housing problem?
Dr Perry: A great deal. In fact, we do more than allow them, we actively encourage them. 100% of all the money that we put out has to comply with Egan principles, and from this year coming 25% have got to give evidence to show modern methods of construction.

Q137 Mr Williams: Mr Macpherson, you have described this as a good Report. Did anything in it surprise you?
Mr Macpherson: I think that is a difficult question to answer. I think I learnt a lot from it.

Q138 Mr Williams: You said you hoped (I wrote your words down) agencies and departments across the sector will read it. Which bits do you particularly want them to read? Which bits do you think will be a surprise to them?
Mr Macpherson: A number of quite important reforms have been introduced to the public expenditure framework and we were talking earlier about three-year plans, end-year flexibility, Resource Accounting, Public Service Agreements—these are all big changes. Inevitably some departments and agencies have been quicker to adopt those changes than others. You can do a certain amount of this by just telling them and the Treasury instructing, but to actually get the benefits of them involves culture change and involves leadership from the board downwards in departments and agencies. So different organisations are moving at a different pace, and the reason why I was hoping that everybody would read it is actually I was hoping that however good an organisation is, in terms of its score, they would look at this and think "Hold on a second, is that particular example of good practice happening in my organisation?" I think no public sector organisation and no private sector organisation is so good that it cannot learn something. This Report contained a lot of interesting examples of progress and, equally, a number of examples where you know agencies have encountered difficulties.

Q139 Mr Williams: Thank you. I still do not know what you learned from it. Mr Robertson used the phrase that you used, that there needs to be a culture-change. That is understandable. The vast majority of people in the Civil Service were recruited under a different regime and, therefore, in many cases skills appropriate to this were not amongst those considered when they were appointed. What are you doing to produce this culture-change? We have this Report, you express the pious hope that everyone will read it (you know they will not; they will never see it and most of them, 99%, will never even know it exists) so it is back to you. You are at the top, you are responsible for the Treasury's efforts to improve the quality and cost-effectiveness of public services. So, dynamite by this Report and its revelations. What are you now inspired to do?
Mr Macpherson: I am inspired to pursue the Spending Review process with even greater vigour.

Q140 Mr Williams: I am encouraged.
Mr Macpherson: We are currently circulating the guidance for the Spending Review and a lot of the key principles identified in this Report will form the basis of that guidance. We have a continuing dialogue with the finance directors of departments and agencies, and we will be identifying areas which are absolutely essential in terms of progress. So, yes, there are some people around who existed under previous regimes and that continuity is occasionally useful, actually, especially at the point when regimes change and so on. Equally, we are ventilating our organisations. Sir Andrew, on my right, is a classic example of how, by bringing in someone who has real expertise, you can actually transform systems. It is very striking that the board of the Treasury—

Q141 Mr Williams: With respect, he is a rather unique asset, is he not? Back when Sir Alan Langlands was in charge of NHS England, he told us that he had 600 accountable officers within the NHS—600, and that is just within the NHS. You have got all the other agencies, you have got all the other departments and all the other executive bodies—and you are engaged in dialogue with them. With respect, I find that very difficult to understand. What form is the dialogue taking if it is going to get to the right number of people who need to be reached in a hurry if this is to be made to work? What are you doing?

Mr Macpherson: When I said "dialogue", of course we discuss things but, ultimately, the Treasury can require departments to do a range of things. Andrew identified earlier the question of financial expertise. It was the Treasury, following dialogue and following consultation, which has stipulated that departments will have finance directors and, over a period of time, those finance directors will be fully qualified. So, all recent experience certainly in the Treasury suggested that simply telling people to do things takes you so far but that, when you are trying to encourage cultural change, you have to actually get out there and explain, listen, be prepared to change what you are doing when what you hear is persuasive and move forward on that basis. The spending review guidance will be rigorous; it will be very clear on what needs to be done. We will be taking a very close look at departments' financial capacity. We will be looking at the departments' delivery capacity. Where departments are not delivering and do not have any financial capacity, then we would clearly be very foolish indeed to put further taxpayers' money into the departments or agencies.

Q142 Mr Williams: Thank you for expressing it so succinctly. You see, we are puzzled by the fact that one third of departments, so we are told by the NAO, have virtually made little or no progress. They are just blundering on. Is it bloody mindedness? Is it inability? Is it ignorance? What are you doing to prioritise action to motivate that one third to come up at least to the level of the average?
Mr Macpherson: You can take a snapshot of where departments are. It is also important to focus on where departments were. Some departments were so far from excellence that they may have come some way but they are still scoring pretty badly. Look, working with the NAO and with departments, where the current position of a department is not good enough, we are applying quite a lot of pressure to try and ensure that those departments improve. It is also true that the public sector labour market is becoming rather more dynamic than it used to be. So, on the whole, where the wrong people are in place and that department is not delivering, those people's job security is not what it was 20 years ago, say.
Professor Sir Andrew Likierman: May I just add that—

Q143 Mr Williams: No, he is in charge. Let him answer for himself as to why we are in the mess we are in. You are saying that you are applying pressure. To be honest, it does not seem to be very effective pressure. We have talked about incentives and I think you also used the term "carrot and stick". What sort of stick is being used or is even being devised or contemplated to encourage those who are not making adequate efforts?
Mr Macpherson: We have made conditions. We have applied very rigorous conditions to expenditure. I can think of examples where because of concerns around financial management, we have required a department to give us regularly monthly reports followed up by monthly meetings with the relevant accounting officer to satisfy the Treasury and Treasury Ministers that the department had the capacity to spend this money. We are being quite vigorous in those areas and it is encouraging that ultimately departments respond because actually they do not have a huge amount of choice. So, there are organisations which have actually moved a long way in terms of, for example, how they are structured, in terms of bringing in financial expertise at board level, plucking financial directors from the private sector who begin to apply basic disciplines around financial information, which is often the critical thing here, but also financial management.

Q144 Mr Williams: Well, I hope you speak with more clarity to them than you are speaking to us because, frankly, I have never heard such convoluted waffle in my life as I have listened to from you this afternoon. I do not often say anything as unkind as that to a witness here, but I have not had a proper answer to any question that I have asked and nor am I convinced that you know the answers. You see, you are saying that you are being very rigorous and so on, but we are still told by the NAO that one third of the departments have made limited progress, that poor value for money is going undetected, that there is little change in the profile of annual expenditure, that there is continuous biased overspending at the year end and significant over and underspending. Faced with that, I would have thought that you would be able to come here today and give us a pretty comprehensive idea of how you, as the head of this initiative, intend to ensure that it achieves its objectives and how quickly. We have not had anything like that.
Mr Macpherson: You are quite rightly referring to this result in the Report but, equally, I could come back to you with lots of statistics around the extent to which accounts are being qualified where there has been huge progress in recent years.

Q145 Mr Williams: Give us some examples.
Mr Macpherson: In 1998–99, 22 out of 52 accounts were unqualified on true and fair grounds. In terms of the number of departments which were unqualified, it had risen from 22 to 47 by 2001–02 and I think that number will rise further in 2002–03. To put it another way, the number which were qualified on true and fair grounds have declined from 30 in 1998–99 to six in 2001–02. As I say, that number will be lower. This is not my figure, this is the NAO's figure in terms of audit opinion. So, there is clearly progress there in terms of producing better accounts. Similarly or further to that, there has been huge progress in terms of the timeliness of accounts because you can have the most accurate accounts in the world but, if they are produced a year after the event, those accounts will not be of much use to the departments who are actually trying to learn from the information within them. So, following an initiative by the Treasury and the NAO, we are now trying to ensure that the departments move to faster closing, ie they take all their Resource Accounts to Parliament by the summer following the end of the financial year at the end of March. Again, the departments are managing to close quicker. There is encouraging progress but there is still more to do and I know, in a snapshot, you will be able to say, "There are still a lot more departments that are not closing that rapidly", but the issue here is the trend. Of course, we would like to go faster; of course, we would like to move to situations where no department's accounts were qualified. We are not there yet but we are moving in the right direction. We are not complacent. I am sorry if you think this is all waffle.

Q146 Mr Williams: Well, there were a couple of figures there which were quite helpful. We hear this talk about devolving front-line teams. How far are you satisfied that all the organisations have relevant front-line teams? Are they able to carry the load?
Mr Macpherson: If you are asking me to put a number on the teams, I do not think that I could, but I do think that, following a period of education training, carrots and sticks, be they requirements and encouragement, those front lines are better—we have heard some examples today in terms of implementing this framework—than they were in the past.

Q147 Mr Williams: So, what sticks have you used?
Mr Macpherson: Going back earlier, where—

Q148 Mr Williams: You said they responded to the carrot and stick.
Mr Macpherson: Well, there are a whole lot of examples. Where a department is overspent, we can fine it.

Q149 Mr Williams: Have you?
Mr Macpherson: Yes.

Q150 Mr Williams: Which?
Mr Macpherson: I cannot tell you.

Q151 Mr Williams: Why not?
Mr Macpherson: This is a matter of record; it is a matter of how the estimates system works. I am very happy to give you a note of where we have—

Q152 Mr Williams: Are you saying that you cannot because you do not know or you cannot as a matter of principle? That is what I am trying to get at.
Mr Macpherson: I do not have the names of these departments to hand and, as I say, I would not want to give you the wrong department and send you away—

Q153 Mr Williams: But it is not something that you feel you should not give us?
Mr Macpherson: No.
Mr Williams: In that case, that is quite fine. I am happy with that. Would you put a note in giving us a full answer to that?[5] I want to know which of the departments and so on have suffered your wrath and what form that wrath has taken. I think, Chairman, I have exhausted my patience on this and I think that is as far as I can go.
Chairman: I have to say, Mr Macpherson, you have been, in the last three hours, a master of obfuscation and there is no point in having a parliamentary inquiry if we are subjected to platitudes. It is only in the last couple of questions in that line of questioning that you actually told us something of interest as opposed to expressing general expressions of apple-pie and motherhood. That is my opinion. There are some supplementary questions.

[5] Ev 23

Q154 Jim Sheridan: Mr Robertson, alongside lawyers, I have a very jaundiced view of consultants and it somewhat concerns me that certainly the public sector has created an option for managers to engage consultants. In my view, that is either because they want to camouflage decisions that they are either unable or unwilling to make and they are an expensive luxury that certainly a number of managers in the private industry do not have and, coming from private industry, the philosophy that I learned there was that, if we have to engage consultants, then why do we have managers? Perhaps the Treasury may have a view. Is it right that taxpayers are paying two salaries: one for a manager to take the easy option to engage consultants and then still pay the manager as well? Why should we have both?
Mr Robertson: We should have both and we have both because the manager provides the leadership, direction and control to the projects and because the consultant provides the technical input that is specifically required for that particular piece of work and every piece of work requires some different technical input and therefore we use different consultants.

Q155 Jim Sheridan: If that luxury were not there, what would we do? Would you accept that there is a perception that it is just too easy for managers in the public sector to say, "It is a difficult decision, let's bring in a consultant"? You would not be allowed to do it in the private sector.
Mr Robertson: My experience in the private sector is that, in order to minimise fixed costs, that is exactly what you do where you have a non-recurring type of activity in particular. For example, the installation of a very complex new accounting system, then what you do is you do not use in-house people, you bring people in with the technical expertise to ensure that you can get the job delivered in the best way and that is what we do.

Q156 Jim Sheridan: I hesitate to ask but does the Treasury have a view on how easy or not it is to engage consultants within the public sector?
Professor Sir Andrew Likierman: It is subject to normal procurement requirements. There are rules about the way in which one procures above a certain level in terms of advertising and so on, the way you go about it.

Q157 Jim Sheridan: Or is it too easy an option?
Professor Sir Andrew Likierman: I do not believe so. It is quite difficult to generalise but I do not believe that there is a mechanism which makes it particularly easy in the public sector just to reach for consultants. It is not completely surprising that a lot of government departments do not have expertise in-house on a range of subjects and therefore do go outside for consultants.
Mr Macpherson: An important issue here is that in terms of classification, where consultants are being used as a substitute for civil servants, it is very important that the expenditure should be part of the administration costs regime, otherwise you get a perverse incentive, and we do monitor that.

Q158 Mr Field: Mr Wardle, you reminded us earlier on that there was a £1 million threshold for cases which you may or may not consider. Mr Macpherson made a comment that it is quite easy in this world to give money away. The Government devised, through Individual Learning Accounts, a rather expensive way of giving our money away, and the report which we did on that episode showed that, first of all, we do not actually know what the extent of the fraud is, although some of the companies were committing fraud at more than £1 million a week. Are you investigating Capita and the companies involved in this wide-scale fraud? For example, has the Treasury or the Department for Education referred it to you?
Mr Wardle: Yes, we have had referrals involving this sort of case and we have—

Q159 Mr Field: Not "this sort of case"—this case, the Individual Learning Account.
Mr Wardle: I am not sure. I would have to check on that one.[6]

Q160 Mr Field: That would be fine if you could check. If you check and find they have not, and as you said earlier that individual members of the public can make a referral to you asking you to investigate, can I make that request to you?
Mr Wardle: Yes, certainly.

Q161 Mr Bacon: A quick question to Mr Macpherson about qualified accounts. You said there were six; can you say which departments they are?
Mr Macpherson: Yes, I should—

Q162 Mr Bacon: I assume they are Defra, Home Office, MoD and the Department of Work and Pensions. Is that right?
Professor Sir Andrew Likierman: If I am allowed to answer this one: the MoD, ONS, Defra, DWP, Home Office, DfES and the Security and Intelligence agencies.

Q163 Mr Bacon: Both of them?
Professor Sir Andrew Likierman: I think it was technically the SIV that was qualified.

Q164 Mr Bacon: So you have left out the Inland Revenue which is now qualified, is it not?

[6] Ev 22

Professor Sir Andrew Likierman: I am sorry, these were the six scope limitations. This is the nature of qualification under accounting principles. These are the six.[7]

Q165 Mr Bacon: So under what basis are the Inland Revenue accounts qualified?
Mr Glicksman: I think Sir Andrew is referring to the Resource Accounts of the departments; the Inland Revenue's account is the Trust Account.

Q166 Mr Bacon: How many departments have qualified accounts, whether they are Resource Accounts or other kinds of accounts?
Professor Sir Andrew Likierman: I may be wrong but I do not think, other than this Trust Account here, there is anything else which comes into that category. These Trust Accounts are in a slightly different category.

Q167 Mr Bacon: If the Treasury could just check.[8] Mr Macpherson, Mr Field mentioned Individual Learning Accounts, as did you. This was a scheme where they were budgeting to spend £199 million for two years, which is £8.3 million per month, and they were actually spending at a rate of £25 million a month. Mr Normington, a permanent secretary at DfES, sat where you are sitting now and told us that this high rate of expenditure was regarded by the department as a sign of success, when in fact the computer involved was, without human intervention, paying out over £1 million a week, as Mr Field said, to a number of rogue training providers—moneys which were very rapidly transferred into off-shore accounts. Several civil servants were working for over two years to work out the extent of the fraud. I fear that one of the answers to Mr Field's question is that much of it was technically not fraud because the department's rules were so loosely written that in law the people had not actually committed a criminal fraud. Really, my question to you is about departmental autonomy and spending controls. I was pleased to see the other day that Sir Andrew Turnbull is back as a spending controller. Where was the Treasury in all of this, given that alarm bells were ringing all over the place and red lights were flashing? You only had to pick up a newspaper to realise that something was wrong, but it took the system, it took the DfES, between six and 12 months to wake up and actually close the thing down. Where was the Treasury? Why was there not somebody in the Treasury saying "Hang on, what is happening to all this money?"

Mr Macpherson: The Treasury was monitoring that, but we are dependent on the information we receive from the department. There are, therefore, lessons from that.

Q168 Mr Bacon: Mr Macpherson, you were not dependent upon information provided by the department; you could have picked up *The News of the World*, as many people did.
Mr Macpherson: We often do pick up *The News of the World* and we seek to ask questions on the basis of the information in that newspaper or, indeed, other newspapers. Any programme which involves, in a sense, income transfers to people we have to keep a very close eye on.

Q169 Mr Bacon: But you did not in this case.
Mr Macpherson: Mr Field was mentioning social security programmes, tax credit programmes and so on, on which I know he has huge expertise, and we do actually take this very seriously, and we try and learn the lessons from it. The NAO Report will help us to do that. It does also relate to another issue, which has come up today, which is the question of ring-fencing. This came out in the Report. Sometimes the Treasury is accused of unnecessary controls and excessive ring-fencing, but often it is important to ring-fence these programmes and have the right controls in place.

Q170 Mr Bacon: What I am really saying is: especially when you have only got 23% of your finance directors with financial qualifications, can you trust these people at all? Should we not be having more control rather than less?
Mr Macpherson: I would not say that the Treasury has a dead-hand, but there are people who argue that it does, so we have to get the right balance.

Q171 Mr Field: Is not the change here, Mr Macpherson, that the traditional role of the Treasury has been replaced and it has become a spending department? These programmes are bound up with the Chancellor's own vision of what he wants to achieve and, therefore, the role which the Treasury has normally done for taxpayers—which is to look at how our money is being spent—now takes second seat to "Can we spend more money on these programmes?" We have got the tax credit programme, where money was being shovelled out, now we realise quite wrongly, to people (which the Treasury now wants some repayment for). Your traditional function, as Mr Bacon has been describing, now does not function on behalf of taxpayers; you are a great spending department, and your success is measured by how much taxpayers' money you can shovel out into the country. Is that not right?
Mr Macpherson: I would disagree with that.

Q172 Mr Bacon: Could you send us the guidance for the Spending Review that you are circulating to departments?

[7] *Note from witness:* Of the seven departments, six had scope limitations. The 7th—DfES—was qualified as irregular. Scope limitations are expressed where auditors have been unable to express an unqualified opinion that the accounts give a true and fair view. The C&AG qualifies the regularity part of his opinion where he concludes that material financial transactions are not in compliance with the appropriate authorities. For the record, the DWP and Home Office also had irregularity qualifications.

[8] Ev 23–24

Mr Macpherson: I will certainly—

Q173 Mr Bacon: It is really yes or no.
Mr Macpherson: I will look into that.[9]

Q174 Mr Bacon: Finally, when will all departments have a qualified finance director? Is there a target date for that?
Professor Sir Andrew Likierman: No, there is not. Can I just be quite clear: we acknowledge the fact that we simply cannot move from the current position to having everybody qualified. We just do not have the people, and we have a huge amount of existing expertise in departments. We have said we will have transitional provisions for all departments to have finance directors but we have not set a time limit because we would rather take it on a case-by-case basis.
Chairman: Mr Macpherson, perhaps you could let me know in the next week or two how you are going to respond to Mr Bacon.

Q175 Mr Davidson: Can I follow up with Mr Macpherson a point that was made by Mr Williams? Of the departments and agencies with which you deal, which three are in greatest need of improvement?
Mr Macpherson: I think it is difficult to simply identify departments. Some have their accounts still qualified but—

Q176 Mr Davidson: Is that a "don't know"?
Mr Macpherson: There are a whole lot of elements around financial management.

Q177 Mr Davidson: I recognise there is a distinction between "I don't know" and "I won't tell", and I am not clear. I would be appalled if you were a "I don't know" and I can well understand why you would be a "I won't tell" on this, but you did indicate to Mr Williams that you did have an indication of which departments were great and which were most in need of improvement and so on. I am just asking which three are in most need of improvement. It seems perfectly straightforward. You must know; you are running all this.
Mr Macpherson: There are departments which clearly have more to do in terms of, for example, having unqualified accounts, in terms of overspending, excess votes and so on. I think I would be more in the "won't tell" camp because it would be invidious to identify—

Q178 Mr Davidson: That is not a decision for you. I am asking you the question, you are there to answer questions.
Mr Macpherson: I can tell you which departments had qualified accounts, and indeed Andrew has just set that out—

Q179 Mr Davidson: I asked you which departments and agencies are most in need of improvement.
Mr Macpherson: I can tell you which departments overspent, I can tell you which departments are failing to a greater degree to meet their targets, but there are quite a few departments which actually tick all these boxes and there are ones which are particularly poor at certain things.
Mr Allan: Which are in "special measures"—according to your definition? You introduced this phrase.

Q180 Chairman: That is a very important point. We want to get some clarity on this. Which departments are under "special measures"? Can you answer that now or can you provide a note to us?
Mr Macpherson: I am happy to answer the question on which departments we are asking to provide monthly information on their financial performance. They are the Home Office and the Department of Constitutional Affairs.

Q181 Mr Davidson: I am unhappy with what has been said. However, coming to the same point on agencies, which three agencies with which you deal are in greatest need of improvement on all these matters?
Mr Macpherson: It is difficult with an agency because agencies are accountable to their secretary of state and departments. So, we will deal with, say, the Department for Work and Pensions and it would be inappropriate for us to have a separate dialogue with Job Centre Plus. The basic principle of devolution is that it should be the parent department which is managing the relationship with the agency. Obviously, some agencies are so big like the Highways Agency—

Q182 Mr Davidson: Is that "don't know" or "won't tell"?
Mr Macpherson: I have just given you a very clear answer on the Home Office. If you are saying, "What about the Prison Service?" or "What about the Immigration and Nationality Department?" or "What about the Police Training Agency." That is devolved. That question should be asked of the Home Office accounting officer.

Q183 Mr Davidson: With respect, we are asking you about managing resources to deliver better public services. You have responsibility for a whole number of areas we have discussed in relation to the agencies that we have in front of us which presumably, by definition, because they are here, are not the worst, but I remain open to correction on that. I would hope that you would know whether or not any of the four that we have in front of us are amongst the worst. If they are not, then who is? You must know this.
Mr Macpherson: The way we agree spending totals and the public service agreements which go with those spending totals is with the relevant secretary of state and their department. It is then a matter for the secretary of state and department to devolve those budgets to individual agencies. The issue came up earlier about how there were 600 accounting officers. I think it would be unrealistic for you to expect me

[9] Ev 24

to know the detailed performance of every one of the 600 bodies to whom those accounting officers relate. So, if I were to start identifying individual agencies, it might well be unfair on other ones which are either better or worse.

Q184 Chairman: You mentioned that the Home Office and the Department of Constitutional Affairs are on special notice. What financial information on a monthly basis are you asking of them that you are not asking of other departments?

Mr Macpherson: I think it would be best if I give you details of the information that we are asking for.[10] The key thing here was satisfying ourselves that there was sufficient information about how much expenditure was happening month by month in order that we did not get into a situation of reserve claim and overspends.

Q185 Chairman: I think I had better ask one last question of you, Mr Robertson, because I have noticed that, although the Serious Fraud Office overspend £23 million a year, you spend £5,000 million a year and you have got off rather lightly this afternoon. Would you look, please, at Case Study Volume paragraph 7, figure 4 on page 3, and I want to ask you when you expect to reduce the procurement time for major construction works from 10 to between five and seven years. That is a matter of some interest to the general public.

Mr Robertson: We have just or we are in the process of placing a contract for the first of those schemes which would really see all of those items in place. That scheme is the traffic alleviation scheme in Stoke. That has early contractor involvement and that is already well into the process to the point where construction is about to start. I am hopeful that very soon, in terms of years, we will be able to recognise that to be a success.

Chairman: Thank you very much, gentlemen. That concludes our hearing. Thank you for coming before us. It is always a pleasure to have you in front of us, Sir Andrew, and hear your enthusiasm for your subject. You are probably, Mr Macpherson, in the most important job in government. We read in your CV that you were appointed to improve the quality and cost-effectiveness of public services. We wish you well!

[10] Ev 24–25

Supplementary memorandum submitted by the Serious Fraud Office

Questions 43–44 (Mr Bacon):

In 2002–03 the outturn for the Office as a whole was 26.44 million against a planned spend of £28.77 million. The underspend was caused by a number of factors. The first half of the year was characterised by an extremely cautious approach to expenditure as we analysed the reasons for the previous year's excess. In the event when we recognised that we were being too cautious it was too late often to "turn the tap back on" in an economic and effective way.

On Counsel we spent £4 million against an original plan of £3.2 million and on Accountants we spent £3.1 million against a plan of £3.5 million. The variances in spend on Accountants and Counsel reflect the volatility and unpredictability of events and thus expenditure in these areas.

Questions 91–92 (Mr Field):

Since January 1999, a total of 203 cases have been referred to the SFO. Of these, 25 have involved allegations of fraud on public funds either directly or indirectly. Of the 25 referrals, 10 were accepted for investigation. This is a slightly lower "acceptance" rate than the norm (about 50%) but probably reflects the heightened sensitivity of public bodies to seek a formal review of a case.

Cases are formally referred to the SFO by a number of organisations, ie police, Government Departments, local authorities, regulators and liquidators. It is not always significant who actually refers the case to us because a number of agencies or organisations may have been involved in the early stages before a fuller picture emerged that led to the conclusion that it was one for the SFO.

Questions 158–159 (Mr Field):

The SFO is not investigating suspected offences involving Individual Learning Accounts.

It is understood that the police are investigating in a number of cases, but none individually come within the SFO criteria for acceptance. Contact is maintained with the Crown Prosecution Service and should the circumstances of any individual case change so that it comes within SFO criteria, it would be reconsidered.

19 February 2004

Supplementary memorandum submitted by the HM Treasury

Question 25 (Mr Bacon):

Mr Bacon asked for a breakdown of training received by Accounting Officers in the last five years. In the discussion leading up to this request he made it clear that he was not restricting himself to departments as he referred to there being some 600 Accounting Officers. The scope of this request therefore includes both agencies and NDPBs. This information is not available centrally and its collection would be a costly and burdensome exercise even if it covered only main departments. I am sorry that we are therefore unable to provide it. Mr Macpherson explained in answer to Q49 that AOs are Chief Executives and that we would look to FDs to have financial expertise.

Sir Andrew Likierman thought that it would be helpful for the Committee to have, on record, the formal requirement that departments should have Finance Directors. A copy of the letter, DAO(GEN)14/03, issued to all departments is attached.[1] Paragraphs 6 and 7 deal with the change from Principal Finance Officers to FDs. A recent survey of 49 departments showed that 39% of Finance Directors are qualified accountants.[2] The figure of 23% quoted by Sir Andrew at the session (Q30) was based on an interim figure before all departments had responded to the HM Treasury survey.

Questions 148–153 (Mr Williams):

The Committee asked for details of what actions are taken when a department overspends and which departments had been punished. Departmental budgets and estimates are different in nature and in scope. An estimate focuses solely on the department and its transactions whereas the budgeting boundary is much wider and includes the resource consumption of non-departmental public bodies (NDPBs). An overspend against an estimate (after allowing for supplementary estimates) is an excess vote and results in a qualified account, a report by the PAC and a Treasury response. It is, however, possible for a department to overspend against its budget and not obtain an excess vote and vice versa. The table below details which departments have overspent against their budgets in 2000–01 and 2001–02 (information for 2002–03 is not yet available).

Year	*Department*
2000–01	Foreign and Commonwealth Office
2001–02	Lord Chancellor's Department Serious Fraud Office (administration cost limit only) Charity Commission

Where a department overspends against its budget the spending team is required to investigate the reasons for the overspend and discuss with the department what action it is taking to prevent it happening again in the future. They will then provide the Chief Secretary with advice on whether any further action should be taken including imposing a fine. This fine will be a reduction in either the following year's budget or accumulated end year flexibility by the amount of over spend. Departments may also be fined if they breach their administration cost limit. In 2001–02 the Foreign and Commonwealth Office was fined £5.7 million for overspending in the previous year. In the other cases, it was decided not to impose any financial penalty. Instead officials worked with the departments concerned to ensure that the same difficulties did not arise again in future years. The fact that there have been so few overspends reflects the proactive role the Treasury takes in monitoring departments' financial position in year, working with them to identify ways in which overspends could be avoided.

Questions 166–167 (Mr Bacon):

We agreed to clarify the position on departmental accounts qualified on "true and fair" grounds.

In 2001–02, six departments' resource accounts were qualified on the grounds of scope limitations—ie the auditors felt they were unable to express an unqualified opinion that the accounts gave a "true and fair" view. The table below reflects this, in the context of a continuing reduction in the number of qualifications on "true and fair" grounds since 1998–99. Since the hearing, final figures for 2002–03 have become available and are also shown in the table. Qualifications on "true and fair" grounds have fallen to three (MOD, DWP and the Cabinet Office).

[1] Not printed.
[2] This includes one department where the FD is not qualified but reports to a qualified board member.

	1998–99	1999–2000	2000–01	2001–02	2002–03
Audit opinion					
Resource Accounts not qualified on "true and fair" grounds[3]	22	37	43	47	48
Resource Accounts qualified on "true and fair" grounds:	30	12	9	6	3
—Scope limitation	18	9	7	6	2
—Adverse opinion	5	0	0	0	0
—Disclaimer	4	3	2	0	1
—"Nil" opinion	3	0	0	0	0
Total	**52**	**49**	**52**	**53**	**51**

The 2001–02 accounts of the seventh department mentioned at the hearing—DfES—were qualified as irregular as the C&AG concluded that material financial transactions were not compliant with the appropriate authorities. DWP's and the Home Office's accounts were also qualified on "regularity" (as well as scope limitation) grounds in that year. The number of regularity qualifications has since fallen to one (DWP) in 2002–03.

2001–02 was the first year of resource based Supply, when resource Estimates and resource accounts replaced cash based Estimates and appropriation accounts. Ten departmental resource accounts were qualified as "Excess Votes" in 2001–02. The number of Excesses has since been reduced to six in 2002–03.

During the hearing reference was made to the qualification of the Inland Revenue's accounts. This was omitted from the Treasury's evidence for two reasons—first, it was the Trust statement and not the resource accounts which were qualified; and secondly the qualification relates to 2002–03. We have therefore requested a witness note be added to the published transcript to clarify this point.

Questions 172–173 (Mr Bacon):

The Committee asked to see a copy of the Spending Review Guidance mentioned by Nick Macpherson. I enclose a copy of this guidance.[4]

Questions 180–184 (Chairman and Mr Davidson):

Finally, Nick Macpherson also referred to the Department for Constitutional Affairs (DCA) and the Home Office being subject to "special measures" and the Committee sought clarification of what this entailed. I attach a note setting out details of the requirements currently placed on these two departments. I should underline that the information we require from DCA and Home Office is not out of the ordinary—it is the type of management information we would expect departments to discuss with Treasury as part of the normal spending control process. What is special about the current DCA and Home Office regime is the level at which reports are sent and issues discussed—they have involved either Ministerial or Permanent Secretary involvement rather than only being conducted at official level.

CONTROL REGIME FOR THE HOME OFFICE AND DCA

Background

Both the Home Office and the Department for Constitutional Affairs have in recent years had a number of Reserve Claims.[5] In response, and as part of a process of strengthening financial management in each department, the Chief Secretary agreed with the Home Secretary and Lord Chancellor to step up the level of senior management and ministerial engagement in the regular review and discussion of financial forecasts and relevant policy and operational issues. It was also agreed to clarify the format of financial and management information which the departments would provide.

[3] Includes accounts qualified solely on grounds of irregularity and/or for having an Excess Vote in 2001–02 and 2002–03. Details of these qualifications are set out in the following two paragraphs.

[4] Not printed—confidential.

[5] In planning public spending the Treasury retains a small amount of money at the centre known as the Reserve. A department may ask the Treasury for additional resources from this Reserve to meet unforeseen priorities or pressures on its budget. Access to the Reserve can only be granted by the Chief Secretary to the Treasury.

The information requested from both DCA and HO is what we would expect departments to provide as a matter of course. What is different is that there is more frequent and formal involvement from Ministers and senior officials.

The additional controls on HO are to be reviewed this year and they are SR2002 time limited. At present there is no set end date for DCA.

Home Office

Quarterly meetings are held between Nick Macpherson, Managing Director Public Services Directorate, and the Permanent Secretary at the Home Office, or between their representatives at director level.

Following the £825 million Asylum Reserve claim in 2002–03, the Chief Secretary requested that HO provide:

- Monthly reports on Home Office finances.
- Quarterly forecasts of performance and financial outturn for the remainder of SR2002 period.

These requirements were to be integrated with the Home Office's existing system of monthly monitoring to avoid unnecessary workload. They were to be reviewed after one year, depending on delivery and full implementation of the recommendations made by the Bridges Review.[6]

DCA

Quarterly meetings between the Chief Secretary and the Secretary of State for Constitutional Affairs have been held in July, October and January.

Following a Reserve claim of £412 million in 2002–03, the Chief Secretary requested DCA provide:

- quarterly reports on implementation of the recommendations of recent joint work on legal aid; the court estate; recovery of civil court fees;
- monthly reports on outturn expenditure against plan; and
- quarterly forecasts of expenditure against plan for the rest of the SR period.

These reports have been based on information that has been provided for the Corporate Board and has been part of the process of improving internal management information and control at the DCA.

3 March 2004

Supplementary memorandum submitted by the National Audit Office

Question 30 (Mr Bacon):

In October 2003, the Institute of Chartered Accountants in England and Wales (ICAEW) published a survey of finance directors in FTSE100 companies.[7] Analysis of the information revealed that 84% were members of a professional accountancy institute or association. Of these, the majority were ICAEW-qualified, with the remainder belonging to one of the other accountancy bodies, either in the UK or overseas, principally the Chartered Institute of Management Accountants, the Institute of Chartered Accountants of Scotland or the Association of Chartered Certified Accountants. (The actual level of membership may be higher than this as public disclosure of finance directors' qualifications is not mandatory.)

The National Audit Office updated the results of the survey to take account of subsequent changes in the composition of the FTSE100 companies and any changes in personnel announced in more recently published annual reports. This showed that, as at January 2004, the proportion of professionally qualified finance directors remained at 84%.

8 March 2004

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6 The Bridges Review assessed IND budgeting and financial management processes and made a series of recommendations for change.

7 Fisher L, *FTSE100 Finance Directors' Pay Survey,* Accountancy, October 2003.

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