House of Commons

Committee of Public Accounts

Managing financial resources to deliver better public services

Forty–third Report of Session 2007–08

Report, together with formal minutes, oral and written evidence

Ordered by The House of Commons to be printed 23 June 2008

HC 519
Published on 9 September 2008
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Angela Browning MP *(Conservative, Tiverton and Honiton)*
Mr Paul Burstow MP (*Liberal Democrat*, *Sutton and Cheam*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Angela Eagle MP *(Labour, Wallasey)*
Nigel Griffiths MP *(Labour, Edinburgh South)*
Rt Hon Keith Hill MP *(Labour, Streatham)*
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Geraldine Smith MP *(Labour, Morecombe and Lunesdale)*
Rt Hon Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Phil Wilson MP *(Labour, Sedgefield)*

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/pac. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk.

Contents

Summary

Financial resource management is relevant to every aspect of a department's business, from the smallest transaction to the largest programme. Annually, central government spends some £558 billion, and this is forecast to increase to £678 billion by 2010–11. Strong and competent financial resources management is central to departments meeting their objectives cost effectively and delivering public services which represent value for money.

Since our last Report in 2004,[1] the number of qualified finance directors with a seat on the departmental board has increased. This has enhanced the focus on financial performance at senior management level, but the lack of financial skills and awareness amongst non-finance staff remains a barrier to improving financial management more generally across government. Accruals-based accounting and budgeting systems are now well established. This is helping some departments identify under-utilised assets and dispose of those no longer required. Departments need, however, to improve their forecasting capabilities to strengthen budgetary control and to avoid underspends not being identified early enough to reallocate resources to other priorities. Departments are continuing to spend less money than they forecast, particularly on capital projects, thereby increasing the risk that resources are not being allocated across government in the most effective way.

Few departmental boards are presented with accurate, timely and integrated financial and operational performance information to enable them to take sufficiently informed decisions on the use of resources and to review how well they are utilised. Policy and operational decisions, for example, are rarely based on a full assessment of their financial implications.

The Treasury and the Cabinet Office are championing a number of initiatives to achieve improvements in resource management. The Treasury, in particular, has set itself the objective of achieving world class standards of financial management in government and is supporting this through guidance and models of good practice. There is some way to go, however, before financial management is fully embedded within departmental cultures and given the priority required for services to be delivered efficiently and cost effectively.

On the basis of a Report by the Comptroller and Auditor General,[2] we took evidence from the Treasury and the Cabinet Office on the extent to which financial management skills and awareness had improved across government, and whether the management of financial resources was effective.

1 Public Accounts Committee, Twenty-fifth Report of Session 2003–04, *Managing resources to deliver better public services*, HC 181

2 C&AG's Report, *Managing financial resources to deliver better public services*, HC (2007–08) 240

Conclusions and recommendations

1. **Departments have been successful in improving their resource management, but a lack of financial management skills amongst non-finance staff is a barrier to further progress.** The Professional Skills for Government Framework includes a standard covering financial management core skills. Departments should require senior and middle managers to demonstrate in their annual appraisals how they meet the standard, and, where enhancement of skills is needed, provide access to appropriate training.

2. **The quality, timeliness and completeness of resource information provided to departmental boards needs to improve in order that boards can make better informed decisions.** More than half of departments still report financial and operational performance information to the board separately. Departments should produce integrated information and present it with 10 working days of the month end, as recommended by HM Treasury, and in a format which enables decision makers to understand how much is being spent on which programmes and with what effect.

3. **Only 41% of departments' policy proposals always included a full financial appraisal and only 20% based policy decisions on a thorough assessment of their financial implications.** In order to strengthen departments' focus on value for money, each policy proposal submitted to Ministers and board members should include a full assessment of its financial implications.

4. **Between 2002–03 and 2006–07, total underspending in excess of 5% of budgets by all departments amounted to £1.8 billion.** Underspending can be consistent with good financial management where it reflects a decision to carry forward efficiency savings. Consistent underspending can, however, reflect unnecessary levels of contingency preventing resources from being used on higher priority programmes. Whenever practicable, departmental boards should validate resource requirements by linking them to planned levels of activity and intended outputs.

5. **Since our last Report departments have not significantly improved the reliability of their forecasting and in-year monitoring of expenditure.** Some departments continue to produce forecasts that vary significantly from the actual expenditure incurred only a few months later. Where this is a consistent occurrence, the underlying causes need to be identified and an improvement plan developed, progress against which should be regularly reviewed by the departmental board.

6. **The flexibility to carry forward unspent funds from one year to another may no longer incentivise departments to manage their budgets in a way that represents optimum value for money.** The Treasury has exercised greater control over the amounts departments can use from unspent balances brought forward from previous years. Some departments consider that an unintended consequence of this is that there are now insufficient incentives to avoid wasteful spending of excess funds towards the end of the financial year. HM Treasury needs to communicate

with departments earlier and more clearly about how much spending from previous years departments can use.

7. **19% of departments, collectively managing assets of £23 billion, rated themselves as weak at managing their balance sheet.** Boards should review their departmental balance sheet at least quarterly and seek assurance as to how cost effectively significant assets, such as land, building and equipment, are being utilised.

8. **Non-executive directors have helped improve standards of financial management, but require more support from departments.** The independent challenge which non-executive directors can provide depends on them having a clearly defined role and being well supported by departments so that they have sufficiently detailed knowledge of their operations. HM Treasury should assess how well departments have developed clearly defined roles for the non-executive directors on their boards, and consider how the Corporate Governance Code can be refreshed to more effectively support non-executive directors to challenge and support departmental activity.

9. **The full potential to improve value for money will only be realised if departments have a better understanding of the costs of delivering their key services.** Collectively, departments must secure £30 billion of value for money savings by 2011. If this target is to be achieved, departments will need to have much more reliable information on the unit costs of key outputs to gauge whether costs are reasonable and commensurate with the quality of service delivered.

1 Getting value for money from government financial resources

1. In 2006–07, government departments spent around £558 billion on public services, an increase of 33% since 2003. Government expenditure is expected to grow further to £678 billion by 2010–11, although the rate of growth is forecast to slow. In addition, departments manage assets worth £441 billion. The 2007 Comprehensive Spending Review has placed great importance on effective management of financial resources. In particular, departments are expected to achieve £30 billion in value for money savings by 2011. In order to meet these challenges, departments must improve their capability in all areas of financial resource management, including setting accurate budgets, monitoring resource utilisation and operational performance, and accounting for expenditure.

2. In 2001–02, HM Treasury led the introduction of full Resource Accounting and Budgeting[3] to government, designed to provide departments with the information to determine the relative value for money of different activities, identify areas of waste or low productivity, improve the management of assets and liabilities and improve the quality of the services they deliver.[4] Progress in implementing these systems was initially slow. In 2003, only 28% of departments had made good progress in implementing full Resource Accounting and Budgeting, but this figure has now risen to 92% of departments.[5] Furthermore, almost all departments now consider that they have sufficient information to scale back, cease or switch resources between programmes.[6]

3. Fewer than half of central government departments produce their in-year reports based on data that is always accurate and up-to-date. In addition, although some progress has been made, only 39% of departments produce and forward in-year reports to their boards within 10 working days of the period-end, the standard used by HM Treasury.[7] Some 80% of departments who sponsor executive agencies and non-departmental public bodies report the financial information of the core department and their sponsored bodies on a uniform basis. Some departments have, however, experienced particular difficulties in collecting timely and reliable information from these bodies.[8]

4. Resource Accounting and Budgeting should enable departments to improve the management of their assets and liabilities, and HM Treasury's Green Book on investment appraisal contains longstanding guidance on the subject.[9] Furthermore, following the 2007 Comprehensive Spending Review, departments are now required to produce asset

3 Resource Accounting and Budgeting required departments to replace their cash-based accounting and budgeting systems with accruals-based systems, which enable departments to obtain better information on how resources are being used by understanding the true costs of providing services (rather than simply what is paid out in cash) and of owning assets.

4 Committee of Public Accounts, *Managing financial resources to deliver better public services*

5 C&AG's Report, Figure 8, para 3

6 Q 42; C&AG's Report, para 4.12; Figure 17

7 Qq 36–37; C&AG's Report, paras 3.4–3.6, Figure 9, Figure 10

8 C&AG's Report, paras 3.11–3.13

9 Q 10; Committee of Public Accounts, *Managing financial resources to deliver better public services*, para 2

management strategies.[10] Notwithstanding the fact that central government is on course to achieve its target for the sale of surplus assets, management of assets and liabilities is an area in which departments remain weak. 19% of departments, collectively managing £23 billion of assets, consider themselves weak at balance sheet management.[11]

5. On the whole, departments have not significantly improved the reliability of their expenditure forecasts.[12] For example, between 2002–03 and 2006–07, there was a marked upward trend in underspending of capital expenditure. Almost 25% of planned capital expenditure for 2006–07 was carried forward into 2007–08 under the End Year Flexibility system, the mechanism to allow unspent provision in one year to be carried forward to the next (**Figure 1**).[13] Three departments—the Home Office, the Department for Constitutional Affairs and the Department for Culture, Media and Sport—spent less than 90% of their final forecast of capital expenditure in at least four of the five years between 2002–03 and 2006–07.[14] Total underspending against resource budgets between 2002–03 and 2006–07 was around £1.8 billion. Some departments, for example the Department for Children, Schools and Families, perform better than others in accurately forecasting and managing expenditure.[15] Although levels of underspending remain high, since 2001–02 fewer departments have spent more than their forecast final expenditure, resulting in fewer qualifications to their resource accounts on the grounds of an excess vote.[16]

6. There is relatively limited Parliamentary scrutiny of government spending plans and estimates compared with that for departments which overspend. The House of Commons Liaison Committee was critical of the quality of information supplied by departments in the Estimates Memorandum, which set out the principal reasons for, and likely operational impact of, the changes to the budgets proposed in their Supplementary Estimates. The lack of scrutiny of the robustness of departments' Main and Supplementary Estimates might present a perverse incentive for departments to, for example, build in an unnecessary level of contingency to their main and supplementary Estimates to ensure that they do not require an Excess Vote.[17]

10 Q 2; C&AG's Report, para 3.9

11 Q 2; C&AG's Report, paras 3.9–3.10, 4.20

12 Qq 97–100; C&AG's Report, para 3.17, 4.2

13 Qq 94–96; C&AG's Report, para 3.26

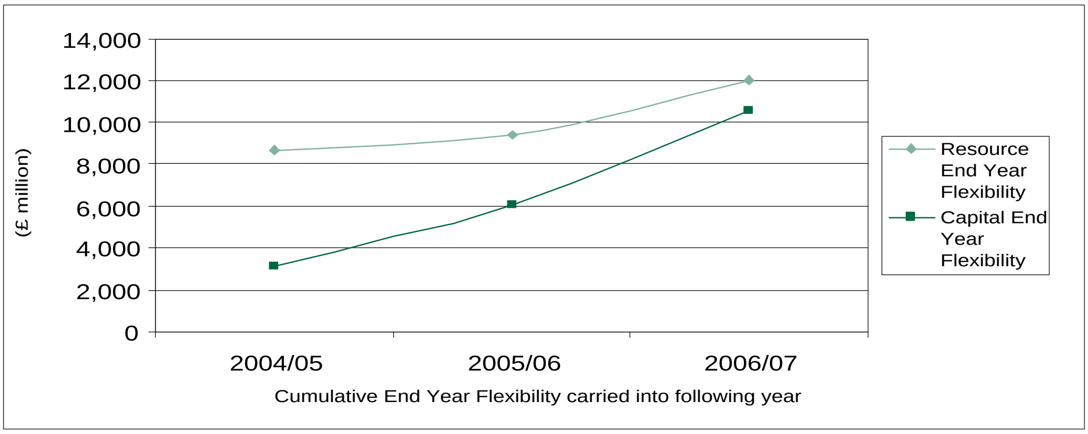
14 C&AG's Report, para 4.9

15 Q 107

16 C&AG's Report, para 4.4

17 Qq 166–170; C&AG's Report, para 4.10

Figure 1: Amounts carried forward as End Year Flexibility are increasing faster for capital expenditure than resource expenditure



Source: HM Treasury

7. Full End Year Flexibility, introduced by HM Treasury in 1999–2000, is designed to encourage departments not to spend any remaining budget on non-essential items in the last months of the financial year. In the current fiscal environment, HM Treasury have applied stricter controls on how much unspent resource departments will be able to draw-down. As a result, some departments had not being able to utilise the level of unspent resources which they had expected to be able to under the End Year Flexibility arrangements.[18]

8. While the quality of financial information that government departments produce requires improvement, departments are not using the information that they have in ways that could improve value for money. In particular, in spite of the existence of longstanding Treasury requirements and guidance about integrating financial appraisals into their decision-making processes, only 41% of departments invariably include a full financial appraisal in their policy proposals. Furthermore, only 20% of departments based policy decisions on a thorough assessment of their financial implications.[19] In one department (the Office of Fair Trading) operational decisions are never based on a thorough assessment of the financial implications and another department (the Charity Commission) only does so seldom.[20] If departments do not fully understand the financial implications of their policy and operational decisions, they are unlikely to know whether the services they deliver are providing value for money.

9. Few departmental boards receive integrated financial and operational performance information. Some 57% of departments submit separate financial and operational performance reports to the board, meaning that the board will not have a complete appreciation of how much is being spent on which programmes and to what effect.[21] The 2007 Comprehensive Spending Review requires departments to report financial and operational performance information about progress towards their Departmental Strategic

18 C&AG's Report, paras 3.24, 3.27

19 Qq 1, 41; C&AG's Report, para 3.19

20 Q 175; C&AG's Report, *Managing financial resources to deliver better public services: Survey results*, page 33

21 Qq 20–23; C&AG's Report, para 3.3

Objectives together to HM Treasury.[22] There is still some way to go before this is fully achieved, although HM Treasury has stated that it will be completed during the current spending period.[23]

10. In spite of concerns over the quality of financial information that departments produce and the lack of integrated financial and operational performance information presented to decision-makers, the vast majority of departments consider that they have sufficient information on which to base decisions to switch resources from low value to high performing activity, scale back or cease programmes.[24] Failing programmes are, however, often not terminated in good time, resulting in reduced value for money. Furthermore, reallocations of resources between programmes do not occur regularly.[25] This is a particular challenge for Government and is intended to be addressed by the value for money targets set in the 2007 Comprehensive Spending Review. For example, departments are now allowed to claim 'allocative efficiency' savings which occur when a department moves resources from one programme to another, higher priority programme.[26]

22 Qq 20, 24; C&AG's Report, para 3.3

23 Qq 25–26

24 Q 42; C&AG's Report, para 4.11; Figure 17

25 Q 42; C&AG's Report, para 4.12

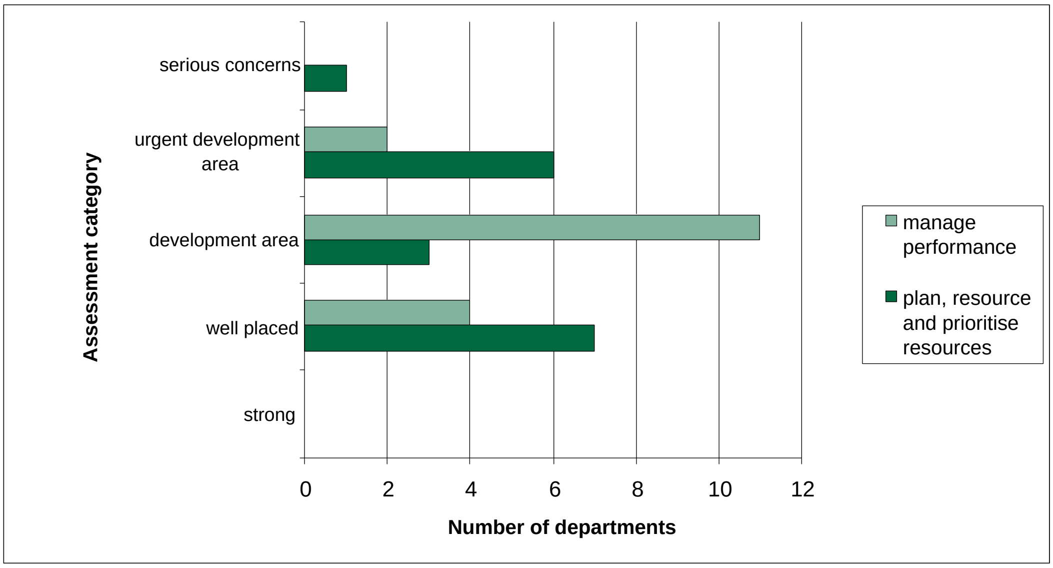
26 Q 43; C&AG's Report, para 4.18

2 Embedding financial capability in government departments

11. Departments, HM Treasury, the Cabinet Office and the National School of Government have taken steps to improve financial resource management capability across government. There remains some way to go to make this improved capability more widespread across Government and more deeply embedded within departmental cultures.

12. The Departmental Capability Reviews assessed how well-equipped departments were to meet their key objectives. A key aspect of this is their capability to manage financial resources effectively.[27] Of the 17 departments who were subject to a Review, only seven were assessed as well-placed to 'plan, resource and prioritise', and only four were considered able to 'manage performance' (**Figure 2**). More recently, some departments, notably the Home Office, have improved their financial management. HM Treasury considers that the Departmental Capability Reviews are providing further stimulus to departments to improve their financial managements.[28]

Figure 2: The Departmental Capability Reviews show that improvements are needed in areas that depend on strong management of financial resources



Source: National Audit Office analysis of data from Cabinet Office Capability Reviews: Findings and common themes

13. In order to develop a strong finance culture, it is important that Permanent Secretaries, the board and budget-holders are accountable for financial resources under their control and that appropriate incentives are in place to manage them effectively.[29] A strong finance culture is driven by departmental boards and, in particular, the support of Permanent Secretaries.[30] Financial management is not, however, a routine consideration in the

27 Q 44

28 Q 44; C&AG's Report, paras 4.13–4.14

29 C&AG's Report, para 2.24

30 C&AG's Report, para 2.23

performance appraisal of Permanent Secretaries or senior budget holders. The Cabinet Office's 'Performance Management Guidance 2007–08' sets out a common framework with which to assess and manage the performance of the Senior Civil Service.[31] Finance is a core component of this framework along with efficiency and people management.[32] Although the introduction of Public Service Agreements and Departmental Strategic Objectives is intended to promote stronger departmental accountability for the use of resources, there are few examples of Finance Directors or other senior staff who have lost their positions, in spite of the many examples of financial mismanagement in recent years.[33]

14. HM Treasury and departments have taken steps to improve finance professionalism. The Government's 2004 Spending Review made it a requirement that all departments have a professionally qualified Finance Director with a seat on the Board.[34] While in 2004, only 39% of departments met this requirement,[35] now only the Finance Directors at the Ministry of Defence, Her Majesty's Revenue and Customs and the Crown Prosecution Service do not hold a professional finance qualification.[36] The Ministry of Defence are undertaking a recruitment drive to recruit a qualified Finance Director. Her Majesty's Revenue and Customs currently have an interim Finance Director who is an actuary, though not a Chartered Accountant, and the Finance Director at the Crown Prosecution Service is currently training to become a chartered accountant.[37] Since publication of the C&AG's Report, the Director of Finance at the Department for International Development has joined the board. Although the Finance Directors at the Office of Fair Trading, the Office of Gas and Electricity Markets and the Water Services Regulation Authority are not board members, they are generally present when the board discusses financial matters.[38]

15. HM Treasury has taken steps to improve finance professionalism below the level of Finance Director, but further progress is needed before finance professionalism becomes embedded within departments. More than 4,000 civil servants now hold a recognised finance qualification, an increase of more than 8% since 2006.[39] Graduates of the finance option of the Civil Service Fast Stream, which HM Treasury introduced in 2006, should further increase this number.[40] The Treasury recognises, however, that there is a need for more qualified finance staff and that, in order to spread financial expertise more widely, they should not only be based in the finance department, but deployed more widely throughout the organisation.[41] Recruiting qualified finance staff is likely to continue to be a

31 Cabinet Office, *Performance Management Guidance for Permanent Secretaries and the Senior Civil Service (2007–08)*

32 Qq 3–4, 73–77; C&AG's Report, para 2.25

33 Qq 56–57, 62–63, 65–66

34 C&AG's Report, paras 2.2, 2.3

35 Q 13; Committee of Public Accounts, *Managing financial resources to deliver better public services*, para 7

36 Qq 6–9, 13–19

37 Qq 8, 13, 73, 83–86

38 C&AG's Report, paras 6, 2.2–2.5

39 Q 58; C&AG's Report, para 2.6

40 C&AG's Report, para 2.8; Figure 5

41 Qq 58–59

challenge for departments because of the disparities in salaries between the public and private sectors.[42]

16. Lack of financial skills and awareness amongst non-finance staff is one of the most significant barriers to improving and embedding financial resource management capability in departments.[43] As part of the Professional Skills for Government, launched in 2005, the Cabinet Office set a minimum standard of finance skills which all senior civil servants should attain.[44] The Cabinet Office considers, however, that the self-assessment questionnaires which it used to evaluate civil servants' progress towards attaining this minimum standard are unreliable and not sufficiently comprehensive. The Cabinet Office is now in the process of designing a more robust methodology for assessing the attainment of skills.[45]

17. In 2006, HM Treasury launched Finance Skills for All, a finance training course for non-finance staff. It is not mandatory for civil servants to complete the course and take-up has been low; in 44% of departments, not a single civil servant has completed the first tier of the course.[46] One reason for the low course take-up is that many departments run their own finance training courses for non-finance staff. When, however, HM Treasury last reviewed the quality of these courses in August 2005, only the courses run by the National School of Government and the Ministry of Defence complied with the standards required by the Professional Skills for Government programme.[47] One department, the Department of Transport, has made Finance Skills for All mandatory for its board members and senior civil servants, while the Department for Work and Pensions and the Foreign and Commonwealth Office have included the course in their wider business transformation programmes.[48]

18. Although steps are being taken to improve financial accountability, leadership and professionalism, departments still have some way to go before financial resource management is regarded by staff as central to organisational culture.[49] For example, the relationships between the finance function and other areas of the department require improvement; only 14% of departments consider collaboration between the finance team and policy and operational units to be excellent. Some departments have developed new organisational structures which encourage closer collaboration between the finance function and policy and operational units. Furthermore, only 14% of departments consider collaboration between the finance team and the human resources function to be excellent. This remains a cause of particular concern.

19. The independent challenge which non-executive directors can make through their presence on the departmental board has helped departments improve their financial resource management. 97% of departments' Audit Committees are chaired independently

42 Qq 68–69; C&AG's Report, para 2.9

43 Q 47; C&AG's Report, para 2.11

44 C&AG's Report, para 2.18

45 Qq 5, 121–123; C&AG's Report, 2.18

46 Qq 68–71, 111–120; C&AG's Report 2.13–2.14

47 Qq 114–115, 120–121, 154–158; C&AG's Report, 2.12

48 Qq 47–48; C&AG's Report, para 2.14, case example 1

49 Qq 49, 52–53; C&AG's Report, para 2.22

and many Audit Committee Chairs hold a recognised accountancy qualification which has been particularly important in scrutinising departments' financial performance.[50] Some departments consider that the precise remit of non-executive directors needs greater clarification, particularly if they are to challenge and support departmental activity effectively.[51]

50 C&AG's Report, paras 2.27–2.28

51 C&AG's Report, para 2.29

Formal Minutes

Monday 23 June 2008

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon
Mr Paul Burstow
Mr Ian Davidson
Mr Philip Dunne
Mr Austin Mitchell
Geraldine Smith
Mr Don Touhig

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

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

Paragraphs 1 to 19 read and agreed to.

Resolved, That the Report be the Forty-third Report of the Committee to the House.

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 25 June at 3.30 pm.

Witnesses

List of written evidence

List of Reports from the Committee of Public Accounts 2007–08

First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143 (Cm 7366)
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176 (Cm 7366)
Eighteenth Report	Improving corporate functions using shared services	HC 190 (Cm 7366)
Nineteenth Report	BBC Procurement	HC 221 (Cm 7366)
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47 (Cm 7366)
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157 (Cm 7366)
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229 (Cm 7366)
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
Twenty-eighth Report	Government preparations for digital switchover	HC 416
Twenty-ninth Report	A progress update in resolving the difficulties in administering the single payment scheme in England	HC 285
Thirtieth Report	Management of large business Corporation Tax	HC 302
Thirty-first Report	Progress in Tackling Benefit Fraud	HC 323
Thirty-second Report	Reducing the cost of complying with regulations: The delivery of the Administrative Burdens Reduction Programme, 2007	HC 363
Thirty-third Report	Ministry of Defence: Major Projects Report 2007	HC 433
Thirty-fourth Report	Increasing employment rates for ethnic minorities	HC 472
Thirty-fifth Report	Housing Market Renewal: Pathfinders	HC 106
Thirty-sixth Report	HM Treasury: Making Changes in Operational Projects	HC 332
Thirty-seventh Report	Ministry of Defence: Leaving the Services	HC 351
Thirty-eighth Report	Nuclear Decommissioning Authority—Taking forward decommissioning	HC 370

Thirty-ninth Report	Preparing to deliver the 14–19 education reforms in England	HC 413
Fortieth Report	Department of Environment, Food and Rural Affairs: Management of Expenditure	HC 447
Forty-first Report	Department of Health: NHS Pay Modernisation: New contracts for General Practice services in England	HC 463
Forty-second Report	Preparing for sporting success at the London 2012 Olympic and Paralympic Games and beyond	HC 477
Forty-third Report	Managing financial resources to deliver better public services	HC 519
First Special Report	The BBC's management of risk	HC 518 (Cm 7366)
Second Special Report	Evasion of Vehicle Excise Duty	HC 557 (Cm 7366)

Oral evidence

Taken before the Committee of Public Accounts

on Monday 28 April 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon	Keith Hill
Angela Browning	Geraldine Smith
Mr Ian Davidson	Mr Don Touhig
Mr Philip Dunne	Mr Alan Williams
Nigel Griffiths	Phil Wilson

Mr Tim Burr, Comptroller and Auditor General and **Mr Keith Holden**, Director, National Audit Office, were in attendance and gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance and gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

MANAGING FINANCIAL RESOURCES TO DELIVER

BETTER PUBLIC SERVICES (HC 240)

Witnesses: **Mr Nick Macpherson**, Permanent Secretary HM Treasury, **Mr Jon Thompson,** Director General, Corporate Services, Department for Children, Schools and Families and Head of Government Finance Profession, HM Treasury and **Ms Gill Rider**, Director General, Civil Service Capabilities Group, Cabinet Office, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on *Managing Financial Resources to deliver better public services.* We welcome back to our Committee Nick Macpherson who is Permanent Secretary and Accounting Officer at Her Majesty's Treasury; Jon Thompson who is the Director General of Corporate Services at the Department for Children, Schools and Families and recently appointed Managing Director of Public Sector Financial Management and Head of the Government Finance Profession; and Gill Rider who is Director General of the Civil Service Capabilities Group in the Cabinet Office. You are all very welcome. This is clearly a very important subject. May I ask you perhaps Mr Macpherson to start by looking at paragraph 3.19 of the Comptroller and Auditor General's Report where we see "Only 41 per cent of departments stated that policy proposals forwarded to decision-makers invariably included a poor financial appraisal". This rather surprised me when I read this. What are you doing about it?
Mr Macpherson: It rather surprised me when I read it. There are longstanding Treasury requirements and guidance to departments about integrating financial appraisals into the decision-making process. We have only recently reiterated that guidance in publishing *Managing Public Money* last autumn, but I took this finding very seriously and we will be pursuing opportunities both on the finance director net, but also in the general guidance which goes out to ensure that we get a better percentage than this.

Q2 Chairman: Good; I am sure we can deal with this point then, thank you for that answer. Can you now look at paragraph 3.9 which is about departments needing to make further progress in managing their assets and liabilities? You will see, if we look at paragraphs 3.9 and 3.10, " . . . in response to our survey 19 per cent of departments (who collectively manage assets of £23 billion) rated themselves weak at managing their balance sheet)". How can we be sure the Government are getting best value from this enormous asset base if 19% of departments themselves say they are weak at this job?
Mr Macpherson: I agree that 19% is too high a figure. The Treasury have been seeking to do a number of things in recent years to improve asset management. First, as part of the spending review process, it has asked departments to produce asset management strategies, which I would hope would concentrate the minds of the senior management of each department, but also through guidance, the longstanding Green Book on investment appraisal which the Treasury have produced for at least two or three decades, we really need to ensure that assets are used better. We have asset sales targets which should also concentrate minds but the Treasury will be continuing to focus on this and if the strategies are of poor quality, we will be following that up.

Q3 Chairman: That is something you are following up. Good. We are doing very well here. Ms Rider, could I ask you about Permanent Secretaries? If we look at paragraph 2.25, we read " . . . financial matters do not automatically feature in Permanent Secretaries' performance assessment criteria. Each Permanent Secretary defines his or her criteria in consultation with the Head of the Home Civil Service". Why do financial matters not routinely figure in their performance criteria?
Ms Rider: Well of course they all have routinely figured and certainly no Permanent Secretary would take his eye off the ball or her eye off the ball of the accounts of the department and what is going on. Indeed last year we issued new guidance not just on Permanent Secretaries' performance, appraisal and process but also for the whole of the senior Civil Service and in that we made it explicit that finance would be an important part of it. There are now three criteria in the objective-setting process. Essentially the business objectives, that is those of the department, corporate objectives, what you are doing to make sure that things work effectively across the Civil Service and then the capability criteria, which we have now been very explicit about, are essentially finance, efficiency and people management.

Q4 Chairman: So, if we were reading this report say in a year's time, this paragraph would not feature in this way, would it?
Ms Rider: I very much hope so.

Q5 Chairman: Thank you very much for that. Then, if I could go on asking you Ms Rider on this point, there is something which is quite important which we read about in paragraph 2.18 which is the standards in finance required by the Professional Skills for Government programme. Again we read here in paragraph 2.18 " . . . the Cabinet Office does not trust the reliability of the data and so has abandoned the self-assessment questionnaires". Why is that?
Ms Rider: PSG is quite new; it is essentially only two years' old, we are just going into the third year. What actually happened was that in the first year we did essentially a self-assessment evaluation of what people's skills are in the SCS and what we have done since, in last year, was create a new skills strategy and as part of that we did another detailed analysis. What that second analysis showed us was that we really need a more robust methodology for assessment and we are in the process of designing that now. That assessment will not just be the self-assessment for which we have a baseline, but we will also do some interviewing of people to get some qualitative assessment to make sure that we are getting accurate reflection. So it is not so much that we do not have a baseline of data, it is that we need more granularity to it, to get much more specific about the skills as they relate to levels and as they relate to individuals.

Q6 Chairman: Mr Thompson, I have had a little campaign in the years that I have had this job of trying to ensure that all finance directors are professionally qualified. You have made good progress so congratulations. Is the finance director of the MoD financially qualified?
Mr Thompson: Not yet, no.

Q7 Chairman: Why not?
Mr Thompson: I am not sure that I am particularly aware of the history. Mr Macpherson may be able to fill it in.
Mr Macpherson: Jon has only recently taken over and he is engaging very rapidly but I have been involved in the history on this.

Q8 Chairman: It is Mr Trevor Wooley, is it not? He is a very fine gentleman I am sure, but he is not financially qualified and he is the finance director of one of the worst performers, namely the MoD.
Mr Macpherson: He is not financially qualified, that is an issue which I know this Committee rightly has taken up with the Permanent Secretary of the Ministry of Defence, as indeed have I and indeed Treasury ministers. The good news is that I understand that he is about to get a process underway with a view to appointing a new finance director whom I assume will be qualified. Actually, to be fair to the MoD, they did advertise this job a couple of years or so ago, but failed to find a qualified person. This time I am sure they will succeed because although it is a challenging job, it would be an extremely interesting job.

Q9 Chairman: I do not want to go on too long about this particular point but I think this Committee have won this campaign and I am sure that you have been even more influential than we have been. How are you bedding these skills further down below the level of finance director?
Mr Thompson: The finance community has grown quite significantly, so it is not just at the director general level which is, if you like, the board appointment. We have a significant number at the finance director level, the next level down in the Civil Service, and indeed at the deputy director level as well. If you took the Department for Work and Pensions as an example of that, not only does that have a qualified director general of finance it has eight finance directors spread across the totality of the business. There are significant increases down the pyramid and I think it would be right to say that the overall numbers, which are in the Report, have passed through 4,000 "qualifieds", in terms of an update of some of the information here. There is a pyramid beginning to grow and we will see that grow over time.

Q10 Chairman: Why do we read in paragraph 3.18 " . . . 43 per cent of departments either had no business plan or, if they did, it only covered a single year"? This would not be tolerated in the private sector, would it?

Mr Thompson: No, it would not. To be fair, the comprehensive spending review process of 2007 provides all of the essential elements of what we would regard as a business plan, so you have the departmental strategic objectives, the public service agreements, the key performance indicators, the delivery agreements and the three-year settlement. If you put those five pieces together, together with the asset management plan, then you are beginning to form what looks very much like a business plan; we have not labelled it in that way. It is for Mr Macpherson and me then to consider whether we should take that final step and brigade those six things together and call it that and to all intents and purposes we have most of the major elements in place.

Q11 Chairman: So Mr Macpherson, why do we not just have a simple business plan for all departments?
Mr Macpherson: We are moving in that direction.

Q12 Chairman: You are. Lastly, Mr Macpherson, we have the excellent gentleman on your right, but we are used to dealing with Dame Mary Keegan and Sir Andrew Likerman, his predecessors, excellent people, who were full time and he is only part time. Is this a reflection that you think the job is now done?
Mr Macpherson: No, the job is not done and, in a sense, it will never be done because we can improve further. It is fair to remember that both Dame Mary and Sir Andrew were part time. Latterly Mary had been working just two days a week and Sir Andrew combined it with being a professor at the London Business School. You should not be concerned about the time put into the job. Rather, Jon's appointment reflects the way the finance community has developed. It is right that the Treasury should provide direction to this process and have expertise, but now that we do have professional finance directors in place, it actually makes sense, in my view, for a leading practitioner, namely Jon, who I really think—this is probably the real kiss of death here—is extremely talented and runs a very tight ship at his department, to take the lead. From here on, we have a director at the Treasury in the form of Ken Beeton, who is a finance professional, and my friend Mal Singh, who is behind me, continues to run the support unit but this is an efficient and an effective way to tackle the issue.

Q13 Mr Touhig: The Chairman mentioned the number of directors of finance who do not have professional qualifications. In 2004, just 39% of directors of finance had professional qualifications. It is a bit like flying the Atlantic in a plane with a trainee pilot at the controls.
Mr Macpherson: That is why we now have 93% who are qualified finance directors. As the Chairman was saying, the pressure from this Committee has been helpful. The Treasury also convinced itself this was the way forward. We have mentioned the Ministry of Defence. Just for the record, HMRC has an interim at the moment who actually is an actuary and was a finance director in a FTSE 100 company but is not qualified. However, he is an interim and he should be going soon. The final piece in the jigsaw is the Crown Prosecution Service where the finance director is currently qualifying as a professional.

Q14 Mr Touhig: So you are making some considerable progress.
Mr Macpherson: Yes.

Q15 Mr Touhig: When will all departments have them?
Mr Macpherson: In terms of the main departments, there are those three departments left and I would hope by the end of this year.

Q16 Mr Touhig: Is that a target, a hope, an aspiration?
Mr Macpherson: It is a prediction and I am happy to be held to account on it.

Q17 Mr Touhig: Are all departments' heads of finance board members as well, on the board of their departments?
Mr Macpherson: Yes.

Q18 Mr Touhig: They should be, should they not?
Mr Macpherson: They should be. The Treasury Officer of Accounts is nodding at me.
Ms Diggle: There are some who are not yet on the board.
Mr Macpherson: Since this was written, the Department for International Development has joined other departments in putting their Finance Director on the board.
Ms Diggle: Indeed.

Q19 Mr Touhig: Is it your ambition that all finance directors should be on the board?
Mr Macpherson: Yes, they should be.

Q20 Mr Touhig: Fifty-seven per cent of departments are still reporting their financial performance and their performance in public service delivery as though they were completely separate. Why are they doing this?
Mr Macpherson: It reflects history and a disconnect between finance and performance which this professionalisation agenda is seeking to address and with the latest spending review all departments have departmental strategic objectives. Underlying these should both be operational targets in terms of performance but also a far clearer understanding of the finance underpinning them and how that finance will develop over time. That is happening.

Q21 Mr Touhig: Is that the intention across Government?
Mr Macpherson: People now are planning on that basis and departmental boards should be holding the department's performance to account. For example, in the Treasury board, when I look at performance, I will want to look at performance but also finance completely alongside each other.

Q22 Mr Touhig: If you cannot see performance set alongside the cost of delivering that particular service, how do you decide whether you are getting value for money?
Mr Macpherson: If you do not have those things alongside each other, you are basically shooting yourselves in the foot.

Q23 Mr Touhig: So why is any department still doing it, looking at these things separately?
Mr Macpherson: They are not looking at them separately, but there is still further progress they can make in terms of really getting a granular understanding between costs and output. I do not claim that we have reached nirvana: we have made progress but there is still more to do.

Q24 Mr Touhig: Do you have a timetable for achieving this?
Mr Macpherson: As part of the latest spending review period, we are requiring departments to plan on the basis that they do. Jon, do you want to expand because you are actually doing this as finance director at the DCSF.
Mr Thompson: Well, as I answered the Chairman's question earlier, the CSR requires us to report both operational performance and financial information together to the Treasury, so you begin to integrate it. There are plenty of examples across Government.

Q25 Mr Touhig: That is a key objective, is it?
Mr Thompson: Yes.

Q26 Mr Touhig: And you have a timeframe for it.
Mr Thompson: Yes.

Q27 Mr Touhig: Which will be completed when?
Mr Macpherson: It will be completed during this spending review period.

Q28 Mr Touhig: The Treasury requires departments to state the cost of achieving each of their strategic objectives. How are you going to make sure that they do this, given just 28%, one in three, of them actually give board members a monthly analysis of expenditure against operational targets?
Mr Macpherson: They are required to do it as part of their accounts, so they have to do it anyway once a year; schedule five of their resource accounts sets that out. However, as you say, the challenge is to get much beyond that in terms of having monthly reporting and that is happening but, as I said earlier, there is still varied performance across departments.

Q29 Mr Touhig: I am concerned that you are not doing this already. Why are we not? Just 28%, that is less than one in three, give the board a monthly analysis.
Mr Macpherson: My guess is that there has been an improvement even since this Report was done because of the new departmental procedures.

Q30 Mr Touhig: So you think it has increased. Could you give us a note and tell us by how much it has increased?[1]
Mr Macpherson: Yes, I would be happy to do so.

Q31 Mr Touhig: When you are assessing the management of assets across Government, how much notice do you take of the National Asset Register?
Mr Macpherson: The National Asset Register is a really useful inventory of all the assets. It is a powerful tool for the Treasury to look through it and challenge departments on it in terms of where departments might do more. Having said that, a department which is doing its job properly probably does not have to get the National Asset Register out, it should actually be actively managing its assets anyway. It increases transparency, it increases accountability and, from the Treasury's perspective, it is a useful tool but it is only one tool amongst many.

Q32 Mr Touhig: I was going to ask you what it is for, but you seem to think it is full of measurements, is it? That is how you seem to see it.
Mr Macpherson: When it was originally introduced round about the end of the 1990s, it was actually the first time ever the Government had sought to put down in one place all of central government's assets. That was a really powerful message to departments. I can remember at the time, the Inland Revenue had owned Ipswich Town's car park, the football club, and that accountability, the fact that newspapers wrote stories about it, the fact that you hold departments to account, actually had quite a big effect. A lot of the issues around financial management are about transparency, getting the facts out there and then accountability, either through the Treasury, this Committee or the national media.

Q33 Mr Touhig: I was PPS to the then Chancellor, now Prime Minister, when the National Asset Register was first published and I thought the Register would be used to manage the national assets in a sense of saying "Look, let us dispose of the things we do not want in order to pay for the things we do want". Why does that not happen then?
Mr Macpherson: It is used in that sense. Every spending team in the Treasury, as a matter of course, would look at it and ask departments questions. The message I am trying to get across is that when it was first introduced, it was generally helpful in that regard. Now that departments actually have rather more sophisticated understanding of their assets, my guess is they will be ahead of the curve, though I suspect in some departments, even now, it is still useful.

Q34 Mr Touhig: Can you tell us then how much money is brought into the Treasury from the sale of unwanted assets?

[1] Ev 20

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Mr Macpherson: I can give you a note on how many assets we have sold in recent years because we have achieved our targets on that, although inevitably as many of the assets sales have been in local government as in central government.[2]

Q35 Mr Touhig: Let us have a note on that. One last question. I queried matters around the National Asset Register and in a letter to me in July last year Sir John Bourn said that the message is that the Assets Register is put to limited use by government departments adding little to the information already held by them.
Mr Macpherson: Well, if they already hold the information, clearly it will be less relevant than if they do not hold the information. I would contend that the fact that they were required to make a return to the National Asset Register forced them to put their house in order. So it has had an effect, but over time it will have less of an effect because departments are doing it anyway.

The Committee suspended from 4.55pm to 5pm for a division in the House.

Q36 Keith Hill: May I pursue the theme which was being developed by Don Touhig which is really about the quality of information that you have in terms of the investments which are being made? May I draw your attention to paragraphs 3.4 and 3.5 of the Report where you refer to the NAO Report on the welfare to work programme for people with disabilities and we notice that DWP's knowledge of what was delivered under that programme was "poor". In paragraph 3.5, the Report says "Many departments reported problems with the accuracy and timelines of the primary data from which . . . operational performance might be judged". Why is that?
Mr Macpherson: It is a measure of how far some parts of the public sector have been behind modern financial management practice. Mainly due to the work of Mary Keegan in particular, there has been a huge step forward over the last few years. For example, the number of departments where the board will have the accounts within eight working days of the end of the month has increased hugely, but, as you say, there are still areas where performance falls short of where we should be and all we can do is keep the pressure up.

Q37 Keith Hill: This is about the quality of the data collected at the base, is it not?
Mr Macpherson: Exactly.

Q38 Keith Hill: Are there common problems across departments with that?
Mr Macpherson: There is a huge variation. Some departments are extremely good at this sort of thing.

Q39 Keith Hill: Which departments?
Mr Macpherson: I will mention my own department. Because national statistics are published each month, we have very good data on what is going on on the public finances or inflation or GDP. In big organisations like Jobcentre Plus, Her Majesty's Revenue and Customs, the Health Services, you are going to have far bigger data challenges and you will have patchy data across the regions and different parts of the organisation but we should not accept that. We have to keep pressure on them to raise their game. There is no reason in principle why you should not have good operational data from DWP and indeed, in some areas like the Pension Service, there has been huge improvement in recent years. I hope that your report on DWP actually has had some effect and we will follow that up.

Q40 Keith Hill: What are we doing about it? What are you doing about it?
Mr Macpherson: Quite a lot. It comes back to my point about transparency. The more information we have, the better. That does not mean that you go around making demands; you can make too many demands on departments. However, what you really want is good quality time series which is published and out there and, rather like local authorities with the comprehensive performance assessment, actually a bit of naming and shaming, a few league tables make a big difference. In our conversations with departments we would be asking where their data is and it comes back to the earlier point about output measures; if you are in the business of getting people into work, you certainly need some data around whether you are succeeding or not.

Q41 Keith Hill: And in those conversations, have you set targets with departments? Have you set any timelines in terms of the quality of their reporting of basic data?
Mr Macpherson: Yes and we have worked very closely with them. A good example is the Home Office where I can remember coming before this Committee three or four years ago and being asked who was performing really badly and eventually I 'fessed up and I said, despite the fact that my Permanent Secretary colleague would get quite irritated, that the Home Office had a lot of work to do. Since then, our concerns were borne out and the Comptroller and Auditor General qualified their accounts. By working really intensively with the Department, actually getting alongside them, working in partnership, they have come a very long way and I am optimistic that their accounts, this year, will be published in good time and I do not want to tempt fate, but I am confident that they will be.

Q42 Keith Hill: I am sure that is the right thing to do. It is a source of somewhat wry observation, is it not, that the more that we go in for transparency, the more political damage can result to governments. I think, for example, of the prisoners and the deportation of prisoners without leave to remain which broke upon us last year. May I turn then to a different topic which is the issue of the reallocation of resources when programmes are perceived to be failing and this is dealt with in part four, paragraphs 4.11 to 4.14 on page 32. There is a paradox here, is

[2] Ev 20

there not, in that if you look at Figure 17 you find that overwhelmingly departments feel they are capable of identifying when programmes are failing, but overwhelmingly fail to take any action on the subject? Why is that?
Mr Macpherson: It is in the nature of failing programmes that one of the indicators of failure is an inability to control costs and so on. So often, when things start to go wrong, actually your financial pressures increase, which makes it difficult to reallocate resources. If you are operating in a market, the measure of success in a market is to put resources in the things which will yield the biggest returns and get out of failing lines of business. The public sector does not have those same market pressures, so it requires management to focus on this in a slightly different way. I would hope that progress is being made, not least because the budget constraint which departments are operating under is biting in a way which it perhaps has not in recent years. Again, I cannot claim that we have got this absolutely right.

Q43 Keith Hill: Can you think of any examples where programmes have been stopped in mid-stream, as it were, when they have obviously been found to be failing?
Mr Macpherson: There are two sorts: there are the ones which have become so expensive and the return appears so small that you get rid of them and I could send you some examples. I suppose the more interesting ones are where actually they are doing okay but the Government could get a better social return by moving money somewhere else, in a sense allocative efficiency. Those are the ones which are rather more challenging.

Q44 Keith Hill: How are we at that, because I want to draw your attention to paragraphs 4.13 and 4.14 which discuss the department capability reviews led by the Cabinet Office? These are reviews seeking to identify the capacity of departments to plan, resource and prioritise their programmes. You will see on page 33 that Figure 18 shows that of the 17 departments which have been subject to review only seven were regarded as well placed at being able to plan, resource and prioritise and only four as being able to manage performance. What do you say to that?
Mr Macpherson: It is encouraging that some are well placed, but clearly there are many which have to do a whole lot better. I mentioned the Home Office before. When they were reviewed in July 2006, they got the worst mark you could get, which was serious, and that was red and since then, they have actually improved their performance a great deal. This is another example of transparency. As someone who has just been capability reviewed myself in the Treasury only a few months ago, it does not half concentrate your mind, so I would hope that some of these departments, where it is an urgent development area, are raising their game.

Q45 Keith Hill: Absolutely finally, there is a reference in paragraph 4.14 to benchmarking against their peers and established best practice frameworks. Who are the comparators with which departments are expected to compare themselves and benchmark themselves?
Mr Macpherson: I was talking to David Varney last week who works on the transformation programme and he was saying that they benchmark, say, call centres. There are many call centres across Government and there is best practice in the private sector, so you would want to compare all these things. Especially when you are doing common processes, it should be and is relatively easy to compare and that can actually have quite a big effect.

Q46 Keith Hill: You are comparing within the public sector rather than with the private sector.
Mr Macpherson: You can do both. On the one hand, you want to get the worst performers in the public sector up to the best performers, but actually you want also to see what is going on in the private sector; so you want to be doing both.

Q47 Angela Browning: In the recommendations on page nine, the very first recommendation is on the lack of financial skills and awareness among non-finance staff and the NAO Report goes on to make specific recommendations as to why this is important. I would just like to take you through that particular chapter and some of the points made there. In paragraphs 2.13 and 2.14, it does point out, for example " . . . two departments, the Department for Work and Pensions and the Foreign and Commonwealth Office, have included Finance Skills for All as part of their wider business transformation programmes". As you read through this Report, it is rather strange; you keep wondering why some departments do and some departments do not. Is it as laissez-faire as it sounds?
Mr Macpherson: It is not laissez-faire. I was just talking about the capability reviews. If you got a bad mark in the capability review process, that is kind of an incentive to treat this as a priority and, on the whole, those departments which are putting real focus on this are the ones who have the most progress to make. It is no coincidence that we were just talking about the Department for Work and Pensions and the bad report it got from the National Audit Office on this. Similarly, the Foreign Office historically has been very good at diplomacy and such like, but finance has never been its strongest point. It reflects where departments feel they are which will be informed by external measures like capability reviews, but also Treasury pressure. The Treasury will put pressure on departments which need to get better at this.

Q48 Angela Browning: If you look just below to Case Example 1 on page 16 which involves the Department of Transport, it goes on to give a very good account. Surely when we talk about benchmarking, internally within Government, across departments, benchmarking and sharing good practice in case studies like this show very

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

clearly that actually it still feels as though they are all working in silos and not disseminating. What are you actually going to do about that?

Ms Rider: One of the things we have done is we have created a thing called the corporate functions board which is chaired by David Bell which brings together the head of the corporate services profession; so Jon and I, me for HR, Jon for finance. One thing which is very focused on is exactly this issue of how to get the best practice and how to get to benchmarks and how to share the knowledge across the different groups. You are absolutely right that if we could get everybody up to the standard of the best, we would be doing very well and part of the corporate functions board is to make that happen.

Q49 Angela Browning: Is there not something a little more significant underlining this? What are you actually trying to bring about? I am particularly focused here on that group of people who are non-finance staff. You are trying to bring about a culture change and that is always very difficult. It is not just about who goes on which course and attains certain accreditation or whatever: it is about bringing about a culture change. The challenge of culture change is surely with the senior managers at the top of the department. I do not see a strategy here. As I said at the beginning, it all feels a bit laissez-faire. I do not see the overall strategy, the blueprint which says we recognise this as an area which is important and it is number one on the recommendations in the NAO Report. Let us look at Figure 7 on page 18. This worries me considerably and this is about the relationship between the finance function and other areas of the department. To my astonishment, where we see the worst situation is with human resources. Are human resources not critically involved in recruitment? Are human resources not critically involved in staff development for people who are already employed? They talk them through, do they not, what the career options are, how they can improve their performance, take on new qualifications, et cetera? The very department which I would have thought was key to this cultural change is right at the bottom of the list. Can you give this Committee an explanation for why that is?

Ms Rider: I can talk as head of HR profession about the things we are trying to do to address some of these issues and I recognise that this is not the best place to be.

Q50 Angela Browning: It is the worst place to be.

Ms Rider: Since I have been here, within the HR profession we are learning a lot from what the other professions have done and PSG, the whole thing, actually applies to the HR professions as much as it does to anyone else. So we are focused on, firstly, some changes at the top. Secondly, we are putting in place a new career structure for HR so that we know where people are, what skills they have, how people can move around HR to get the right experiences so that we are building our own talent in a much more systematic way. Thirdly, what we are doing is creating an HR academy to train and develop our staff so that we get a better quality. What the newly created HR Leaders' Council has done is recognise that there are several areas where we just simply need to get better. There is an amount of transactional stuff we have to get better at and then there is an amount of skills we need in terms of how you really operate at a board level as an HR professional and that we need to get better at. So we are doing a lot of things but we do clearly need to interact very much better with finance and that is a two-way thing. Jon and I are certainly very committed to making sure that we do work together. We are planning to bring together the leaders of both professions in the autumn and the very subject matter will be these sorts of things. What this quite rightly points out is that there is a set of skills that we need to develop and for some reason that is not getting translated into the training development plans for all the people. So we need to make sure we get this working together.

Q51 Angela Browning: Has it occurred to you that perhaps your HR department are not culturally signed up to this?

Ms Rider: I do not believe that is the case. What HR knows it needs to do is to make some significant improvements on a range of things and what that range of things is varies by department. We do understand this is a culture change.

Mr Macpherson: One solution which we have in our department is for the finance director also to be head of HR, which is also true of Jon, is it not?

Mr Thompson: Yes, and indeed, in relation to Table 7, I also have procurement strategy and IT and estates.

Ms Rider: Because they work well together.

Q52 Angela Browning: Yes. The reason this report worries me is that it sounds very good, for example, when we look at the number of people who have completed courses and a lot of them are on-line courses. I do not see the follow-through. In other words, you are ticking a lot of boxes because people are doing something, but I do not actually see the follow-through to ensure that that is translated into the overall cultural change and, most importantly, the raising of the standard of financial qualification, but that then translated into how it affects outcomes in the workplace.

Ms Rider: The one thing I would add to that is that we are now very carefully making sure that every individual's objectives and performance assessment processes pick up on these things and each individual has a dialogue with their line manager about how they are doing and how they are performing. We are building that in.

Q53 Angela Browning: I would feel more comfortable if I thought that going away from this particular evidence session you could take with you something which I really feel is lacking still and that there is an imperative to this is terms of the whole structure of a department, those financially qualified and those non-financially qualified, and I do not quite get that feel. I do hope that the lady and

gentlemen in front of us today will take that away. Unless you actually achieve that, you might tick a lot of boxes but you will not see the outcome.
Mr Macpherson: I totally agree. It is about culture change and it is about getting senior management not to regard finance as something rather grubby which somebody else does but as integral to what we do. If we could achieve that, we would make a huge difference.

Q54 Angela Browning: May I just give you the example and I am sure it is one you will be familiar with? Back in the early 1980s, the manufacturing industries worldwide, including the UK, changed because of the new system that came in, culturally very, very challenging, called the just-in-time system. One of the things that that depended on in the culture change in manufacturing was that everybody, regardless of the job that they did in a factory, whether it was at the board level or whether it was somebody putting a widget in, fully understood what contribution their action made to the overall production of a product at the end and financially how what they did made a difference.
Ms Rider: Absolutely.
Angela Browning: Unless you bring about that full cultural change, you are going to be coming back in front of us many, many times. I am sure you would welcome that but perhaps your time might be spent better elsewhere.

Q55 Chairman: Can you deliver a just-in-time culture?
Mr Macpherson: You know the public sector, you have people appearing before you regularly. We can do this, but it is a challenge and it is not just something you do for Christmas, it is about how you actually live, how you work and how people behave throughout organisations and that is down to senior leaders like ourselves. We cannot hide behind other people on this; we need to get a grip.

Q56 Geraldine Smith: Is the problem not that you can hide behind other people, you can hide behind the masters if something goes wrong and the culture is "What is the worst that can happen, if I make some huge mistake, if I lose a few million pounds?". We are always seeing people, permanent secretaries, in front of this Committee and they talk about millions of pounds as though they were pence, that it is just a learning curve, that you have to take risks, you have to move forward and they just dismiss huge amounts of public money. Surely, it is about the culture.
Mr Macpherson: It is about the culture.

Q57 Geraldine Smith: I feel shocked when you say that senior managers think the financial management is nothing to do with them really. They should not be senior managers then.
Mr Macpherson: I totally agree with you. I am not saying that is the case now, I am just saying that it reflects history and the way the Civil Service evolved through the late 19th century and most of the 20th century. We are making progress on this. In terms of accountability, I am slightly more optimistic than you. It is not as easy as it may have been 10, 20, 30 years ago to hide behind ministerial accountability. We have seen some senior managers leave the Civil Service in recent years, some actually in a very public way being accountable for their actions. Coming back to the whole issue of public service agreements, departmental strategic objectives, there is a far greater sense of accountability. Each of our objectives in the Treasury has a named senior official who is associated with it and accountable for it and it is actually quite difficult to hide on these matters.

Q58 Geraldine Smith: So you have 4,000 finance professionals working in Government at the moment but you think that is not enough and you need to grow your financial profession. What would you say is a suitable number? How many should you have in Government?
Mr Macpherson: Jon will try to answer this question, but I would be cautious about getting into a numbers game because it is not just the professionals. You need to have professionals and they should not just be in the finance area, as this Report says. I am looking forward to having one becoming a permanent secretary.

Q59 Geraldine Smith: That is the problem: they are not in the finance area. You have finance directors who do not have the professional qualifications. Is that not part of your problem? You have 4,000 people who are professionally qualified, but some of those are not your finance directors. They do not have the qualifications.
Mr Macpherson: Coming back to an earlier point, finance directors on the whole now, despite one or two very high profile exceptions, are qualified. Increasingly the people who are working to them are qualified and, as Jon was saying, there is a sort of pyramid effect. This is in relation to the Civil Service and the Civil Service is getting smaller so I am reluctant to point to some number, but Jon, do you have a number in mind?
Mr Thompson: I honestly could not tell you what the right number is. We need to go back to your question which is that we fully accept the recommendation, number one; let us make that clear. We do need to do something about that. We need to do more and we definitely need to tackle the cultural issue of making sure that budget holders have the right kind of support, that they have personal objectives about their management of their budget and that they have the right kinds of skills and training if they need that, but it very much depends on their experience. The number needs to be higher. I could not tell you what the number, overall, should be in terms of qualified finance professionals.

Q60 Geraldine Smith: But is it not that you need the right sort of managers? In the Report it mentions that there are problems with the level of remuneration in comparison with the private sector. How much would a finance director get working in the Civil Service? How poorly paid are they?

Mr Macpherson: It will depend on which department they are in and it will depend a bit on whether you recruit them from the private sector.

Q61 Geraldine Smith: Just an approximate figure.
Mr Macpherson: In a large department they are probably paid about £140,000.
Mr Thompson: I am happy to answer the question because it is a matter of public record; it is printed annually in the resource accounts. My annual salary is £145,000.

Q62 Geraldine Smith: How many finance directors have been sacked when something has gone wrong in the Civil Service?
Mr Macpherson: The nature of moving to professionally qualified finance directors has meant that quite a lot of people have been moved out of their finance director roles. I cannot tell you off-hand how many have been sacked.

Q63 Geraldine Smith: Not many I suspect.
Mr Macpherson: These are highly accountable positions. If I employed a finance director who led to my department overspending—

Q64 Geraldine Smith: He gets a red mark.
Mr Macpherson: --- they would not last there very long because I cannot afford to do that. The reputational damage of having to appear before this Committee and be told—

Q65 Geraldine Smith: Do they go away with a package then, if it all goes wrong?
Mr Macpherson: It depends; it depends on the circumstances. They may be entitled to some sort of compensation, but if they were managed out because of a failure to do the job, Gill, you can tell us what the HR implications are of that.
Ms Rider: The poor performance processes are very much the same as the processes of the private sector and I came from the private sector. Essentially, if you are managing somebody out because of poor performance, you go through a set of processes which are laid down by employment law and essentially you get to the end of the process and the individual leaves.

Q66 Geraldine Smith: In other words, anyone going through that process in a senior position, finance director; that has never occurred in the Civil Service to your knowledge.
Ms Rider: I have only been here two years.
Mr Macpherson: I could not tell you off hand. I am not aware of one recently.

Q67 Geraldine Smith: What would you like to see to make it more? Do you think £145,000 is not enough? Do you think we need to increase the salaries? Do you think that would be helpful?
Mr Macpherson: There is a real tension here, especially with some of these large organisations like the National Health Service and so on, if you want to get the best finance director in the business. Some of the best finance directors in the business have been paid several million pounds working at FTSE companies. Working for the Treasury, you will be astonished to hear, I feel we should not set out to compete with the private sector. We have to compete on quality, the quality of the job and the interest of the job, but we have to have some regard to the market. It is a difficult one. In current conditions the Treasury would be arguing that no public sector person should be getting a large pay increase.

Q68 Geraldine Smith: Just changing the subject slightly; I notice on page 16, the Treasury brought in some consultants to look at training in finance to save some money presumably and as a result of the consultants, you designed a Finance Skills for All training course. However, people in the Civil Service do not seem too keen on attending it: 44% of departments, not one civil servant who has attended has got up to tier one level. That looks like a waste of money to me.
Mr Macpherson: Well that means that 56% did attend it, so I would not say this is a failure.

Q69 Geraldine Smith: It means at least one civil servant. We do not know whether we looked at those other 56%.
Mr Macpherson: There are two issues here. One is whether we have enough people attending this course.

Q70 Geraldine Smith: Is the course relevant to them? Is that not the problem, that the course has been created without proper thought?
Mr Macpherson: This was drawn up with the full input of the then head of profession, Mary Keegan, and so I have great confidence in the programme. On your other point about whether we should have used consultants, on the whole in the Treasury we are a very small department and we have quite a small budget and I take a pretty dim view of employing consultants, if we can possibly avoid it. There are some issues in terms of design where it is easier to buy in the service than to recruit a whole lot of people and then ask them to design it because actually it is quite a small, short-term thing.

Q71 Geraldine Smith: Yes, but it is not very cost effective if you end up designing a service or a course that people do not want to go on, is it?
Mr Macpherson: I agree. You certainly do not want to spend money on things which no-one will go to, but it is not down to the quality of the course, it is coming back to how we incentivise people to want to learn more about finance.

Q72 Chairman: Ms Smith has had a very interesting line of questioning and it is very important that we do not fall into this trap of saying market forces force us to pay enormous salaries in the public sector. We are seeing this increasingly in local government. There is no public appetite for paying salaries at this kind of level. There are many other factors in terms of quality of life and interest in the job so I do hope you will resist this. I am speaking personally now.

Mr Macpherson: Well we would not be sitting here now if we disagreed with you.

Q73 Mr Bacon: May I say to start with that there has been a significant degree of progress compared with when I was first on this Committee? When I first asked the question about how many finance directors were qualified, the answer was 23% and that was not that many years ago. I fully appreciate that getting a qualification in and of itself is not going to change things but it is an indication of something quite important in the right direction, so I do welcome that. The Service has made great progress, but you yourself have identified that it is about much more, that it is about embedding it culturally. I would like to ask you about something you said in answer to a previous question. I half paraphrase because I am not sure I wrote it down correctly. You said that making finance integral to what we do is the thing and if we can achieve that, it will be terrific, or excellent or great, whatever your words were. Then I re-read paragraph 2.25. Permanent secretaries, as you are aware and it says here, are the department's accounting officers and they are ultimately accountable for overall performance and also for financial management in a department; they are accountable to Parliament legally for how public money is spent. But it says in there " . . . financial matters do not automatically feature in Permanent Secretaries' performance assessment criteria" and it goes on a bit lower in paragraph 2.26 to say " . . . financial management matters are not automatically included in the performance assessment criteria for senior civil servants or budget holders". Strike out "senior civil servants" and just say "financial management matters are not automatically included in the performance assessment criteria for budget holders" and you realise how startling a sentence it is. Why not? Why are they not included?
Mr Macpherson: This may have been right at the time this Report was written, but it does not chime with my own personal experience.

Q74 Mr Bacon: May I just check? I know the Report was published in February of this year, February 2008. Presumably it was written in the months preceding February 2008, which was only a couple of months ago. Has there been a sea change of which I am unaware?
Mr Macpherson: May I cover the issue of permanent secretaries because it is something which I know from both sides.

Q75 Mr Bacon: Yes you can, but I was actually asking about budget holders and we will come back to permanent secretaries, of whom you are one. May I ask about budget holders first? How is it that the performance assessment criteria for budget holders do not automatically include financial matters?
Mr Macpherson: I am quite frankly pretty surprised that they do not because I have been working very closely with my colleague, Gill Rider, on performance management for the senior Civil Service over the last 18 months or so specifically with this in mind. My own experience as someone who has sought to control and plan public spending at the Treasury has been that actually this has to be in people's objectives.

Q76 Mr Bacon: You would have thought so.
Mr Macpherson: Just coming back to my experience in the Treasury, I do have objectives around finance, I have objectives around efficiency and I expect, as the objectives cascade down the department, that those are integral to people's objectives. We have made a lot of progress on that over the last year. The challenge for Gill and myself is now to follow this up. We are both on the pay committee for permanent secretaries, so I am going to be following this up because it seems to me absolutely essential if we are going to avoid some of the financial disasters which this Committee all too often has to engage with.

Q77 Mr Bacon: It does say halfway through paragraph 2.26, following that sentence about the budget holders, "The Cabinet Office is currently reviewing the . . . framework" and so on "and while it is expected that finance will be present within that framework, it will not be a mandatory element for the whole senior civil service". If you are serious about making finance integral to what we do, then surely it should be a mandatory element for the whole senior Civil Service. It follows as night follows day that if you want it to be not just important, not just very important but integral to what we do, make it mandatory. What is wrong with that? Why are you not making it mandatory?
Mr Macpherson: It is Gill's guidance.
Ms Rider: I agree with you that it is very important. I cannot consider a case where, if a permanent secretary has a budget and it will need to cascade down his or her team in his organisation, it would not be in people's objectives. To me the entire team needs to add up into the whole and so that is a very fundamental part. I will need to go and look at the guidance to understand.

Q78 Mr Bacon: There is a difference between very fundamental and integral and mandatory and it is something you either have to do or you do not and people understand that, do they not?
Ms Rider: I understand. I will go and look at it and understand whether there are some exceptional cases that are the reason for this. As far as I am concerned, we were very explicit when we created the framework that financial objectives, efficiency objectives and people management objectives should be in every member of the SCS's objectives.

Q79 Mr Bacon: I understand if you have a certain key obscure post, I do not know if we have a government astronomer, I suppose we do, but his knowledge of outer space is probably more important than his knowledge of double-entry bookkeeping. I appreciate that. Mr Macpherson, you said you were on the pay committee for permanent secretaries. What is the pay of the highest permanent secretary?

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Mr Macpherson: It must be the Cabinet Secretary himself.
Ms Rider: It would be the Cabinet Secretary.

Q80 Mr Bacon: And he is on how much?
Mr Macpherson: Well it is a matter record and my guess is it is between £210,000 and £220,000.
Ms Rider: Something like that.

Q81 Mr Bacon: Last time I read it in the newspaper, though of course you cannot always believe what you read in the newspaper, it stated the Cabinet Secretary's salary was £267,000 including bonuses.
Mr Macpherson: No, it is not. There is a range, if you are Cabinet Secretary, within which you could be paid and one of the rather sad things, if you are one of these people, is that you always tend to be paid quite low in the range. I am sure if someone published my pay—

Q82 Mr Bacon: How much are you paid?
Mr Macpherson: A lot less than the Cabinet Secretary.

Q83 Mr Bacon: Are you paid more than Mr Thompson here on £145,000? Poor old Mr Thompson here slums it along on £145,000. We will all go home and cry in our coffee about it.
Mr Macpherson: My pay too is a matter of public record and I think my pay is something around £165,000 or £168,000, something like that.

Q84 Mr Bacon: You think? Is it like some of these pop stars? Richard Branson was asked once how much his salary was and he said he genuinely did not know.
Mr Macpherson: I must say I am incredibly well paid by the standards of the public sector and I am very grateful for that. I am not in it for the money.
Chairman: Nor are we.

Q85 Mr Bacon: Could I ask you about the finance directorship of the MoD? You said it was advertised and that no-one came forward from the private sector and presumably therefore Mr Wooley, who ended up being appointed, was an internal candidate, was he?
Mr Macpherson: Yes, he was already in the post. They decided to advertise it externally. There were applicants from the private sector but the view of the panel chaired by the MoD Permanent Secretary was that none of them was satisfactory.

Q86 Mr Bacon: It is a serious problem if you cannot get qualified people for important jobs like that by advertising for them because of the straints of pay. It is a very serious problem.
Mr Macpherson: It is a serious problem but you just have to be quite persistent on these things. If you advertise at the wrong time, you just do not get the applicants, but if you try again you can. So that is why they are trying again and I welcome that.

Q87 Nigel Griffiths: We see some reports from the National Audit Office and I sometimes feel that the Committee is a bit harsher in translating them than the Report's contents merit. Sadly, or ominously in the case, it is the opposite. Mr Thompson, like your colleagues you have a very impressive CV with your experience with Eagle Star and Ernst & Young but even more impressive for me is the part you played in local government. Do you know a single council in the land that has a finance director without qualifications?
Mr Thompson: Not that I am aware of. I believe there is a legal requirement in the Local Government Act 1972 section 151.

Q88 Nigel Griffiths: So it is not just that you are not aware of it, the answer is no.
Mr Thompson: As long as they are all legally compliant.

Q89 Nigel Griffiths: It puzzles me that Whitehall puts up with this and has put up with it for so long and it should be a real, real concern to the Committee and that is probably the reason why there are some particularly damning facts in this, particularly page 22, paragraph 3.7. Can it be true that less than a third do monthly analyses of expenditure by operational target as this Report says? They do year on year but they do not seem to have this monthly monitoring and then reflecting against operational target. What is the reason? Why do you put up with that? Either of you. I can understand why you are looking at each other.
Mr Thompson: The question here is what is provided monthly. It is well embedded now that there is a monthly financial report. The very specific question here is whether that report aligns your spending against operational targets. Now that may not be there but I am fairly sure there is monthly information.

Q90 Nigel Griffiths: There is an ambiguity in the way the paragraph is written.
Mr Thompson: Yes, there is.

Q91 Nigel Griffiths: I accept that. It says " . . . 84 per cent of departments report year-to-date expenditure against budget on a monthly basis but only 28 per cent offered a monthly analysis of expenditure by operational target". In the private sector I would have thought that would be a requirement. In local government, when I was there 20 years ago, it was a requirement. I am puzzled that in departments with a much bigger spend than local government, it is not and I want to know what you are doing about it.
Mr Macpherson: It comes back to the answer to the earlier question around how we are introducing a regime for spend against departmental strategic objectives and I would hope that we will make significant progress on this. The one reason I pause about monthly data by operational target, where I can understand that there may be some problems, is if you take the example of the Treasury. I have information each month disaggregated by directorate within the Treasury, those directorates

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

will broadly map onto objectives, but they do not map totally because actually quite a few people have multiple objectives.

Q92 Nigel Griffiths: Paragraph 3.19 on page 25 again makes another damning statement that only 20% of departments considered that policy decisions were invariably based on a thorough assessment with the financial implications. I have to tell you when I was first a minister in 1997 and I asked about making policy changes and implementations and what they were going to cost, I was rather smugly told that ministers did not have to worry about that and the department internally sorted that sort of thing out. I did ask for a seminar on the subject. I did get one which was a one-day seminar. I am told it was the first time a minister had asked for such a thing since it was provided to Michael Heseltine. Is this now a matter of routine with ministers?
Mr Macpherson: Yes, I would hope that it is a matter of routine. Certainly, if anything goes through a minister without a costing implication in the Treasury, my finance director would be incredibly irritated. More generally, it has been a rule in the ministerial code that the cost of any proposal which is circulated around Cabinet colleagues has to have been agreed with the Treasury and if it is not agreed, I would be quite worried.

Q93 Nigel Griffiths: Could we just have a little note on whether that is a change in the ministerial code in 11 years or not?[3]
Mr Macpherson: Certainly.

Q94 Nigel Griffiths: Paragraph 3.26 on page 26, the paragraph basically highlights the percentage of capital spending that is carried forward and almost a quarter of planned capital expenditure was carried forward. I am actually a great believer is carry forward in three-year targets, but only provided that they are being monitored and preferably monthly. Is that an acceptable sum?
Mr Macpherson: As you say, there is a real tension on this carry forward, in-year flexibility as it is known. You want money to be spent efficiently, so you do not want departments to be forced to spend it.

Q95 Nigel Griffiths: Chucking it at filing cabinets and computers and all the rest of it.
Mr Macpherson: Exactly. Equally there does come a point where if it is really high, you have to begin to wonder whether the budgeting has been sensible or not. There was a real problem when the Government cranked up the machine on capital spending and from a fairly low base, as I recall. Some departments actually did not realise the lead times involved and so in the earlier part of this decade there were some quite big capital under-spends.

Q96 Nigel Griffiths: Is 25% an acceptable figure?
Mr Macpherson: In my view 25% is on the high side and I would expect it to come down in the future.

Q97 Nigel Griffiths: Let us go to paragraph 4.2. How damning a statement do you think it is that the NAO's "examination of under- and over-spending by departments did not find evidence that departments have significantly improved their forecasting and in-year monitoring" for five years?
Mr Macpherson: That is slightly unfair.

Q98 Nigel Griffiths: I think you agreed it though as a statement.
Mr Macpherson: Okay, yes of course I agreed it. There have been improvements.

Q99 Nigel Griffiths: Hang on, either there have been improvements or there have not.
Mr Macpherson: Since the 2003 study.

Q100 Nigel Griffiths: "Significantly improved". Of course there may have been improvements but "significantly" implies that they are not very measurable.
Mr Macpherson: Okay. I agreed the Report so this must be the case, so I am not going to argue with it. Is this good enough? No. We have to get better at it.

Q101 Nigel Griffiths: You replied in answer to earlier questions that you take a tough line and would sack somebody who continually overspent. In the past few hearings we have had one department which consistently overspent and that was the MoD. It just so happens the finance director has no qualifications. Are you going to sack him?
Mr Macpherson: We agreed that both this Committee and the Treasury have applied some pressure on the MoD on this point.

Q102 Nigel Griffiths: Is the pressure effective?
Mr Macpherson: It is being effective because they are advertising.

Q103 Nigel Griffiths: Good. I hope this time that the advertising process, because they have been through that before, gets somebody who has the qualifications.
Mr Macpherson: Are you going to be on the panel Jon?
Mr Thompson: Yes.

Q104 Nigel Griffiths: You are going to be able to come back here and assure us that that is the case, I hope. Under-spending departments. Defra is consistently under-spending. Have you got to grips with them?
Mr Macpherson: We are getting to grips with them and you are right to mention them. They are a department who were a poor performer on financial management but are improving quite a lot. A good measure of a department who has not got a brilliant grip on its finances is one which comes along to the Treasury and says they are going to overspend and can they have some money from the reserve and then at the end of the year it turns out you need not have bothered giving them the money. That is usually a good indicator. I can remember that experience,

[3] Ev 20

when I was in charge of public spending in about 2003, happened with Defra. It would not happen today.

Q105 Nigel Griffiths: Which departments, in paragraph 4.2 then, are you most concerned about?
Mr Macpherson: In terms of under-spending?

Q106 Nigel Griffiths: Let me ask you the soft question first. Which is the best performing department that you have the least concerns about and are the resources that you devote to that department a fraction of what you throw into a department you have concerns about and what are those resources?
Mr Macpherson: The measure you are talking about here is whether you are under-spending a lot less than you are forecasting. I can give you a table.

Q107 Nigel Griffiths: Just give me one from the top of your head that is the high performer.
Mr Macpherson: I would always turn to my friends at the Department for Children and Schools and Families, which is a high performer. Having said that, there have been times when your department has under-spent and you have quite a big stock of end-year flexibility, have you not?

Q108 Nigel Griffiths: And if I might put the same question. What is the difference between the resources? What sort of resources do you put into the poor achiever to help them, as against the ones that are costing a lot?
Mr Macpherson: Let me give you two examples of how the Treasury would operate in relation to that. First, we try to have a risk-based approach.

Q109 Nigel Griffiths: Risk-based approach is no problem because we get the reports every year. We can give you the list.
Mr Macpherson: Exactly. In the past we put a lot more resource into dealing with the Home Office because it clearly was a problem, whereas dealing with the Department for Education, as it then was, was not a problem. That is one thing. The other thing which we would home in on are delegations. If we have a concern about a department, we might reduce the delegations. An example of that happened when the Health Service overspent a lot three years ago and we actually required them to clear more proposals directly with the Treasury. We try to have a proportionate approach in that sense.

Q110 Chairman: You were wise to refer to the Department for Children because you may remember that in a previous hearing we found that they had the best record in terms of allocating space per employee and you, the Treasury, had the worst record. When I put this to Dame Mary, she said you do a lot of thinking in the Treasury.
Mr Macpherson: There is nothing like having a big budget constraint and I can assure you that we are going to be using our space more effectively in future.

Q111 Mr Davidson: May I start by taking up the question of non-professional staff, as it were, having financial awareness and looking particularly at paragraphs 2.11 and onwards? Paragraph 2.14 says “ . . . in 44 per cent of departments not a single senior civil servant has completed tier 1”, which is the bottom tier of the *Finance Skills for All* programme. Do you regard that as satisfactory and do you know what departments those are?
Ms Rider: Clearly Case Example 1 illustrates a department which has done extremely well, the DfT.

Q112 Mr Davidson: I understand that, that is not what I am asking you. What I am asking you is whether you regard that as acceptable and whether you know which departments those are.
Ms Rider: I would like to, as we talked earlier—

Q113 Mr Davidson: A yes or no would be sufficient.
Ms Rider: It is slightly more complicated.

Q114 Mr Davidson: Is it or is it not acceptable and do you or do you not know which these departments are?
Ms Rider: It is more complicated.
Mr Macpherson: We do know.
Ms Rider: We do know absolutely who has taken this course and who has not. However, it is more complicated because a number of departments, such as the Cabinet Office, have their own financial training that they are implementing and getting people to take.

Q115 Mr Davidson: You could have said yes then, you do regard that as acceptable, and then gone on to clarify that. If the percentage that has that level or equivalent is higher, are there departments whose conduct you regard as unacceptable?
Ms Rider: I would like to see more people developing this training and using this training.

Q116 Mr Davidson: Are there any departments in particular?
Ms Rider: We have a little list here. The best thing to do in all these circumstances is really focus on the people who are doing well.

Q117 Mr Davidson: No, I do not know and I am asking the questions. You know what the question is. Can you answer it?
Mr Macpherson: We can give you a list of the departments but unfortunately what I do not have in front of me are the percentages.

Q118 Mr Davidson: Can you give us that in writing then as we are clearly not going to get much of an answer today? Do you have something that could be described as a league table of those departments that are doing best and by definition therefore those that are doing least well and, if so, could you let us have it?[4]
Mr Macpherson: On the training front?

[4] Ev 20

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Q119 Mr Davidson: Yes.
Mr Macpherson: Yes; definitely.

Q120 Mr Davidson: Fine, if you have that and could let us have that, it would be very helpful.
Mr Macpherson: There is one qualification. For example, on my list in front of me it suggests that nobody at the Ministry of Defence has completed it but, to be fair to them, the Ministry of Defence have their own in-house course, so I have to qualify it.

Q121 Mr Davidson: That is why I am happy to accept the point made about equivalents, but presumably after you have considered the question of equivalents, some will be doing better than others. May I ask you about paragraph 2.18 and the question of the Cabinet Office sending out the self-assessment questionnaires where 70% of senior civil servants felt that they had already met the core skills criteria in financial management? Then it goes on to say " . . . the Cabinet Office does not trust the reliability of the data" which presumably is an indication that it does not trust the self-assessment completed by senior civil servants. I am always happy to have my prejudices confirmed, but what does that tell us about the self-awareness of senior civil servants and their ideas about how much financial knowledge they have? Surely, that is a pretty damning indictment.
Ms Rider: Absolutely. The issue here is not about the self-assessment because the process was done and completed and people filled it in. The issue is about making sure that people are really assessing themselves against the detail of what is required for them in that job.

Q122 Mr Davidson: So is it or not a self-assessment process? It is, is it not?
Ms Rider: Yes, it is.

Q123 Mr Davidson: So senior civil servants filled in a self-assessment form incorrectly and over-estimated their own abilities, which is something we are quite used to.
Ms Rider: When you conduct a survey and you say "Have you got this?" and you are not granular enough to say "Do you have this amount and this amount, that is what you require for your particular job?", you have to, by the nature of surveys, ask simplistic questions and you get simplistic answers. What we now want to do is to put in a process that not only benchmarks in those general questions that you can ask in a survey, but interviews a sample of people so that we can really test out the specifics that the individual needs for a particular job.

Q124 Mr Davidson: One of the issues that I have a concern about is similar to that of some of my colleagues and it was noticeable that Ms Smith mentioned the question of just-in-time or it came up in an answer. We have experience of just-in-time here because, just-in-time, a lot of departments undertake actions that are suggested to them by the National Audit Office so that when they come along here they can say they are actually doing this. There seems to me to be an issue of culture amongst the senior ranks of the Civil Service who disdain such common things as money and trade and so on. To what extent do you think this is just simply because they are disproportionately drawn from the ranks of the public school and Oxbridge?
Ms Rider: I would not imagine there is any correlation there at all.

Q125 Mr Davidson: May I ask whether or not any of you are drawn from that background?
Ms Rider: No.
Mr Macpherson: I am afraid so.
Mr Thompson: I went to a comprehensive school.

Q126 Mr Davidson: Good man. We have had this from other departments. May I ask how many of the top 20 officials in the Treasury are drawn from the same background as you of public school and Oxbridge? Since I do not expect you to have that on the top of your heads, maybe you could just let us have a note of that. Do you think it is reasonable that there should be that proportion and, if it is above the proportion of those people in the population, that that is a reasonable use of the nation's talents?
Mr Macpherson: I am very happy to give you the information. It is desirable to have a senior management group which reflects the population. Equally, you want to have people who are well educated and well qualified to do the job. There are potential tensions there. Historically, some academic study is being done at the University of Ulster about the social backgrounds of permanent secretaries to the Treasury and actually, since the war, on the whole permanent secretaries of the Treasury have neither gone to Oxbridge nor gone to public schools. I am afraid I am an exception to this.

Q127 Mr Davidson: When you let us have the top 20 could you give us a note and tell us whether or not you regard this as being appropriate and, if not, what you are doing to change it?
Mr Macpherson: We are actually doing quite a lot to change it in terms of trying to get out to universities, which might give us a better social composition.

Q128 Mr Davidson: Excellent. Maybe you could add a note to indicate whether or not those efforts have been successful.[5]
Mr Macpherson: Yes.

Q129 Mr Davidson: When you responded to a point that Ms Smith made as well, when she was asking about people who had left under a cloud, you said there were several. I must confess I cannot recall any. I wonder whether you could give us a note indicating the numbers that you thought.[6]
Mr Macpherson: One recent one is the Chairman of Her Majesty's Revenue and Customs, who resigned over the loss of data.

[5] Ev 21
[6] Ev 22

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Q130 Mr Davidson: He took the blame. I take the view that that is slightly different in a sense because nobody suggested that he had actually posted the data wrongly himself; he was taking responsibility for the organisation as a whole. My question relates to the point you mentioned about people of poor performance being managed out as well. It would be helpful if we could have an indication of the numbers. I do not want you to identify individuals but an indication of the numbers to whom that applies and where they have been managed out to. The point is that there is no penalty if they end up being managed out into a better paid job or even an equivalent paid job. If they are being managed out, presumably they are leaving the Service. I would not object to somebody being found a job for which their talents were more suited if they have genuine talents. Maybe you could give us some help with that. May I turn now to paragraph 3.19 which I thought was particularly helpful? As I understand it, only 41% of departments said that proposals invariably included a full financial appraisal, which presumably means that 59% do not. Can you tell us which departments are in the 41% and which are in the 59% and which are you?
Mr Macpherson: I cannot because this was a survey carried out by the National Audit Office.

Q131 Mr Davidson: Can the NAO tell us?
Mr Holden: In a note.

Q132 Mr Davidson: Which are the Treasury in? Do you remember?
Mr Holden: I cannot off the top of my head.

Q133 Mr Davidson: The final point there is " . . . only 20 per cent of departments considered that policy decisions were invariably based on a thorough assessment of the financial implications". There is some question over what "invariably based" means. I presume that means that a thorough assessment was actually available. Eighty per cent indicated the converse, that a thorough assessment was not available. Is that acceptable?
Mr Macpherson: I would want to see us doing better than that. That is a disappointing result, as I said earlier. All we can do in the Treasury is to continue to push for better decision making.

Q134 Mr Davidson: What sort of percentage then of your policy decisions are subject to thorough assessment of the financial implications?
Mr Macpherson: As someone who has been involved in some quite big decisions of late in relation to the banking system and so on, a very high percentage indeed. I would expect all serious decisions involving public spending and revenue at the Treasury to be based on some very serious analysis.

Q135 Mr Davidson: Would the abolition of the ten pence tax rate have been one where you as a department undertook a thorough assessment of the financial implications?
Mr Macpherson: Absolutely.

Q136 Mr Davidson: So you knew all the issues which are now coming up. You were aware of them or have any of them caught you by surprise?
Mr Macpherson: The decision to reform the income tax system and reduce the basic rate to 20 pence and abolish the 10 pence rate as part of a wider package reflected considerable analysis and was taken on that basis.

Q137 Mr Davidson: I do not doubt for a moment that it reflected considerable analysis and I am not talking about the wider package. I am talking particularly about the abolition of the 10 pence rate and the phrasing here about " . . . a thorough assessment of the financial implications". I want to be clear about whether or not all the impacts which are now coming to public awareness were drawn attention to by the Treasury at the appropriate time.
Mr Macpherson: Yes, a thorough distributional analysis was done and ministers took decisions on the basis of that analysis.

Q138 Chairman: Thank you for that careful answer. In that list you are going to provide for Mr Davidson to the Committee about people who have had to resign because of financial mismanagement, there have been one or two cases of people resigning or their careers being seriously compromised as a result of a hearing in front of this Committee.[7] It would be quite useful for all of us to be made aware of the instances where that has happened. I do not ask this question to gratify our ego, but there is a tension here, is there not, because of the traditional reluctance of parliamentarians, which I share, to name and shame civil servants and to hold ministers responsible and the more modern approach to which you have alluded, increasingly holding civil servants to account. I think we need to have more of a debate about this, do you not? I should be interested to know your personal view. You seem to veer towards the view that we must indeed hold officials to account and, if necessary, sack them and have much more of a private sector culture. That is your view is it?
Mr Macpherson: It is genuinely difficult. I do not want to get into some big constitutional discussion, but it is right that civil servants should be held to account for what they do. It is particularly relevant where you have agency structures, where there are very clear operational remits, where ministers in a sense are deliberately at arm's-length from those bodies. There are risks around going for a fully paid-up private sector culture which could cut across ministerial accountability. It is an area where you have to tread carefully.

Q139 Mr Dunne: When a new department is created or agency set up, what role does the Treasury play in establishing the ground rules for financial supervision and oversight within that department?
Mr Macpherson: Quite a big role. Recent examples are where you get machinery of government changes and you are splitting up departments or

[7] Ev 22

reconfiguring them. The Treasury will play a key role in holding the ring and ensuring that numbers add up and someone does not get short changed or walk off with most of the money and less of the responsibilities. We play a role there. The other thing, in terms of agencies, is that agencies will have specific remits and there will be a constitutional relationship between departments and the agency. If it is a very small agency, the Treasury might not play much of a role. If it is a very big agency, we will play a very active role.

Q140 Mr Dunne: What sort of threshold do you have in mind?
Mr Macpherson: I suppose one measure is whether there is an accounting officer. Ultimately the Permanent Secretary of the Treasury appoints all Accounting Officers, so that would be a very visible manifestation of the Treasury's role.

Q141 Mr Dunne: When, for example, the Olympic Board was established—and we recently reported on the Olympic budget being more than double its original estimate—what role did the Treasury play, firstly in assessing the initial budget and, secondly, in setting the resulting budget from March 2007?
Mr Macpherson: The Olympics is an issue of huge interest to the Treasury, largely because it involves a very big sum of money. We have a big interest in understanding the costs and indeed it was as a result of our pressure that the DCMS was required to incorporate quite a big contingency margin in the Olympic project. That is a difficult one because, if you give them a contingency then everybody wants to spend it. On the other hand, if you do not give them a contingency, then they may well come back to call on us at an inconvenient time.

Q142 Mr Dunne: There was no contingency in the original bid was there?
Mr Macpherson: I think there was, but it was not big enough. There are lessons both for the departments but also for us the next time a big sporting event is a contingent possibility. Also, the Treasury has latterly become quite involved in governance. We obviously have a huge interest in the Olympic governance being conducive to good financial management, so we have actually been quite active in pressing both for having a professional finance director of this project, but also getting the accountabilities right. It is not just the Department for Culture which is putting money into this; a lot of other departments are. DCMS by its nature is a small department. It is a very good example of a risk-based approach where we are taking a very active interest in that.

Q143 Mr Dunne: Does that active interest extend to receiving copies of the monthly board pack, for example?
Mr Macpherson: I cannot tell you off hand but I can let you have a note on that. I know the Treasury is very actively involved, whilst at the same time not trying to second guess every twist and turn.

Q144 Mr Dunne: Do you have officials in your department who have regular contact with the Board?
Mr Macpherson: Yes, I have officials whose job is basically to live, eat and drink the Olympics; that is their job.

Q145 Mr Dunne: Could you provide us with a note of what their findings have been on the quality of financial information which is provided up to Olympic Board level?[8] When we discussed this last autumn it seemed to be very light indeed.
Mr Macpherson: Certainly.

Q146 Mr Dunne: That would be instructive and might help. You referred earlier in your evidence to the departmental capability review and I remember when you came in front of the Treasury Select Committee and discussed that. One of the things which came out of that hearing was that there was a question mark over the experience of your own staff in the Treasury, not as to their financial qualifications, which is the thrust of this inquiry, but as to their longevity in the role and your ability to retain experienced personnel within the Treasury. Could you comment on how that has developed over the last year since this was brought to your attention?
Mr Macpherson: This is an issue of big interest to me and a fair degree of concern. The Treasury's business model has always been based on it being a small department; it has also been a relatively youthful department. In many ways that is a good thing. It means you have people who are up to date with recent thinking and will, especially if they have ambitions to make large amounts of money, work in the Treasury for a few years and then leave. That is good. I do not want to create a structure where it is all frozen and nobody ever moves. However, just changing the balance at the margin of encouraging a culture where people do jobs for longer actually potentially yields quite a big return. We are actively addressing that. We are trying to change the incentives within the department in terms of the sort of things you need to do to get promoted in the organisation and we are channelling a bit of money within our tight pay envelope to incentivise people to stay longer in post. We have had some success. The average time in post has gone up over the last year.

Q147 Mr Dunne: Could you remind this Committee what that was? Am I right in remembering that only 50% of Treasury officials had more than three years' experience in the Treasury?
Mr Macpherson: There are two issues here. One is how long you have been in the Treasury. The other issue is how much you have been in your current post. It is how long you have been in your current post which is most important to me.

Q148 Mr Dunne: Could you just answer my question first and then explain?

[8] Ev 23

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Mr Macpherson: I do not have the figures in front of me but I can let you have those.[9] Your figure sounds broadly in the right ballpark.

Q149 Mr Dunne: Perhaps you could also let us know how many of your officials had prior experience of a banking crisis before the crisis which hit this summer.[10]
Mr Macpherson: Yes, I think I let the Treasury Select Committee have that.

Q150 Mr Dunne: I am sure this Committee would also be interested.
Mr Macpherson: I am very happy to share it with you.

Q151 Mr Dunne: I am interested on page 15 of the NAO Report, paragraph 2.6, that it refers to 32 ministers having attended financial and risk seminars since 2005. Are you aware whether any of the current Treasury ministers have attended a financial and risk seminar?
Mr Macpherson: I could not tell you off hand?

Q152 Mr Dunne: Could you include that in your note to the Committee?[11]
Mr Macpherson: Certainly.

Q153 Mr Dunne: My last questions relate to page 13, Table 3, which touches on initiatives for the future. In the work you have been doing in the Treasury to align budgets, estimates and accounts, in the recent Budget it was announced that the intention of having a new system of accounting is going to be deferred for another year on the strength of two departments in particular being unable to achieve the target which had been set them and those departments, from memory, were the Department of Health and the Ministry of Defence. Do you see any correlation between the financial training or financial capabilities within those departments and missing that target?
Mr Macpherson: I do not think so. Actually I attribute that to the complexity of their organisations; in particular with the Department of Health, just how many trusts and bodies they are having to deal with.
Chairman: My Clerk tells me that congratulations are in order Mr Dunne because your father has just been made a Knight of the Garter. Is that correct?
Mr Dunne: That is correct.
Chairman: The Committee congratulates him.

Q154 Mr Williams: I do not think I was the only member of the Committee who was surprised to read that the MoD's internal training is actually the only course within Government that meets the professional skills for Government's programme standards. You will understand that we do not always associate them with financial accuracy. Why are the others finding it so difficult to get there and do you grade them in any way? Could you give us a list of them in order of level of attainment? Probably not. I do not expect it but I am just asking.
Mr Macpherson: This is not a pass or fail thing. I cannot give you a league table. The point I make on this is that the MoD have their own in-house course. The rest of Government on the whole are happy to use the ones provided by the Cabinet Office/Treasury. The implication that lots of other departments have courses but they are too useless for anybody to accredit may be wrong, but I will give you chapter and verse on that.

Q155 Mr Williams: Is that a criticism of the other courses?
Mr Macpherson: No. The MoD tend to do things differently, often because they are also serving the Armed Forces who are covered by them.
Ms Rider: Yes, the military as well.

Q156 Mr Williams: Is there any Treasury guidance for individual departments on levels of attainment or in priority of attaining this level of satisfaction?
Mr Macpherson: I do not know whether there is any guidance. Certainly the Treasury has views on what makes a good course and what it should cover and we would let departments know in accrediting their courses. If it would be helpful, I could give you a note on what, in our view, determines a good course.[12]

Q157 Mr Williams: Are the courses assessed annually? Do you have some system of monitoring whether they are individually improving?
Mr Macpherson: Yes.

Q158 Mr Williams: That comes to the suggestions that there may be some tier of good, bad and poor.
Mr Macpherson: What I should say is that the Treasury's participation in providing courses and assessing courses is relatively new. This reflects Mary Keegan's influence. We have not quite got into a cycle yet of re-accrediting courses, but I can let you know precisely when we are going to be doing it again.

Q159 Mr Williams: If it is that bad in the centre, what is it like out in the quango sticks? Each department has a whole range of agencies and subsidiary bodies. What about training in financial control and financial ability at that level? Although they are small, collectively they control an enormous amount of money. Is there any monitoring of that?
Mr Macpherson: I think there is but Jon has some quangos associated with his department.
Mr Thompson: Yes and in those cases all those individuals can access the National School of Government offer which is accredited. So you can apply and go on those courses if you work in an NDPB and so on. We also have an active network of those who are qualified and those who are training towards a qualification to which we provide different kinds of support so that they are clear about the

[9] Ev 23
[10] Ev 23
[11] Ev 24
[12] Ev 24

access they can get and where they can get it. The answer to the question about the MoD is that it is very much driven by the business need of the Ministry of Defence. Their sheer size and the numbers of qualified accountants and those training mean that it is appropriate for them to run their own course. In my case, because the numbers are much smaller, it is easier for me to use the National School of Government. That essentially would be one of the differences.

Q160 Mr Williams: Do you re-recruit? In the NAO's situation we have been told on various occasions by the C&AG that they train an enormous number of accountants then lose them but eventually some of them come back to them. That is your experience, is it not?
Mr Burr: Yes, some do. We are more focused though on retaining those whom we train.

Q161 Mr Williams: How do your pay scales compare with the normal Civil Service pay scales? Are they in any way related or utterly unrelated?
Mr Burr: For accountants specifically, I cannot say just like that. I could check.
Mr Macpherson: Your pay scales are quite similar to ours generally.
Mr Burr: Yes, they are but I cannot just give you comparative figures off the top of my head.

Q162 Mr Williams: I suppose people who come back to you, as we have been told in the past, are people who have now done well in the private sector and are looking to put something back into the system.
Mr Burr: Yes.

Q163 Mr Williams: It would not be the same motivation to come back.
Mr Macpherson: I am aware increasingly of people who are coming back who have made a lot of money in the private sector and want to do something different and contribute something back. I am increasingly looking at Treasury alumni out there who started off life at the Treasury, went off to the City or something and might be in the market for coming back.

Q164 Mr Williams: That is interesting. What sort of areas is it happening in?
Mr Macpherson: Tax policy is one area where we managed to get someone very good to come back to the Treasury. You could well get issues around financial services, which are very much on my mind at the moment for obvious reasons, where you could get people to come back. I am sitting next to someone who chose to leave an extremely well remunerated job in the private sector and take a big wage cut to come and join us in the Civil Service.
Ms Rider: What more can I say?

Q165 Mr Williams: Are departments very ready to embrace them and bring them back in or is there diffidence about people who have been in the system, gone out and just want to drop back into a slot for a short while?
Mr Thompson: My own view is that it is good to have a range of experience; it is good to have someone who has been out in the local government system in my particular case and can then bring those skills back in terms of how we manage finances going forward. We would recruit talent from anywhere which has appropriate kinds of skills and capabilities for what we need to do.
Mr Williams: There is not much more I want to say. We have been round this course so many times in the past but it is just good to see that some progress has been made and I shall not be here next time you come, but we hope you will be able to report a magnificent leap ahead. Thank you for your evidence.

Q166 Chairman: A last couple of questions from me, somewhat tangentially. As you may know, I have been waging a little campaign within the Liaison Committee and the finance sub-group of the Liaison Committee to improve Parliament's understanding of the Government's spending plans. I wonder whether you think this is a fruitful area for Parliament to interest itself in. Although, as we see in this Committee, our post-hoc audit is very good, we are much weaker as Parliament at scrutinising spending plans as they develop. Do you think this is a fruitful area for Parliament to interest itself in?
Mr Macpherson: I do not want to trespass on matters which are rightfully for Parliament to determine but may I just say two things? One is that I think it is in all our interests to get better financial reporting and that is why I welcome your cautious welcome for our line of sight project to get better aligned information on public spending. Then obviously it is an issue for you whether you institute different procedures within Parliament on this. All I can say is that from a Treasury perspective I welcome Parliament's interest in these issues. I am not just saying that for form's sake, that I am bound to say it anyway. I do genuinely believe it, because select committees, the PAC in particular, can actually play a really important role in terms of holding the executive to account; but I am a mere bureaucrat.

Q167 Chairman: I would not ask you to comment on this but, as you may know, I have suggested there should be a separate budget committee to look at this. I just wonder whether you could not make some things somewhat easier for Parliament in the whole. Estimates only become available, do they not, after the start of the financial year to which they apply? Do you think that is helpful?
Mr Macpherson: Estimates are arcane and I could quite understand why Members might give up on them.

Q168 Chairman: That is certainly an understatement. I welcome your alignment.
Mr Macpherson: I do think it is in all of our interest to report in a way which will enable you to hold the Government to account.

Mr Nick Macpherson, Mr Jon Thompson and Ms Gill Rider

Q169 Chairman: Do you think it would help if the Treasury published spending reviews before the summer recess so that the NAO could scrutinise them over the summer in advance of the Committee's meeting in the autumn? Would you look at that anyway?
Mr Macpherson: We will definitely look at that, as we will look at all the Liaison Committee's discussions.

Q170 Chairman: Do you welcome the involvement of the NAO? I know I have talked on several occasions to Tim Burr and he is very happy to help parliamentary committees. Presumably you would welcome their involvement.
Mr Macpherson: I hold the National Audit Office in very high regard.
Chairman: As Mr Davidson would say, I take that as a yes.

Q171 Mr Bacon: First of all to Gill Rider. You said that you would go away and think about your guidance that financial matters do not have to be part of the performance assessment criteria for civil servants or for budget holders. Once you have thought about it, can you send us a note on the result of your thoughts, presumably either saying that you are going to change your guidance and the reasons why or that you are not going to and the reasons why?[13] Finally Mr Macpherson, in the final part of paragraph 2.26 it refers to the 32 ministers who have attended financial and risk seminars. How many permanent secretaries have attended financial and risk seminars?
Mr Macpherson: Not necessarily the same one as ministers.

Q172 Mr Bacon: No but an equivalent one.
Mr Macpherson: A very high proportion. Indeed we had a special session between permanent secretaries and finance directors last year to consider issues such as that. I should just say for the record that my recollection is that whenever we have had financial risk seminars the Chief Secretary to the Treasury has tended to play quite an active role. What I cannot tell you is whether the current Chief Secretary has been there long enough to be involved in one.
Ms Diggle: She has.

Q173 Mr Bacon: Very finally, it refers to the comparison between FTSE 100 Chief Executives and Permanent Secretaries and acknowledges that, while the role is different, 25% nonetheless of FTSE 100 Chief Executives are financially qualified. Are you expecting to see financially qualified Permanent Secretaries coming through in the next few years? If so, at what rate?
Mr Macpherson: Definitely. They will come through; we are beginning to get a critical mass. I do not want to get into individual cases, but if I were going to put money on someone, I would put a bit of money on my friend Mr Thompson.

Q174 Mr Bacon: Well he started in Norfolk County Council so it would not surprise us in Norfolk either.
Ms Rider: The Committee ought also to know that only 80% of FTSE 100 companies have qualified financial directors. In that instance the Civil Service is actually way ahead of the private sector.

Q175 Mr Davidson: Following on from the point I asked about on paragraph 3.19, I have just had this supplementary paper shown to me. Departments responded to questions about key operational decisions. It is 31A on page 33 of the additional paper where in relation to key operational decisions within departments one department said that decisions were never based on a thorough assessment of the financial implications, one department said that decisions were seldom based on a thorough assessment of the financial implications and eight departments said that decisions were sometimes based on a thorough assessment of the financial implications. Paragraph 3.19 relates to decisions taken by ministers but page 33, Chart 31A relates to decisions taken within the department itself. Over 25% there does not really seem to be acceptable.
Mr Macpherson: It is not.

Q176 Mr Davidson: How could that have arisen?
Mr Macpherson: I find it surprising. I do not know whether these results are confidential, but it would be kind of useful to know which departments had answered in this way so we could follow it up directly with them. It just sounds to me bizarre.
Mr Davidson: Bizarre is a very good word with which to end. Thank you very much.

Q177 Chairman: That concludes our hearing. It has been a long hearing. I do not suppose it will figure in the tabloids tomorrow, which is a pity. It has been very interesting and very important; after all you will be managing £678 billion a year in financial resources by 2011, which is £11,000 for every man, woman and child in the UK. I hope, Mr Burr, that we can make this part of our campaign over the next couple of years before the end of this Parliament and return to it before the end of this Parliament.
Mr Burr: Yes; sure.

Q178 Chairman: I would have thought this was something where this Committee could make a difference.
Mr Burr: And we might want to look at one or two individual departments as well.
Chairman: Thank you very much for your attendance.

[13] Ev 24

Supplementary Memorandum by HM Treasury, Cabinet Office and Department for Children, Schools and Families

Question 30 (Mr Touhig): *Progress on the extent to which departments provide boards with a monthly analysis of expenditure by operational target*

As the committee has pointed out, only 28% of departments responding to the survey carried out by the National Audit Office stated that they were already providing board members with an analysis of expenditure against operational targets on a monthly basis. It is not possible to replicate the survey methodology used by the NAO and provide an updated figure on a consistent basis in time for this note. However, in the 2007 Comprehensive Spending Review, both budget allocations and Departmental Strategic Objectives (DSOs)—departments' high level performance objectives that these allocations finance—were negotiated and agreed together, and the clear direction of travel set out in CSR07 is that departments will be expected to develop and then use robust methodologies for attributing costs on a full accruals basis to their DSOs and to their key component outputs. Initial work includes NAO sponsored pilots in DfID and DIUS. The lessons learnt from this exercise will help departments develop the right methodologies for the costing of their own DSOs. The Government is working with the NAO and pilot departments to ensure that the work of other departments in this area can be informed by their experience and a resulting analysis of the lessons to be learnt.

The Government believes that the measures introduced in CSR07 will ensure that, in future, increasing numbers of departmental boards will receive fully joined up financial and performance information on a much more regular basis than now, since departments will be expected to report to their boards on the basis of such breakdowns of expenditure. This is crucial for ensuring that decisions over allocations and the monitoring of costs and performance are made on a sound basis. The Government welcomes the Committee's interest in this important area and looks forward to further discussions during the CSR period.

Question 34 (Mr Touhig): *Recent trends in revenue from asset sales*

The Government published public sector receipts from sales of assets in Table 5.7 of Public Expenditure Statistical Analyses 2008:

http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_publications/pespub_pesa08.cfm#pesa

Question 93 (Nigel Griffiths): *Cross-Whitehall agreement that any proposals should include costings agreed by HMT*

A copy of guidance on policy proposals with expenditure implications is attached to this Memorandum.[1] This guidance is not new and is taken from a number of currently published sources such as Managing Public Money and the Consolidated Budgeting Guidance. This does not reflect an update of the Ministerial Code.

Question 118 (Mr Davidson): *Departments' completions of tier 1 "Finance Skills for All" training*

The figures in the following tables show, for main and smaller departments, the number of online completions of tier 1 "Finance Skills for All" training up to 1 May 2008, provided through the National School for Government Management Reporting facility. Each department has access to detailed information for all those registering and completing the modules. At the time HM Treasury developed the e-learning modules, the Ministry of Defence was the only department with its own tier 1 e-based resource management learning system of an equivalent level to that developed by the Treasury. The numbers for the MoD equivalent (Certificate in Resource Management) are shown for completeness. HM Treasury does not have information on equivalent tier 1 training that may have been developed subsequently.

FINANCE SKILLS FOR ALL
COMPLETED FOUNDATION UP TO 1 MAY 2008
Main Departments

Department Name	*Completions*	*SCS*	*Grade 6/7*	*Others*
Cabinet Office	2	0	1	1
Department for Communities and Local Government	24	1	8	15
Department for Culture, Media and Sport	6	0	3	3
Department for Children, Schools and Families	1	0	0	1
Department for Education and Skills*	52	4	17	31

[1] Not printed here.

Department Name	*Completions*	*SCS*	*Grade 6/7*	*Others*
Department for Environment, Food and Rural Affairs	31	2	10	19
Department for International Development	10	2	2	6
Department for Transport	327	140	129	58
Department for Work and Pensions	55	4	10	41
Department of Health	30	2	8	20
Department for Business, Enterprise and Regulatory Reform	1	0	1	0
Department for Innovation, University and Skills	0	0	0	0
Department of Trade and Industry*	42	6	27	9
Foreign and Commonwealth Office	115	26	46	43
HM Revenue & Customs	20	3	4	13
HM Treasury	27	3	9	15
Home Office	22	2	8	12
Ministry of Defence	6	0	0	6
Ministry of Defence (Certificate in Resource Management)	7,029	132	704	6,193
Ministry of Justice	19	1	6	12
Northern Ireland Office	14	1	5	8

* These figures are pre July 2007 Machinery of Government changes.

FINANCE SKILLS FOR ALL
COMPLETED FOUNDATION UP TO 1 MAY 2008
Smaller Departments

Department Name	*Completions*	*SCS*	*Grade 6/7*	*Others*
Assets Recovery Agency	1	0	0	1
Central Office of Information	0	0	0	0
Charity Commission	0	0	0	0
ECGD	0	0	0	0
Food Standards Agency	9	0	1	8
Government Actuaries Department	0	0	0	0
Government Communications Headquarters—GCHQ	57	12	27	18
Health & Safety Executive	1	0	0	1
Land Registry	1	0	0	1
Legal Secretariat to the Law Officers	1	0	0	1
National Archives	0	0	0	0
National Savings and Investments	0	0	0	0
National School of Government	3	1	1	1
Office for National Statistics	11	2	4	5
Office of Fair Trading	0	0	0	0
Office of Her Majesty's Chief Inspector Schools (OFSTED)	5	1	0	4
Office of the Parliamentary Commissioner for Administration and Health Service Commissioner for England	1	1	0	0
Office of the Rail Regulator	1	0	1	0
OFGEM	0	0	0	0
Ordnance Survey	0	0	0	0
Postal Service Commission	1	0	1	0
Revenue and Customs Prosecution Office	0	0	0	0
Royal Mint	1	0	0	1
Serious Fraud Office	1	0	1	0
The Crown Prosecution Service	6	0	4	2
Treasury Solicitor's Dept	36	2	17	17
UK Trade & Investment	4	0	0	4
Water Service Regulation Authority	0	0	0	0

Questions 127–8 (Mr Davidson): *What is the educational background of the top 20 civil servants in HM Treasury, what is the Treasury doing to increase diversity and is this being successful?*

The Treasury does not routinely hold this information for individual members of staff. Disclosure of this information is a matter for the individual concerned.

The following information is available in relation to the Executive Members of the Treasury Board.

Nicholas Macpherson	BA, Philosophy, Politics and Economics, Oxford; MSc Economics, University College, London
John Kingman	BA Modem History, Oxford, World Fellow, Yale 2004
Dave Ramsden	BA Economics and Politics, Oxford; MSc Economics, LSE
Mark Neale	BA, Modem History, Oxford
Tom Scholar	MA History, Cambridge; MSc Economics, LSE
Stephen Pickford	BA Economics, Cambridge; MA Economics, University of British Columbia
Louise Tulett	ClPFA, 1989, Southampton IHE
Nigel Smith	BA Business, Bristol Polytechnic; General Management Course 120, Henley Management College

Over the past 3 years, 2005 to 2008, the Treasury has actively participated in the Cabinet Office's 10 Point Plan on Diversity which committed all Whitehall departments to tackling the under-representation of women, people from ethnic minority background and people with disabilities in the Senior Civil Service and feeder grades.

We have made some good progress on improving the diversity of the feeder grades (Range D and E) in particular. This will ensure there is a pipeline of talent that will feed into the SCS over the next few years and thereby improve the diversity of the SCS. However, the number of employees in the SCS is small (109 people as at April 2008), so the movement of one or two individuals can have a disproportionate impact upon progress towards meeting the targets:

— As at 31 March 2008 women made up 36.0% of range Es and 41.6% of Range Ds and the Treasury is on track to meet targets of 40% at each grade. Women made up 34.9% of the SCS (target 37%) with women in 20% of top management posts.

— The proportion of staff from ethnic minority backgrounds is 6.4% (target 14%) at Range E and 2.8% in the SCS (target 4%). However we have already passed our target (of 14%) for the representation of people from ethnic minority backgrounds at Range D (now 15.8% March 2008).

— There has been some very encouraging progress on the representation of disabled people in the feeder grades (this may be due partly to the improved recording procedures that have been put in place in the last year). The target is 5% and at March 2008 the representation of disabled people at range E is 4.4% and at range D 4.6%. Disabled people made up 1.8% of staff in the SCS (target 3.2%).

The Treasury is seeking to address under representation in a number of ways including:

— Developing stronger links to Universities with Diverse Student Populations Outreach.

— Launching a Diversity Tool Kit.

— Mentoring women in the SCS.

— Promoting diversity awareness through a series ofevents and networks.

— Closer working with Other Govenunent Departments' Diversity Groups.

— Mainstreaming diversity.

Question 129 (Mr Davidson) and Question 138. (Chairman): *How many senior civil servants have left the civil service as a result of poor performance, including any instances where people have gone as a result of PAC pressure?*

The process of managing out poor performers is necessarily a sensitive one. In many cases, poor performers will choose to resign and pursue careers elsewhere rather than be dismissed. For that reason data is limited. However, the Office for National Statistics collects aggregate data on civil service leavers and dismissals. Between 2003 and 2005, 2,560 civil servants were dismissed on grounds of "inefficiency", representing 2.6% of the total population of leavers during that period.

In the case of the senior civil service (SCS), if we look at the correlation between performance and leavers, proportionately more poor performers at SCS level left the civil service than those in other performance tranches. In 2007, 6% of SCS were considered to have significant development needs, 17% of those who resigned are known to have been from this performance tranche. Steps have also been taken to improve performance at the departmental level. For example, the Home Office has undergone significant changes to its leadership in recent times. In his evidence to the Public Administration Select Committee in November 2007, the Cabinet Secretary noted that 28 of the 50 directors within the Home Office were new and that there had been 17 exits.

We do not have information on the impact of the PAC on resignations or career progression of senior staff.

Questions 143–5 (Mr Dunne): *Does the Treasury receive the monthly board pack submitted to the Olympics board, and what is the Treasury's assessment of the quality of the financial information?*

The Chancellor of the Exchequer is Chair of the Ministerial Funders Group, which is responsible for controlling access to the contingency funding available. As such, on behalf of the Chancellor of the Exchequer, Treasury officials are party to all discussions on managing the public sector funding package for the Olympics.

HM Treasury receives monthly financial and project information from the Olympic Delivery Authority (ODA) and regularly discusses the position with the Government Olympic Executive (GOE) in DCMS, which acts as client on behalf of the Government. HM Treasury is also heavily involved in the process of quarterly review of the programme's financial position, risk assessment and delivery performance, which the GOE leads on behalf of government. This process forms the basis of the information that is made available to inform Parliament and the public on progress of the Olympics, through, for example, the GOE Annual Report and the half-yearly updates and quarterly briefings provided to opposition Spokesmen and Committee Chairs by the GOE.

The financial information provided by the ODA supported the agreement of the DCMS Main Estimate submitted to Parliament for the last financial year. Since that time, detailed cash flow estimates have been developed and agreements are in place between all of the funders of the Olympics, supported by HM Treasury, to ensure the funding available matches the projected profile of spend. GOE and HM Treasury continue to work with ODA to improve information further. To support this, Treasury officials hosted a half-day training for ODA and GOE officials covering public spending and financial management disciplines as applied in government. GOE are holding a workshop on ODA reporting to drive further improvement, in which HM Treasury will actively participate.

Questions 146–8 (Mr Dunne): *What is the average time spent in post in HM Treasury, and the average time spent in HM Treasury?*

As of 31 March 2008, staff have, on average, been in their current posts for 1.6 years. This includes staff on time-limited loans and secondments to the Treasury. Current employees have been in the Treasury on average for 6.4 years.

Questions 149–150. (Mr Dunne): *Which Treasury officials have prior banking experience?*

Nicholas Macpherson, Pennanent Secretary, worked on the Barings Bank crisis and resolution, as Principal Private Secretary to the Rt Hon Kenneth Clarke QC MP, in 1995.

Managing Directors

— John Kingman, Second Permanent Secretary, and Managing Director of Public Services and Growth, was an Executive Director of the European Investment Bank from 2003–06. He also wrote extensively on banking sector issues for the Financial Times *Lex* column.

— Stephen Pickford, Managing Director of International Finance, was an Executive Director of the World Bank from 1998–2001 and has been a Director of the European Investment Back since 2007.

— Tom Scholar is a Non Executive Director of Northern Rock and was an Executive Director of the World Bank from 2001 to 2007.

Financial Services/Northern Rock Team

Experience in the Financial Services/Northem Rock Team includes:

— a Senior Civil Servant who worked for three years in the City for Natwest and Prudential Groups (including a period working for Egg) and as a consultant for HBOS Group 2; and

— a Senior Civil Servant who worked for two years as an economist in fund management, plus 12 years as an economist covering fixed income and currency markets in investment banking.

Staff experience in the broader International Finance and Macroeconomics and Fiscal Policy Directorates includes:.

— a former Managing Director of the Deutsche Bank Group;

— a current Alternate Director of the European Bank for Reconstruction and Development; and

— a Qualified Chartered Accountant with over 15 years of post-qualification banking experience prior to joining the Treasury, including five years as Finance Director of Close Brothers Ltd.[2]

Questions l51–2 (Mr Dunne): *Have any current Treasury Ministers attended a financial risk seminar?*

Two of the Ministers who attended a financial and risk seminar in April 2006 are now Treasury Ministers.

Question 156 (Mr Williams): *What is the Treasury's approach to accreditation of financial management training courses?*

HM Treasury has a light touch approach on accreditation. This is because the tier 1-3 training material is available free of charge to all departments and tier 2-3 is also freely available to external providers of finance training to departments. In addition, HM Treasury has specified the 22 knowledge traits which underpin the Professional Skills for Government core finance skills. Again, these knowledge traits are freely available and should be used in the design of finance based training. Departments are encouraged to use the training material and adapt it to meet the specific needs of their departments by, for example, substituting case studies with real life departmental examples. The National School of Government updates the tier 1-2 material on an annual basis and provides on-going quality assurance of content. For practical reasons, only the tier 1-3 material is endorsed by the Head of the Government Finance Profession, as it was specifically commissioned by the Cabinet Office.

Question 171 (Mr Bacon): *Why is financial management not a mandatory element of the performance framework for the whole of the SCS, and will the guidance be updated to make financial management a mandatory element?*

All permanent secretaries have agreed to apply a single, common performance management framework across the senior civil service (SCS). The framework sets out what is expected from departments, it is mandatory in its effect. The framework and assessment process is detailed in the Cabinet Office document "Performance Management Guidance 2008". The Guidance allows departments limited discretion to reflect the particular challenges they face—for example, if a department is placing a particular focus on improving the quality of its financial management or leadership, it may want to emphasise this in the overall assessment process. The guidance also allows limited flexibility at the individual level. For example, in the case of financial management, it may be inappropriate to place a significant focus on performance or capability in this area if an individual does not have financial responsibilities.

A bank and authorised under the Financial Services and Markets Act 2004. It is regulated by the Financial Services Authority and is the parent company of a group providing a range of banking services including specialist financing, asset financing, treasury and deposit taking. Close Brothers Ltd is wholly owned by Close Brothers Group plc which itself is listed on the London Stock Exchange.

ISBN 978-0-215-52354-9

9 780215 523549

Printed in the United Kingdom by The Stationery Office Limited
9/2008 405958 19585