



House of Commons
Committee of Public Accounts

Accountability for public money

**Twenty-eighth Report of Session
2010–11**

*Report, together with formal minutes, oral and
written evidence*

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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).

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Mr Richard Bacon (*Conservative, South Norfolk*)
Mr Stephen Barclay (*Conservative, North East Cambridgeshire*)
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Eric Joyce (*Labour, Falkirk*)

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

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Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

This Report addresses an issue at the core of the relationship between Parliament and government – accountability for public spending. We recognise that this is just one dimension of the accountability framework that underpins our constitution: Ministers have a separate accountability to Parliament and the public for their policy choices and outcomes achieved; and local authorities are answerable directly to their own electorate. We also recognise the inherent tensions between these different dimensions of accountability and that as government has evolved demarcation between them has become less clear. Our concern is to ensure that regardless of what public money is spent on, or which bodies are spending it, it is spent properly with due regard to value for money, hence our focus on financial accountability.

Our hearing addressed policy issues surrounding parliamentary accountability because the Committee of Public Accounts and the Comptroller and Auditor General have particular statutory charges in this regard. While the PAC is most engaged with the effectiveness of accountability for public spending, the issues are of significant interest to other select committees and to Parliament as a whole.

We were interested in the implications for accountability of two recent developments: the governance reforms which include Ministers chairing departmental boards and greater non-executive involvement in those boards; and the reform and localism proposals which envisage a significant devolution of responsibility for service delivery to a wide range of new bodies, in some cases independent of both central and local government. We took evidence from the Minister for the Cabinet Office, the Cabinet Secretary, the Permanent Secretary to the Treasury and the Government's lead non-executive. Our concern was to understand rather than challenge the underlying policy intentions. The testimony we heard on the governance reforms raised a number of practical points on which we have written to the Treasury in response to their consultation on the draft Corporate Governance Code (copy attached as the annex to this Report). The testimony we heard on the reform and localism proposals raised more fundamental points about the current model of accountability, which we explore in this Report.

We wanted to understand whether the Government intended that its departmental boards or reform proposals should alter the accountability structure of which this Committee is part. Our concern was that Parliament gives government the authority to raise revenue, and that it approves public spending and in turn holds government to account for the use of public funds and for what is achieved. In practice government has long chosen to discharge this accountability through the senior civil servant in each department, the Accounting Officer. Government vests in each Accounting Officer a direct and personal accountability to Parliament for his or her department's stewardship of public funds. While significant sums are spent locally, local taxes account for just 5% of revenue raised and so the overwhelming majority of public spending in the UK is routed through departments and is the responsibility of the departmental Accounting Officer. Parliament vests responsibility in this Committee to hold Accounting Officers accountable on its behalf.

The Accounting Officer model has a number of strengths: it promotes high standards of

propriety in public spending and an understanding within departments of the importance of securing value for money. The Accounting Officer model has also stood the test of time, adapting to new and diverse methods of delivering services to the public.

The environment within which Accounting Officers operate has evolved since they were first appointed in the 1870s. The clear demarcation between ministerial responsibility for policy and Accounting Officer responsibility for implementation has blurred as Ministers in successive administrations have taken a closer interest in how their policies are delivered, and the present public service reforms will inevitably impact on senior relationships within departments. These developments, taken to their logical conclusion, might have been thought to argue for a shift from the current individual accountability model to a collective model in which departmental boards would be held accountable. We were told very clearly, however, that the Government intends to continue with the current model, and our Report therefore starts from this premise.

The Government has recognised the need to reconcile the policy objective of its reform and localism agenda with the demands of accountability to Parliament through the Accounting Officer model, and has asked Sir Bob Kerslake to review how this might be achieved. We welcome this review and the commitment to consult this Committee, and have taken the opportunity in this Report to set out our view of the fundamental elements that need to be in place to ensure the accountability process is effective. These are set out in Figure 1, and provide the context for our consideration of the current reform proposals.

Figure 1 Fundamentals of accountability

The Accounting Officer is personally and ultimately responsible to Parliament for the spending of taxpayers' money and must be unfettered in the discharge of these responsibilities. The Accounting Officer must therefore be given, and be willing to exercise, the authority to ensure that all funds allocated to the department are spent properly and with due regard for value for money.

Where a department provides funding to other bodies, the Accounting Officer is responsible for ensuring that there is an appropriate framework in place to provide him/her with the necessary assurances and controls. These assurances should cover: whether the funding has been spent with propriety and on the purposes intended by Parliament; whether value for money has been achieved; whether the bodies concerned are financially resilient; and how to respond to any failure to ensure taxpayers' money is protected and the public interest is served.

Responsibilities and authority for policy and operational decisions are clear throughout the delivery chain. Where arm's length bodies are responsible for delivery, the departmental Accounting Officers designate the relevant Chief Executive as Accounting Officer, and for major projects and programmes should nominate a Senior Responsible Owner. It is important to ensure that those to whom responsibility for service delivery is devolved understand what they are expected to deliver, at what cost, with what local discretion, how they will be held accountable and what action will be taken should performance fall short. Designated Accounting Officers and Senior Responsible Owners should support but not replace departmental Accounting Officers in discharging their accountability to Parliament.

There is a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services. This should cover the information needed for both local accountability and the assurance required by Accounting Officers to fulfil their central accountabilities. We welcome the Government's commitment to transparency, but the information must be relevant and robust if its publication is to enhance accountability. Information should include comparative information to highlight and understand variations in performance. Where value for money is not clearly demonstrated by arm's length bodies, this Committee reserves the right to hold departmental Accounting Officers to account for systemic performance issues and for the effective operation of governance in individual bodies; and individual public bodies to account for their use of taxpayers' money.

All bodies which receive public funds are well governed and have robust financial management arrangements in place. Departments are responsible for ensuring that the bodies through which they choose to deliver public services spend public money properly and with regard to value for money and are subject to adequate audit.

Conclusions and recommendations

- 1. We welcome the Government's acceptance of the need to reconcile the policy intention of its reform and localism agenda with the legitimate demands of parliamentary accountability.** We urge the Government to consider the fundamentals of effective accountability set out in this Report and consult fully with Parliament on how accountability will be delivered within the context of its reform agenda.
- 2. Local accountability and reformed structures do not absolve departmental Accounting Officers of their personal responsibility to gain assurance on the way funds voted to their departments are spent.** The Cabinet Office and the Treasury distinguished between Accounting Officers' accountability for system-wide issues and accountability to the local community or service user for the performance of local bodies. Our interest is in the financial management and value for money secured from all departmental spending and we expect Accounting Officers to put in place arrangements to provide us with the assurances we need. Parliament needs to be able to assure the public that value for money is obtained and Government must put in place arrangements to enable Parliament to do its job.
- 3. The accountability arrangements supporting the localism agenda are unclear.** The National Audit Office estimates that 37% of central government tax receipts are devolved to local bodies. We support the aim of enhancing local accountability and user accountability, but thinking on how local communities and users hold bodies accountable in practice is rudimentary. The Government's review of accountability needs to consider the extent to which local accountability will act as an effective pressure to secure service improvements without due regard to value for money, particularly where there is no local financial incentive to keep costs down.
- 4. The reform agenda anticipates a plethora of delivery and accountability models, some of which are untested.** Responsibility for delivering public services will be devolved to established entities such as local authorities with a strong record of managing public funds but also to new and untested bodies, for example GP consortia or free schools. The Government's accountability review should map out the landscape of the different delivery models and proposed accountability arrangements for each form of reform and ensure they comply with the fundamentals we have outlined.
- 5. Accountability regimes must be underpinned by sound information systems, yet our experience suggests this is an area of systemic weakness.** Whether to aid the 'armchair auditor' and the users of local services, or to provide the assurance that Accounting Officers need to fulfil their responsibilities to Parliament, information about local delivery needs to be comparable and robust. The Government acknowledged that where resources are devolved to local providers, performance is likely to vary. Currently, users of local services have little or no access to information on the cost, quality or value for money of the services and this limits their ability to make informed judgements between alternative providers. Even if they did have access to the necessary information, service quality would be likely to prove the

overriding priority for service users; cost and value for money would be secondary considerations in selecting the appropriate service. Government should specify what performance, financial and outcome information is needed to enable effective transfer of responsibility to local service providers.

6. **Accountability for the delivery of major projects and programmes must be clear so those responsible for delivery can be held to account.** There are weaknesses in personal responsibility and accountability for major projects due to the high turnover and lack of central oversight of Senior Responsible Owners. Government acknowledges that there is a shortage in project management expertise. This dilutes control over major projects, has led to cost overruns and delays and further weakens accountability to Parliament. The Cabinet Office is updating its current approach to enhancing project management expertise. At a project level, Senior Responsible Owners should be held accountable for delivering projects within an agreed budget and timeframe and should have authority to direct those involved in delivering the project. For all major projects and programmes, the Accounting Officer should nominate a Senior Responsible Owner who is accountable to Parliament alongside the departmental Accounting Officer. Steps should be taken to reduce the present turnover of staff, which undermines efficiency and effectiveness and makes a nonsense of personal responsibility and accountability.

1 Accounting Officer role and accountability

1. It is central to the British constitution that the Crown (Government) can only do what Parliament will pay for. Parliament rightly expects that public funds will be managed properly with a strong focus on value for money. HM Treasury has set out, in *Managing Public Money*, the principles that central government bodies should apply when managing public resources. *Managing Public Money* recognises that ‘the duty to safeguard public funds is invariant. But how it is carried out will change over time’.¹

2. The personal accountability of the Accounting Officer forms the foundation of Parliament’s ability to hold the Executive to account for public spending.² Ministers are answerable to Parliament for policy decisions and the actions of the departments and their executive agencies. The Accounting Officer, normally the Permanent Secretary in the department, is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources. To support these responsibilities the Accounting Officer requires an effective assurance regime.

3. We, the Committee of Public Accounts, hold Accounting Officers to account for the delivery of these objectives by considering the reports of the Comptroller and Auditor General (C&AG). The C&AG audits the accounts of all government departments and agencies as well as a wide range of other public bodies and reports to Parliament on the value for money – the economy, efficiency and effectiveness – with which these bodies have used public money. This system of accountability to Parliament has been agreed between the Treasury and this Committee for many decades.

4. The Accounting Officer model has a number of strengths and has led to high standards of propriety in public spending and a focus within departments on regularity and the importance of securing value for money. We have, however, observed tensions in how this accountability is exercised at present and potential complications may arise in future from greater devolved delivery of public services. For example, the diversification of the range and type of service providers, delivery bodies and structures over the past two decades and the devolution of power from major Whitehall departments have diminished the extent to which this accountability is vested in the Accounting Officer.³

1 HM Treasury, *Managing Public Money*, October 2007, Foreword, paragraph iii.

2 Qq 32, 78

3 Q71

2 Accountability and the reform agenda

5. Reform, localism and devolving responsibility for public services are central to the Coalition Government's policy agenda, particularly in health, education, local government and justice.⁴ The Government's intention is that this will give local people and service users a greater say in how their services are run and/or the freedom to run things themselves.⁵ For example, free schools are intended to encourage more local engagement with and control over education.⁶ This continues the trend which has seen a multitude of delivery bodies secede from direct departmental control.

6. Central government collects most of the taxes to fund services delivered locally. There must be sufficient recognition of accountability for the use of taxpayers' money given that 56% of local government spending is funded by central government (Figure 2) and local taxes contribute only around 5% of total tax revenue. In health, all the money allocated through Foundation Trusts and GP consortia will be raised through general taxation. Three-quarters of police funding is provided by central government and a quarter by local funding. While it is not yet possible to be definitive about the level of resources that will be allocated to local bodies, the National Audit Office estimates that at present 37% of central government tax receipts are routed through them (Figure 3). Even if associated local accountability arrangements are satisfactorily defined, taking service delivery down to the lowest possible local level risks diluting parliamentary accountability for a considerable amount of central government spending and the use of taxpayers' money.

Figure 2 Funding of local spending

Area of spend	Total funding (£billion)	Local funding (£billion)	Central funding (£billion)
Health (PCT funding only)	89.0	0 (0% of total)	89.0 (100% of total)
Education	37.0	0 (0% of total)	37.0 (100% of total)
Police (2009-10 figures)	12.9	3.1 (24% of total)	9.8 (76% of total)
Local Government (excluding Police)	126.6	71.3 (56% of total)	55.3 (44% of total)
Total	265.5	74.4 (28% of total)	191.1 (72% of total)

Source: National Audit Office analysis (based on 2010 Spending Review and Local Government Finance Settlement)

4 Q 72

5 <http://www.communities.gov.uk/localgovernment/decentralisation/localismbill/>

6 Committee of Public Accounts, 17th Report of Session 2010-11, *The Academies Programme*, January 2011, HC 552

Figure 3 Local spending as a percentage of total central government receipts

Local spend funded centrally	Central funding (£billion)	Percentage of total central government receipts of £523 billion (1)
Health (PCT funding only)	89.0	17%
Education	37.0	7%
Police (2009-10 figures)	9.8	1.9%
Local Government	55.3	10.6%
Total	191.1	36.5%

(1) Comprising total government receipts of £548 billion minus £25 billion raised locally (June Budget 2010)

Source: National Audit Office analysis (based on 2010 Budget, Spending Review and Local Government Finance Settlement)

7. We appreciate that there are other forms of accountability involved in the new arrangements, such as direct accountability to service users. However, Parliament must still be able to ‘follow the pound’ to scrutinise the use of devolved resources, and accountability arrangements must be clarified before devolved models are implemented. Any service delivery mechanism such as ‘tight-loose’ needs to include proper accountability for taxpayers’ money.⁷

8. While there already exist relatively robust, transparent and deeply-rooted accountability arrangements at the central level – of which this Committee is part – the accountability arrangements at local level, local government excepted, are not as sophisticated or developed. The Government’s view is that the principal accountability for how the money is spent and whether it has been spent well is between the provider and the service user, for example the GP and the patient.⁸ But thinking on how, in practice, local communities hold local bodies accountable is rudimentary.⁹ For example, defining how patients will hold their local GPs to account when GPs are put in charge of commissioning services remains unclear and uncertain.

9. In our view accountability systems need to be much more strongly developed to enable effective transfer of responsibility for cost and value for money to the local level. Relying on local groups and individuals to hold local service providers to account may highlight quality of service issues but is less likely to focus on cost and value for money as funds will be provided centrally.¹⁰ Currently, patients have little or no access to information on the cost, quality or value for money of their care and are unable to make clinical or value for money judgements between alternative treatments.¹¹ Even if they could, the quality of care

7 Q 79

8 Qq 74-75, 81

9 Q 75

10 Q 93

11 Q 82

would be the overriding priority; cost and value for money would be secondary considerations in making choices.¹²

10. New structures for accountability must not absolve Accounting Officers of their personal responsibility to gain assurance on the way funds voted to them are spent.¹³ The Treasury acknowledged that a critical role for Accounting Officers in all departments is to satisfy themselves there is a sensible framework to promote value for money and that financial systems are robust.¹⁴ The Cabinet Office and the Treasury distinguished between Accounting Officers' accountability for systemic issues which result in poor value for money across all local bodies, and accountability to the local community or service user for the performance of local bodies. For example, the Accounting Officer should not be held to account for the performance of an individual academy.¹⁵

11. While we reserve the right to hold departmental Accounting Officers to account for systemic performance issues and individual public bodies to account for their use of taxpayers' money, we are concerned that it would be difficult for this Committee to exercise parliamentary accountability by holding innumerable local delivery bodies to account for their use of public resources.¹⁶ For example, in our hearing on the Health Landscape Review, it was unclear where accountability rests for the performance of Foundation Trusts.¹⁷ We consider that new policy initiatives which involve the devolution of resources to local service providers should not be launched without establishing a clear mechanism which will ensure proper accountability to Parliament. This mechanism should provide a clear structure, robust financial management and comparable information so that performance can be scrutinised.

12. We therefore welcome the Treasury's confirmation that any system must give Parliament the necessary level of assurance about how taxpayers' money is spent.¹⁸ A critical role for the Accounting Officer of all departments is to satisfy themselves there is a sensible framework to promote value for money.¹⁹ This is fundamental to the relationship between the Treasury and Parliament, in particular this Committee, and is reflected in the Concordat agreed in 1932.²⁰ We were told that Sir Bob Kerslake, the Permanent Secretary at the Department for Communities and Local Government, is undertaking a review of the accountability implications of localism.²¹

12 Q 82

13 Qq 78, 90, 92

14 Qq 71, 90

15 Qq 76, 91-92

16 Qq 73, 76

17 Committee of Public Accounts hearing, *Health Landscape Review*, 25 January 2011, HC 764-i

18 Qq 71-72, 76, 78-79

19 Q 71

20 Q 79

21 Q 72

3 Information needed to evaluate performance and support accountability

13. It is clear that if local people are to have a greater role in holding service providers to account, they must first of all have relevant and robust information to do so.²² Robust, comparable and timely data is a precursor to effective accountability. This is essential for Parliament to hold departments to account for the resources they use, for users to hold local service providers to account for the quality of service, and for departments to identify how local bodies have used the funds allocated to them. All too often we find that whilst there is plenty of information available, it is not fit for purpose and this impacts on our ability to hold departments to account – let alone whether it enables the customer to hold local delivery bodies to account.

14. The Government reforms are likely to lead to greater variation in performance at local level.²³ Accounting Officers will still need to understand what the whole system is delivering and, where there is variation, to understand why.²⁴ In addition, there is a risk that users of local services will not have appropriate information to assess and compare the cost and quality of local services, and to make informed and optimal choices between delivery bodies. This is particularly the case when services are delivered by a variety of bodies from the public, private and third sectors. Relevant data is needed to enable both Accounting Officers and local service users to understand whether different outcomes are desirable in different areas, and this should be both readily available and comparable.²⁵

15. When reviewing the performance of new delivery models, this Committee will expect to see evidence of the benefits from more local delivery. We will need to be assured that a strong accountability regime is in place with the following elements: clearly defined outcomes; robust and transparent mechanisms for information about performance and financial management; a single, recognised Senior Responsible Owner for the programme with a reporting line to the departmental Accounting Officer; good governance arrangements; a clear system for dealing promptly with failure; and a funding allocation process that is explicit and auditable, supported by a thorough evaluation of outcomes. Parliament relies on the independent assurance provided by the audit process.²⁶ These mechanisms are not new, and need not be held centrally, but should exist throughout the delivery chain.

22 Q 82

23 Qq 80-81, 91-92

24 Q 92

25 Qq 74, 81

26 Qq 77, 83, 96

4 Accountability for the delivery of major projects and programmes

16. We know that there are weaknesses in personal responsibility and accountability for major projects due to the high turnover of Senior Responsible Owners.²⁷ There is also insufficient project management expertise across government which damages accountability over major projects and has led to cost overruns and delays.²⁸ This culture weakens accountability to Parliament.

17. We heard that the Cabinet Office's Efficiency and Reform Group is leading the work to improve professional project management skills and provide a high degree of personal oversight to major projects.²⁹ The Cabinet Office expects this to lead to improved management of complex projects and development of departments' project management expertise.³⁰ We recognise some of the barriers to be overcome, including retaining good Senior Responsible Owners.³¹ We heard that the private sector is subject to the same pressures and may have useful insights to share.³² We would also expect that at a project level, Senior Responsible Owners should have the authority to take decisions and should be held accountable to Parliament, alongside the departmental Accounting Officer, for delivering projects within an agreed budget and in the time agreed.³³

27 Qq 4-5, 33

28 Qq 83, 88

29 Q 88

30 Q 83

31 Q 87

32 Q 10

33 Qq 4, 8

Annex 1: Letter from Chair to Sir Nicholas Macpherson on draft Corporate Governance Code

Sir Nicholas Macpherson KCB
Permanent Secretary
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

30 March 2011

Dear Sir Nicholas

PAC hearing on accountability

At the Committee's hearing on 19 January we explored the governance reforms and wider issues of financial accountability in relation to the reform and localism agenda.

We intend to pursue the financial accountability issues in our formal report based on the evidence we heard on these issues. Our report will take as its starting point that government intends to continue to discharge its financial accountability to Parliament through the Accounting Officer. With that in mind, we will set out our view of the elements that need to be in place to make the Accounting Officer model effective and we will consider the current reform programme for public services against this framework.

In the meantime, and in response to your letter of 13 January on the draft Corporate Governance Code and Sir Gus O'Donnell's letter of 14 December on the draft Cabinet Manual, I thought it would be useful to set out the Committee's conclusions on the new governance arrangements which we hope you will consider as you finalise the new Code and Cabinet Manual.

Given that the Accounting Officer model of financial accountability endures, we are concerned to ensure that the responsibilities can be discharged appropriately. Our recent experience demonstrates reluctance on the part of some Accounting Officers to accept full responsibility for the stewardship of public money, and some hesitation about seeking directions from Ministers when confronted with proposals that do not represent value for money. We therefore welcome your commitment to undertake further work to clarify Accounting Officer accountabilities and to look again at Treasury guidance on the circumstances in which directions should be sought. We also welcome the commitment made by the Treasury to set out clearly the pre-requisites for good financial management

in its guidance to departments, and to emphasise the importance of affordability and sustainability.

In our view the new powers of non-executives to recommend the dismissal of Accounting Officers could undermine the position of Accounting Officers by making them more reluctant to challenge decisions which in their opinion are not value for money or feasible. We therefore welcome the Treasury's commitment to refresh the guidance so the grounds on which Accounting Officers should seek directions include feasibility, in order to remove doubt about when a direction should be sought. We also welcome the commitment to improve transparency, and would expect the Government to publish ministerial directions soon after they are issued, rather than waiting for the publication of the department's accounts.

The new Corporate Governance Code introduces a number of changes in departmental governance. We were assured that the constitutional roles of Ministers and officials remain unchanged, but there must be no scope for confusion. We recognise that the neat distinction between policy and implementation has blurred. In the operating environment, officials are involved in policy development and Ministers see policies through into implementation. We welcome the Government's efforts to develop guidance on this further. The Government should ensure that Treasury and Cabinet Office guidance recognises the reality of the blurring of policy and delivery roles for Ministers and officials, with support and challenge from non-executives. In particular, it should take into account the role of the strengthened non-executives, especially their power to challenge decisions and the impact of their new power to recommend to the Prime Minister or Cabinet Secretary the removal of the department's Permanent Secretary.

Given the enhanced position of non-executives on the boards of government departments derives mainly from their independence, we were surprised to see some confusion over the appointment process. Non-executives were appointed before a proper appointment system and procedures were in place. We understand the need to ensure that non-executives are able to work with both Ministers and Accounting Officers, but we believe that this should be balanced against the need for their independence. If Ministers are to be subject to effective challenge, the appointment process for non-executives must be open, transparent and independent of the Minister to whom the non-executive is to work.

We discussed at the hearing the current weaknesses in personal accountability for major projects due to the high turnover of Senior Responsible Owners, which undermines accountability to Parliament for major projects and has led to cost overruns and delays. We heard about the efforts of the Cabinet Office's Efficiency and Reform Group to improve professional project management skills and provide a high degree of oversight to major projects. We recognise some of the barriers facing the Government, including the challenge to retain good Senior Responsible Owners. We would expect the Cabinet Office to work with the lead non-executive, Lord Browne, to prepare a fresh action plan to enhance financial and project management expertise, drawing on private sector experience. It would be helpful if the Cabinet Office could provide us with an update of its current approach to improving financial and project management expertise, and an assessment of progress to date.

Overall, we found the discussions at the Committee's hearing on 19 January very constructive, and we welcome the assurances given at the hearing that new guidance will be developed. I look forward to receiving your response to the matters raised in this letter, and in particular your assurances that the Committee's concerns will be addressed. I have copied this letter to Sir Gus O'Donnell.

Rt Hon Margaret Hodge MP

Chair, Committee of Public Accounts

Formal Minutes

Monday 28 March 2011

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Stephen Barclay
Dr. Stella Creasy
Jackie Doyle-Price

Jo Johnson
Austin Mitchell

Draft Report (*Accountability for public money*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 17 read and agreed to.

Conclusions and recommendations 1 to 6 read and agreed to.

Summary read and agreed to.

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

Ordered, That the Chair 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.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 30 March at 3.30 pm]

Witnesses

Wednesday 19 January 2011

Page

Rt Hon Francis Maude MP, Minister for the Cabinet Office, **Lord Browne of Madingley**, Lead non-Executive Director, Efficiency and Reform Board, **Sir Gus O'Donnell KCB**, Cabinet Secretary and Head of Home Civil Service, Cabinet Office, and **Sir Nicholas Macpherson KCB**, Permanent Secretary, HM Treasury

Ev 1

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–11

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Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
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Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
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Twelfth Report	Central government's use of consultants and interims	HC 610
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Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 19 January 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Dr Stella Creasy
Jackie Doyle-Price
Matthew Hancock

Chris Heaton-Harris
Joseph Johnson
Mrs Anne McGuire
Austin Mitchell
Ian Swales

Amyas Morse, Comptroller and Auditor General, gave evidence. **Gabrielle Cohen**, Assistant Auditor General, **Martin Sinclair**, Assistant Auditor General, and **Paula Diggle**, Treasury Officer of Accounts, were in attendance.

Examination of Witnesses

Witnesses: **Sir Gus O'Donnell**, Cabinet Secretary and Head of the Home Civil Service, **Sir Nicholas Macpherson**, Permanent Secretary, HM Treasury, **Rt Hon Francis Maude MP**, Minister for the Cabinet Office, and **Lord Browne of Madingley**, Lead Non-Executive Director, Efficiency and Reform Board, Cabinet Office, gave evidence.

Q1 Chair: Welcome to you all, and thank you all for coming. This is a sort of unusual PAC session in that it's not really an interrogation that we're involved in; it's really a conversation for us to better understand how the new arrangements that you're putting into place impact on the accountabilities that we have to Parliament and to this Committee, particularly for the expenditure of money. So, that's the sort of background to it and in no way do we want to have an interrogation. It's also unusual for us to have in Ministers, so welcome to you.

Rt Hon Francis Maude MP: Unprecedented, I'm told.

Q2 Chair: I hope that it'll be a freestanding conversation between us all, so that we can all do our job better. Now, I think you all want to do a little bit of an introduction, I've been told. Is that right?

Rt Hon Francis Maude MP: Well, it was suggested to us that we might, as we're responding to the solicitation of your Clerk, at any rate, if not of the Committee.

Q3 Chair: Okay, and then can I just say to you that the way I thought we would do it is there are three key areas that we want to address: one is the weaknesses in the current arrangements on accountability, which we want to address quite briefly; then we want to look at the impact that the new arrangements will have to non-executive directors and Ministers chairing boards; and then, finally, we want to look at this tight/loose set of arrangements and the impact that will have on accountability for spending public money. So, I'm going to try to keep the discussion in those three areas, if I can, but if you'd like to start with what you bring to the table and the discussion this afternoon, each of you, in a very short introduction, we'd be grateful for that. Who's going to start?

Rt Hon Francis Maude MP: Good. Shall I kick off? Thank you very much. I think we've only got very short things to say, so we won't delay the conversation, and we will endeavour to be conversational. Thank you for the invitation and it's a pleasure to have the chance to canvas these important issues with the Committee. I thought I'd say a word about the new approach to boards and the tight/loose framework, because I've been very much involved in both of those. The formal accountability things very much remain Treasury issues, and so Nick Macpherson and Gus will want to deal more with those.

On the boards, setting up Departmental boards was a welcome innovation by the last Government, and we support that, but it seems to us that they missed two opportunities. Most of the boards—not all but most of them—were chaired by permanent secretaries, not by Ministers, and the non-execs on those boards were not uniformly from a very senior position, nor were most of them from the private commercial sector. It seemed to us that having roughly an equal number of Ministers, civil servants and non-execs on the board gives the chance to create a genuine collective leadership for the Department, bringing together the political and official leaders with the support and challenge from the non-execs.

Sometimes, it seemed to us, a bit of an artificial distinction is made between policy on the one hand and delivery on the other, as if they're wholly separate things and, of course, that's not the case. For a start, officials are intimately involved. On the suggestion that Ministers do policy and officials bear away the policy and execute it, first, officials are intimately involved in the development of policy—crucial to it, central to it—and, secondly, there isn't a separation; there's a continuum between policy and delivery, and there should be a whole sort of iterative process, where the two feed off each other, and you should not

have a process where there's no pushback on policy if the effect of a policy is that it's very, very difficult or expensive and risky to implement it.

The second missed opportunity, it seemed to us, was that it's a pity not to involve very senior leaders from the commercial world, especially those who've led challenging change-management programmes, particularly in the current environment, in big, complex organisations, and the teams that have been recruited for the new boards—especially the lead non-execs but very widely spread among those of the rest of the boards who've been appointed so far—are from very senior ranks, not just from the commercial world, but mainly from the commercial world, but with representation from the not-for-profit sectors and the public sector as well. So, that's on the boards. We don't think it changes the fundamental accountabilities, but that's something you'll want to probe, but it should strengthen the way in which Departments are managed.

On the tight/loose framework, it seemed to us that, in big, complex organisations, there are some things which the corporate headquarters needed to control, and those are obviously cash; strategy; strategic communications; property, where you want to look at it holistically; headcount; commodity procurement, where the scale of the whole enables you to drive down cost if you leverage the whole of the enterprise; the big projects that carry financial, operational and reputational risk—no big organisation simply allows those to be dealt with randomly around the system; ICT infrastructure, where you'd want to have a common infrastructure that is interoperable—you don't want different parts of the organisation creating different gauged railways, as it were.

So, all of those areas seemed to us to be susceptible to quite tight control, while the whole philosophy of the Coalition Government is to push operational delivery as close to the front line as it can possibly be done. If I were to make a mildly partisan remark, it would be that, in the last Government, I think I observed a tendency to try to micromanage delivery from the centre, but actually some of those central functions were not tightly controlled from the centre, so you have a lot of ICT infrastructure around Government that simply doesn't interoperate. In a way, that's a mistake. That's probably enough from me.

Sir Gus O'Donnell: The question I was given was: thoughts on the relationship between Ministers and officials; how they operate in practice and how the boundaries between their different responsibilities can be protected. I think that's what you asked about and I thought it would be good to put that in the context of how things have changed. Obviously, Ministers and officials need to operate as a team—that's a given—and they need to do that very effectively, as the Minister has described. The way that was done quite often was Ministers would lay down their strategic priorities and then the Departmental board, with non-execs on that board, would go away and get on with delivery. There were some cases in the past where you had Ministers chairing boards: Department for Constitutional Affairs, Lord Falconer was in charge. When I was perm sec of Treasury and then Cabinet

Office, the way I tried to bring these two together was I had a session with Ministers regularly but rarely—like once a year—on strategic priorities, and then the board would go away and work with it. And on that board, I would have no Ministers but non-exec directors, and I found the non-execs very, very useful and challenging and constructive and helpful.

With the new arrangements—with Secretaries of State chairing the boards, and we've got a refreshed and strengthened team of non-execs, as the Minister said—the particular challenge we have in the next few years is delivering better with less, so that commercial expertise, as the Minister said, is absolutely crucial now and will be incredibly valuable to all of us, so I'm very pleased about those changes.

It's important to emphasise, as the Minister has, that, in this new world, the accountabilities for the Minister and the accounting officer are unchanged; that's very clear. They are exactly as were. The responsibilities of the different groups, which you asked about, for Ministers, officials, non-execs, are all set out in the revised draft Corporate Governance Code, which you have, and in, for civil servants, the Civil Service Code, and, for Ministers, in the Ministerial Code, and there's a cross-reference in the draft Cabinet Manual to some of these issues. So, they're all laid out very clearly. I think and am very confident that these changes will help us to deliver what we're going to do, and I think a lot of the changes associated with them on transparency, business plans and the like, I hope, will help you hold us better to account, so I think, in that sense, I would welcome them.

A final point from me: obviously, there's a point about coalition government here. Coalition government does change things and presents new challenges, and one of the things from the civil service end is that the key challenge for us is not just helping Ministers work with civil servants but helping Ministers from different political parties work with each other. That's a big challenge to the civil service and I think we've risen to it and it's shown the service at its professional best.

Lord Browne of Madingley: Ladies and gentlemen, I'm just going to elaborate on what Francis said when it comes to the enhanced Departmental boards, but I thought I might just say why I took on this role. I do actually think there is a very good chance of creating a better form of governance across the Departments of state. I think that business and third-sector leaders can bring some expertise and experience to the Government Departments, and so I took on this role as independent of Government but as the Government's lead independent director to achieve this. In my experience of commercial organisations, the most effective organisations are ones that learn from their successes and failures—principally their failures—and I believe that this is what the non-executives will help the Departments do.

So, how are we progressing? It's taken a little longer to get everyone aligned, but we're doing pretty well. We've appointed more than half of the non-executive board members, and I expect the majority of the others to be appointed within a month or so. I think the quality is very high indeed and I'm very pleased with that. They're people who have experience in

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running large and complex—critically, complex—organisations. They're quite balanced as well. At the moment, the data show that we've got roughly 40% women, and roughly 50% who have substantial not-for-profit expertise and experience. The experience will add up to more than 100% because these people have experience in various sectors, of course. Eight Departments are now operating with the new-style boards, and others will do so in the coming weeks.

Now, what are the boards? These are strategic boards, not simply a higher form of management—they're not management boards—and they're both advisory and supervisory. The board is advisory in the sense that they will provide advice to the Department on issues within their remit, such as strategy and the deliverability of policies, and they're supervisory in the sense that they'll scrutinise reporting from the Department on performance, and challenge the Department on how well it's achieving its objectives. Finally, one of the reforms is the network or the collection of lead non-executive directors. We're going to have our first meeting next month, and the lead non-executive directors will meet from time to time to share best practice across Departments and experience of what is working and, of course, of what is not.

Sir Nicholas Macpherson: I'd like to briefly talk about the role of the accounting officer. I see that role very much as an enduring role and central to the system of accountability that has been agreed between the Treasury and this Committee over very many decades, and it's unchanged in the reforms that the Government has set out. In my view, accountability is best served by a single person and not a committee taking responsibility for the administration of resources. I'd like to quote my predecessor, Warren Fisher, who told this committee in April 1921: "It should not be open to any permanent head to say, 'Please, sir, it wasn't me.' Pin it on him in the last resort and you've got him as an ally for economy."

Parliament needs to be assured that officials are going to carry out their duties to manage public expenditure to a high standard, and so we've got these key tests of regularity, propriety and value for money. If a proposal can't pass them successfully, it's a signal that it needs to be re-examined. The accounting officer direction provides a safety valve that allows Ministers to override officials if there are wider factors that justify going ahead in the public interest. In my experience, the accounting officer direction is rarely used lightly, either by accounting officers or Ministers. The Committee also needs to be aware that directions can be equally valuable when they're not made. If an accounting officer has a problem with a proposal, it can and usually should lead to a dialogue with the Minister about the design of that proposal; more often than not, it's reconfigured as a result. However, I am aware that the number of ministerial directions has increased in recent years, and I know that this Committee has raised the question of why directions were not sought in one or two areas. The Treasury Officer of Accounts and I have, therefore, decided to refresh the relevant guidance, *Managing Public Money*, and I'd just like to highlight very briefly three areas where we envisage improvements.

First, in my view, we need another test: feasibility. It's not quite the same as the other three but the reason is simple: if a proposal can't be done properly, then it can't make sense to spend public funds on it. The second one is affordability, which I know, Chair, you attached significance to. In my view, it's already provided for in the guidance, but I think our correspondence revealed that we could make it clearer still. Thirdly, transparency: directions are already notified to the Comptroller and Auditor General, who always, I think, shares them with you, Chair, but there's a certain random quality to publication, and I do see routine disclosure as in the public interest. The new code envisages that Departments' resource accounts would always disclose directions, unless confidentiality is required, and there could be a case for bringing publication even further forward. I hope to be able to discuss these as the hearing goes forward.

Q4 Chair: Good. Well, if we could start with that last one, if we start the conversation really on current arrangements, I think we've got two issues that we want to talk about in detail. One is the accountability of the accounting officer, and I really do welcome that clarification that you're going to put around government. It seemed to us that, in the instance of the aircraft carrier, it was just such an obvious case where there ought to have been a discussion and a letter of direction in place, and the correspondence didn't get to that point, but if you're going to actually improve things, that's welcome. I don't know if you want to comment on that.

The other issue that comes time and time and time again in the inquiries that we do is responsibility down the line. There's this wonderful thing about the senior responsible owner of a project, and our view is that there isn't sufficient emphasis in the machinery of government on that personal responsibility for projects by individuals within the system. The most classic was the M25, which we're going to be reporting on shortly, where—forget the nine years or whatever it took to sign the contract, and forget the overspending and the absurdity of the credit crunch—when we wanted to interview the senior responsible owner, he'd left—he was working for one of the consultants who'd advised—and he was in Spain and unavailable to come and appear before the Committee. It's an extreme case that demonstrated to us a weakness of personal accountability, which then leads to variations in the project, unacceptable overruns, both in time and in money.

So, there are two issues. I don't know who wants to start on that, but there are two issues: the accounting officer really taking seriously the letter of directions, and a strengthening of that senior responsible owner, so that somebody in the system really is accountable.

Sir Nicholas Macpherson: Can I just kick off on that one? I think affordability is very important. I think it's in the guidance. The accounting officers should take note of that. In the case of the aircraft carrier, as I understand it, the accounting officer took a decision in good faith not to seek a direction. That has to be his decision. The Treasury can't second-guess that, but, as I said, as we move into the future, I think we're all aware of problems around the defence procurement

programme and we want to improve decision-making in that space.

To move on to your second point, the point of having a single SRO is really important. Inevitably, with very long projects, you can get issues where the SRO is replaced, but I think the work of this Committee has shown that a very good lead indicator of a project heading for trouble is excessive turnovers in SROs. I'm always struck that, too often in Whitehall, staff turn over too quickly. I'm very pleased that, in the coming months, I'm coming to appear before you three times on banks, and you are well placed to hold me to account because I was the accounting officer throughout that period, but I think it's something that we, in managing our organisations, and Gus in running the civil service, need to take account of.

Sir Gus O'Donnell: Could I add just one point on your discussion about directions? Nick made a number of points that I absolutely strongly agree with. There's one other where I think there's a bit of a gap at the minute; we notify you straight away, but what happens during a general election period? There's a reference in the draft Cabinet Manual to the issue of whether you might want to be in a situation where you would make those public quite quickly on a website, because obviously we don't have a Parliament to make them available to during that period.

Rt Hon Francis Maude MP: Just on the SRO point, if I can just add to that, I came across, the other day, a project—a multi-year contract—that had had more than one SRO per year during its life.

Q5 Chair: Yes. Well, HMRC is classic. We are about to report on the HMRC—whatever it's called—PAYE system, the bringing together, and I don't think any SRO was on that project for more than a year, and they all changed the specification, so inevitably the whole system collapses, at massive, massive cost to the taxpayer.

Rt Hon Francis Maude MP: Indeed.

Q6 Stephen Barclay: I think we're going to come to letters of direction, but just as we're on SROs, if there's a cosy consensus here that there is a problem with SROs, why has it taken so long to get management information at the centre on SROs, and what's happening in relation to SROs?

Rt Hon Francis Maude MP: Well, we've only been in government for eight months.

Q7 Stephen Barclay: What I'm saying is, in 2006, the PAC reported, in relation to IT programmes, that half of SROs were in their first role, and nearly half spent less than 20% of their time on their duties, so that was being identified in 2006. In 2008, it was found that eight of the 18 SROs on the major projects had no substantial commercial experience. Last year, it was identified that the average turnover was 18 months. At the last hearing we had, Sir Gus—more than two months ago—I asked for a note on the project-management qualifications of SROs, and yet no note has been provided. And so, the impression given is that the centre just does not have adequate oversight and grip on the commercial experience, the turnover and the accountability of SROs.

Sir Nicholas Macpherson: I think that's a perfectly good point. We've been improving from a low base and I still think there's more to do in this space. In the last Parliament, the Treasury set up a major projects group with the Office of Government Commerce, and that's evolving into something bigger and better under this Administration, based in the Cabinet Office. But that highlighted precisely this point. There are certain basics in creating successful projects and, when it came to releasing funding for major projects, it was conditional on the major projects group assessing that the project was being sensibly run. So, I think we have made progress but I fully accept that we need to do more.

Q8 Stephen Barclay: So, if we take, for example, the FiReControl project, which was a particular disaster, a £423 million project to regionalise the services, they've just been scrapped. If I looked at my area, the east of England, they built one for £24 million. It then stood empty, at a cost of £116,000 a month, because they couldn't get the phone lines to work. The new Government has now come in and scrapped them, so, to use the Fire Brigades Union quote, "A classic Government cock-up." That project had 10 SROs in five years. So, Sir Gus and Sir Nicholas, you're at the centre of the civil service machine. When we come to look at that as a Committee, who are we holding accountable? Are we holding one of those 10 SROs? Are we holding the Permanent Secretary? Who is it we're holding accountable for that project?

Sir Gus O'Donnell: I think, ultimately, you've got to hold the accounting officer responsible for all of these things. I mean that's the whole process of it, and the accounting officer for the relevant Department.

Q9 Stephen Barclay: Exactly, which is what I thought, so the logical thing, therefore, to do was to look at the letter of appointment of the accounting officer, and I requested the letter of appointment for every Permanent Secretary, and the interesting thing there was they're all the same; it's just a generic two-page letter making reference to a whole raft of other documents, which, I presume, a Permanent Secretary is never going to read on appointment, because I imagine, taking on a big Department, they've got other priorities to deal with. And, as we saw with the accountability issue, there are obviously issues of the affordable point with the MOD, and there are obviously areas of confusion. So, why is it that we don't move to a situation where those letters of appointment are Department-specific, so we actually have something bespoke for each Permanent Secretary?

Sir Gus O'Donnell: Let me start. There are two issues here. One is there are generic issues that every accounting officer has to take into account, and the idea that they're arriving as Permanent Secretary and then suddenly realising, "Oh, my goodness, I'm now an accounting officer," these are issues that they will have been dealing with through their career, so they don't just suddenly get there, so they'll know about this. They've got things like *Managing Public Money*. The Treasury will have given them all sorts of issues. But obviously, for every single Department, there are

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very different issues. There are major projects, but there'll be some that are under way but others that are in train, and some that will be to come. So, you could, but it would be quite a lengthy list of issues, and I think one of the things that I can do, which I have definitely tried to do, which Nick has already referred to, is try to ensure that permanent secretaries stay in place for longer. And one of the things I've tried to do is—and I think that's absolutely crucial—I would dearly love secretaries to stay, and Ministers to stay, in place for much longer.

Chair: I've got better job security in this job.

Mr Bacon: And you were elected to it.

Chair: And I was elected, yes.

Sir Gus O'Donnell: Those things are very important, but the major projects thing has come across to the Cabinet Office, and Ian Watmore is now completely going to sort these things out, and I apologise we haven't got back to you on that qualification.

Chair: We're going to come back, but it is down the line. It isn't just the Permanent Secretary; it's down the line. The irritating thing is when you see, down the line, people being moved on because the tradition is two years in a job and you then move on.

Q10 Mr Bacon: On this issue of length of turnover, I heard Peter Gershon five or six years ago in this Committee talking about this problem, I heard Andrew Turnbull, who was either your predecessor or your predecessor's predecessor, talking about the wish to have longer term appointments, and he wanted to get it from a standard of two years to a standard of four years, and I've asked this question before, but I've still never really had a satisfactory answer, which is: there must something. Ten in five years is a record, actually; I hadn't heard of that one, or I didn't know that it was 10 in five years. The National Probation Service information systems strategy was seven project managers in seven years. It's better than having—or perhaps it isn't better than having—nobody, which the Bowman radio communications system didn't have. There was nobody in charge at all. But what I've never understood is: what is so difficult about the architecture of the system that it is so difficult to privilege the project-management role and see it through—and promote in post, if necessary, and pay more in post—that it can't be done? Because Lord Browne ran a very successful, very large private business for years, and I'm sure his board would have had his guts for garters if he had been moving people around at the rate you do in Government. Ministers, we understand, for different reasons, and that adds a whole extra level of complexity, but with the permanent officials, the clue is supposed to be permanent. And surely you can make them do what you want and you say, "Caruthers, your job is to deliver this and, when it's delivered, you move on." Now, what is so difficult about it that that never seems to happen?

Sir Gus O'Donnell: The two versus four, I was—

Q11 Mr Bacon: It's not four; my point is it could be three years eight, it could be two years six. The project should be the thing that's privileged.

Sir Gus O'Donnell: Well, I don't think it's just about projects. I think this is more general than that. There was a habit, as you rightly say, of people getting on in the civil service. Their career was, "Right, do this really well, do it once and move on. Every time you move, you can get promoted. You've got possibilities." I think it was far too fast. I think there are some Departments—Nick's got one—with very high turnover rates. Unfortunately, we have very marketable people in the civil service and they are attracted elsewhere for higher pay. So, sometimes, we lose them for those reasons, but I completely agree with your point about the objective. I would like to see a system where we could have SROs in place for longer and find ways of rewarding them for longer. Of course, again, you hit some culture problems about: can we tie in big bonuses towards staying in place and delivering projects? We get attacked all the time if we try and put in any element of performance-related payment, so I think it's important that we try to find ways to actually say, "No, these are the right things to do and we should incentivise people to stay in the same place and deliver a whole project." We've had a particular set of issues with regard to the Olympics.

Chair: Do feel free to come in if you want to. Matt wants to say something, Chris wants to say something, and I'm going to try to move us into the future arrangements.

Q12 Matthew Hancock: On the question of SROs, it's not only about ensuring that the tail is pinned on the donkey and that we can have the pleasure of doing the pinning, but also about the capability of those people. So, I wanted to ask about especially the finance stream within Government and whether there are any proposals or a move to strengthen the financial oversight role within Departments and to strengthen the capabilities, both project management and financial management. Because, as far as I understand it, the role of a finance director in most Departments is pretty junior, their clout is far lower than the CFO would be in a large, similarly bureaucratic and large commercial organisation, and of course the line management doesn't go straight into the CEO. So, what progress is being made in terms of getting those skills and the line structure right within Departments?

Sir Nicholas Macpherson: A very good point. I think we've made quite a lot of progress on professionalising finance functions. Several years ago, we introduced a central diktat from the Treasury that all finance directors had to be professionally qualified.

Q13 Matthew Hancock: Are they?

Sir Nicholas Macpherson: Yes, they are now. They had to be on the board and they had to report to the Permanent Secretary.

Q14 Matthew Hancock: And do they?

Sir Nicholas Macpherson: Generally, yes.

Q15 Chair: MOD?

Sir Nicholas Macpherson: Well, MOD is a very good example. In fact, our best finance director is now at

the MOD, Jon Thompson, who's head of the profession.

Q16 Chair: But, his job description.

Sir Nicholas Macpherson: That was not the case before Jon. You had an amateur finance director before that, and I can remember—I'm not saying it was down to that individual—there was a point in the middle of the last decade where the MOD lost control of public spending. So, I think we're putting far greater emphasis on professionalism in finance functions. Again, I think there's more we can do. It goes back to improving information systems. It goes back also to, what would happen at large companies like BP: the finance director not only being on the board and being part of the conversation, but being seen as a key driver of decision-making, and I think it's that that has tended to lag in practice, and often, in the worst-run Departments, spending decisions are taken without the finance director being at the table, and that is a recipe for disaster.

Q17 Chair: I have to say to you I don't think it's clear in MOD yet. I think you've still got dual responsibility, which means, I think, you're going to end up with a problem.

Sir Gus O'Donnell: They are working on reorganising MOD, so I'd say that's work in progress at the minute. It's an interesting point about professional qualifications, because if you remember the Gershon report, there is a footnote that says, "Professionally qualified finance directors have to be members of the board." Actually, Lord Browne and I had this conversation: "FTSE 100, of course they're all professionally qualified in finance"—they're not. It's about half.

Q18 Matthew Hancock: No, I didn't mention professional qualifications, but it's appropriate experience and the right skills.

Sir Gus O'Donnell: It's appropriate experience and that's the point I wanted to make. It's appropriate experience, and don't just do a tick-box on whether they've got this.

Q19 Matthew Hancock: Well, it's the right people and the right internal lines to make sure they can say no.

Sir Gus O'Donnell: But let's be honest about this: we are trying to grow our finance profession from within. If I were to talk about the differences in average salary, when we look outside—and because we couldn't go in straight away, we went outside to try to find them—we're talking about people who are on six figures, and I'm offering them the wonderful opportunity to come, and I can take at least £800,000 off their pay and they can come and work for me.

Q20 Matthew Hancock: Well, they should try becoming elected representatives. Lord Browne, do you have anything to add? I'd be very interested in your perspective on it.

Lord Browne of Madingley: If I may, just two points: first, on projects, one of the important things in my experience about projects is they're all broken down

into pieces, and there are always checkpoints that are designed in advance of the project starting—a variety of names are used for these things—which are very important. They re-review where you are, they reforecast where you are going, and they can make assessments about whether go or no go. It's usually at that point that you can also change the project director—the person accountable—because sometimes projects—certainly in my experience—last seven to 10 years and it's unreasonable to expect that people will actually stay fresh and excited for that period of time, so I'm sure that can be done. I think, too, that the board, where relevant for each Department, your new boards will, I think, provide challenge and advice on how to formulate projects and, I hope, look at the people involved in this.

Secondly, on the financial side, my minor comment is that we are, of course, making sure the boards have at least one independent non-executive director who would be regarded as a financial expert under the Sarbanes–Oxley definition, so they don't actually have to have that qualification, but are regarded as an expert.

Chair: Okay. I'm taking two more contributions and then I'm going to move us on to the future arrangements.

Q21 Chris Heaton-Harris: Yes, I might tie this in with what's gone on before, but it's actually more upstream, because I'm just wondering: I have experience, as a Member of the European Parliament, of dealing with the directorate-generals within the European Commission, and there the role of accounting officer was separated from the role of the head of that Department. If that were to happen here, I think there would be advantages for this Committee, because you then get the Permanent Secretary, say, of a Department to come before a similar committee to this and instead of also having to protect his back, because he's the accounting officer and, therefore, the buck does stop with him, you might get some honest answers to some straight questions. I'm not saying all the answers we get are dishonest, but some of them are dissembled a tiny bit. And I was just wondering if, in the future, there is a possibility of moving towards a system that maybe—actually, it doesn't work in Europe; they all dissemble. But I think there is a problem that we have at the moment with the accounting officer being the permanent secretaries in most Departments, and certainly, if you take the private sector, you would have that separation of powers as well, and I just wonder how you perceive that.

Sir Nicholas Macpherson: I'd just like to answer those. Interestingly, I was doing some research on this and there was a big debate in front of this Committee in 1920/1921, precisely about the issue you've raised, and there was an assistant auditor general then who made exactly your point. And I have thought about this. If you delegate responsibility for administration to somebody else other than the head of the Department, you are going to dilute responsibility. The French have a system vaguely similar to the one you set out, which, no doubt, is why the European system has gone in that direction, but it does dilute

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responsibility. You do want to have the guy, or the man or woman in charge of the Department feeling that they are squarely in the firing line if that Department screws up. If they can blame somebody else, that is the recipe for dilution of responsibility.

Sir Gus O'Donnell: I think it's very attractive but I think we shouldn't be tempted down that route.

Chair: Yes, I'm a bit iffy about it.

Q22 Joseph Johnson: Before we move on altogether, I was very struck by your comment that the Ministry of Defence had lost control of public spending in the middle of the last decade. That's a fairly substantial statement, which I don't think we've had a senior Permanent Secretary of the Treasury acknowledge before. Would you say that that was the only major Department that lost control of public spending?

Sir Nicholas Macpherson: No, I wouldn't.

Q23 Joseph Johnson: Which other Departments also lost control of public spending?

Sir Nicholas Macpherson: The problem with Defence was around the introduction of resource accounting. It became clear at the time—and I think Gus may have been Permanent Secretary of the Treasury then and I was running the public spending side of the Treasury—and we put Defence on special measures. We basically said, "You've got to report month by month about what's going on with your spending," and that's a particularly clear example. From time to time, there have been problems in other Departments. I can recall a problem with the Department of Health several years ago, where there was a problem with their finances. Often, this happens at the time you're reforming the system and, from time to time, there have been problems, I think, with education spending.

Q24 Joseph Johnson: So, health, education and defence all, from time to time, lost control of public spending in the middle of the last decade.

Sir Nicholas Macpherson: I think they encountered problems with public expenditure control, yes.

Q25 Joseph Johnson: That's a pretty significant admission.

Sir Nicholas Macpherson: No. If you look at any decade over the last hundred years, there are points when Departments get it wrong on their spending control. The critical thing is to learn from it, and one of the reasons why we're seeking to professionalise finance functions is to implement the lessons from those experiences. Needless to say, I'd much prefer it if we can go through the next decade without encountering similar problems.

Q26 Mrs McGuire: I just want to draw us back to the current way in which directions are used. Could I ask why they haven't been used more often, and are they seen as almost an admission of a breakdown of the relationship between the non-political professional civil service and the elected Government?

Sir Gus O'Donnell: Could I start with that? I think the reason they're not used that often is because, I think, as permanent secretaries, we think of them as a

very important part of our toolkit, but actually it's the deterrent part. So, we have that conversation and we say, "Look, I really don't think this is going to work," or "I think that's not good value for money," and, therefore, we have a discussion and, if those discussions go well, then you're not in the direction territory. I think there are occasions when the direction, when you look back on it, was entirely justified, and it's the system working properly.

The one that was always given to me as an example was the Pergau Dam, when you had two people with very high integrity—Tim Lankester as the Permanent Secretary, Douglas Hurd as the Foreign Secretary—and it was an issue where, from the development side, it was regarded as not good value for money, and Douglas Hurd said that, actually, there were political objectives that overrode that. They appeared before the Committee, they discussed it perfectly amicably, and I think that's a sign of where directions may well be appropriate, and the fact that there's a direction isn't necessarily a problem. I would just say, as a Permanent Secretary, it's a really important part of one's armoury when having discussions about issues where you think that something's not right.

Rt Hon Francis Maude MP: If I can just add, I think the boards will be a way of helping in these circumstances, because it will provide a collective forum where an issue of that kind can be properly ventilated.

Q27 Chair: Right. That takes me neatly on to the boards, so let's now look at the future, where we've got this world with non-executive directors coming in and boards, we hope, chaired by Ministers, although our information is that not a lot of that's happening at present.

Rt Hon Francis Maude MP: Well, they're only just starting.

Q28 Chair: They're only just starting. Right. And I think it was John Browne who said they are going to be both supervisory and advisory, so this leaves us—the PAC and Parliament—with a question, really: if you've got Ministers, non-executive directors and officials both with supervisory powers and responsibilities, who is responsible? Who's answerable? Who's accountable? Who is it?

Rt Hon Francis Maude MP: I think it remains exactly as it is now: Ministers are overall responsible for the conduct of their Departments, and accounting officers are responsible in the way that accounting officers are accountable. I think it will make a difference, not in the technical sense, but I think one of the issues we have faced in government is a tendency for projects—we were just talking about project management—to be specified on a highly prescriptive basis, with very, very detailed specifications, which often allows little scope for innovation among providers, and one of the things that lies behind that is the sense that accounting officers have got to be able to demonstrate that the provider/supplier/contractor that's being chosen is manifestly the cheapest.

So, you have a very detailed specification and you can say *x* is cheaper than *y*, but actually, in the real world,

what you want to be making is a judgment, because you may want to choose a provider who isn't obviously the cheapest, but where you're making a rounded judgment that it is, nonetheless, the best value. And I believe that the boards will give accounting officers more comfort to be able to make those rounded, qualitative judgments rather than feeling obliged to fall back on a narrow, quantitative judgment. So, I hope—I hope—that this will enable us to move into a world where we specify and we tender for projects much more on an outcome or an output basis, with much slimmer specifications, and thus enable the Department—Ministers, officials and the board—to give comfort to that rounded, qualitative judgment.

Q29 Chair: I understand that. I hope there is always a view that one could look at best value, not just cheapest; I think we've always wanted to seek best value. And I understand that you say the theoretical answer is "nothing changes", so the Ministers are still responsible for policy to Parliament, and the accounting officer's responsible both to Parliament and to the PAC for value for money and managing the budget, but the dynamics have changed, and if you've got a Minister chairing the implementation board, and if you have non-executive board members who have the power written into the draft code to go up to Number 10 and say, "Actually, sack this perm sec," I think the dynamics change and I think there is a real issue about: who do we, Parliament, then hold to account? And I think it looks muddled to me—it looks a bit muddled to me.

Rt Hon Francis Maude MP: Well, I think it's kind of been inherently a bit muddled anyway because, as I say, there isn't a rigid distinction that you can make between ministers, policy, officials, implementation. Life isn't like that. You know that; you've been a Minister.

Q30 Chair: But let me just take the MOD one. In the aircraft carrier issue, it was absolutely clear to all of us, right across the political spectrum, that the accounting officer ought to have intervened and said, "Hang on a minute, here. There ain't the money around. We need a letter of direction." That was clear to us, whatever the correspondence says. In this circumstance, if I'm sitting there as a perm sec and I've got a stropky Minister—it might have been M Hodge—sitting around saying, "You jolly well do this," or I have a non-executive director who thinks he/she knows a little bit better and, if I don't do what they say, might recommend my dismissal, I think that blurs, in an unacceptable way, accountability—in a worrying way. Unacceptable is probably the wrong word; in a worrying way. We need to be clear about that. We really do. It's a really important part of our role in ensuring proper use of public monies.

Lord Browne of Madingley: Just two points, if I may: first, it's very important to remember that there is more than one non-executive director, so behaviour by one person has to be agreed by several, and I think that certainly would take out some unusual behaviour, which would be wrong. Secondly, the non-executive directors also have no power; they simply have an

agreement with the Department on what they should look at and what they should advise on, and that agreement can be withdrawn quite easily by the Minister at will. But I think it's important to remember that, for example, if a plan were established to do something, it seems quite possible that the board, which comprises not just the non-executive directors but Ministers and officials, would ask that the board look over how the project is going against the pre-existing plan and provide the challenge and commentary, and the help, from time to time, on getting it done. Certainly the way I look at it, I believe it doesn't actually change what I understand to be the pre-existing accountabilities.

Rt Hon Francis Maude MP: And just in terms of the dynamic, I think you can easily envisage that these boards, set up in this way, will, in many circumstances, strengthen the hand of the Permanent Secretary. If you've got the position, almost unimaginable, of a stropky Minister insisting on something going ahead against the advice of the accounting officer, if it is something which is obviously bonkers, then you're going to have the non-execs, who are all highly independent, serious, senior people, who are going to listen to those concerns and express them. I think it actually strengthens the hand of the Permanent Secretary, the accounting officer a lot.

Q31 Mrs McGuire: Going back to the point you made, or the example that was used, I think, by Sir Gus about Douglas Hurd and the Pergau Dam, there were two conflicting views on that: one was it didn't provide good value for money; Douglas Hurd's view was that there was an overriding political imperative that that happened for national self-interest, if we want to look after that. Where does that sit in your scenario? How do you reconcile the politics? When I get my real turn in a minute, I want to talk about the culture. How does that sit in your reconciliation and your consensual approach with these three strands: politicians, professional civil servants and non-exec directors?

Rt Hon Francis Maude MP: Well, I honestly don't think it changes it. I think, in those circumstances, if there had been a board of the sort we're setting up now in existence then, it might well have been that the non-execs supported the Permanent Secretary's view that this didn't represent good value for money in development terms but, at the end of it, it remains open to a Minister to override it. The decision-taking doesn't change. These boards are not decision-taking. A Minister may want to—and we think it's a good idea—say, "I will exercise my decision-taking powers within some constraints, which I accept in a self-denying way, so that I will submit some decisions on spend to the view of the board," but, at the end of it, the Minister can make decisions and will have to defend it. But it's all much more transparent than it used to be, and that's very desirable.

Q32 Mr Bacon: Can we just clarify that narrow point? It's very interesting, what you just said. Are you saying that the Minister may choose to hold back all the decisions him or herself, may choose to put

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some of them through the board, and that's entirely up to the Minister, basically?

Rt Hon Francis Maude MP: Well, we, at the first meeting of the new Cabinet Office board, which I chaired in December, we had a discussion about sign-off levels. The view I take is that it should not just be open to me to sign off big spending programmes. Actually, in the Cabinet Office, we don't have big spending programmes, so we're very, very modest and frugal, but actually I think it's a good discipline to say, "I want the board to take a view on a big spending decision," rather than it just being done by a Minister, and I think that's a healthy discipline.

Amyas Morse: Just an observation, and in fact they're helpful responses. What I would say is I understand that, in these proposals, it says that the accounting officer role hasn't changed at all, and it says that quite clearly. However, if you look at the direction of travel of a lot of roles, there are two sorts of accountability we're talking about here. One of them I'd describe as parliamentary accountability for delivering the parliamentary programme by the Government in power; the other is personal accountability. And I don't suggest there's any deliberateness in this, but I think nearly all of these arrangements are supposed to—and I welcome and support many of them, as a matter of fact—strengthen accountability through what I call Government into Parliament.

What I think they aren't explicitly designed to do, although they state that the accounting officer's position is the same, they're not specifically designed to strengthen the position of the accounting officer. So, I agree that it can all work, but it's not designed to fortify, I would suggest, and that's why I welcome what it says on page 27 of this document, where it says: "The steering group felt that further study is needed on clarifying Permanent Secretary accountabilities." I hear there are some proposals being discussed now, which Sir Nick mentioned, and I welcome those. I think a bit of deliberate supporting of the responsibility of the accounting officer as part of these proposals would be a welcome counterpoise to the thrust of direction. That's not a criticism, but it is a suggestion.

Rt Hon Francis Maude MP: Well, I hear that. This is a new way of doing things. I think it will change the dynamic and, hearing some of the concerns that Committee members are expressing about some of the way things have been done in the past, I think there needs to be a bit of a change of dynamic. How it all works out will vary, frankly, and we'll want to learn from the experience as we go, and continue a very robust dialogue, I think, with your Committee about what the lessons are for it.

Q33 Chair: But the dynamic we want to change, the criticisms we've had of the status quo, has been the weakness of the accounting officer and the weakness of the senior responsible owner. I think all of us think it's hugely important that you get corporate governance throughout, but the concern with the new arrangements is that that could further weaken those two tiers—it could—simply because of the way the real world works and what happens if you're chairing a meeting rather than not chairing a meeting, and what

happens if you think a guy could have your future in his or her hands by telling on you to the boss.

Rt Hon Francis Maude MP: I don't think I quite get that in terms of how it would work in the real world, because what that would require is for these non-executive board members to become, in some way, the Ministers' patsies.

Q34 Chair: Who's appointed them?

Rt Hon Francis Maude MP: Well, they've been appointed by Ministers, for sure, but with permanent secretaries having a veto on the appointment.

Q35 Chair: But they've been appointed by Ministers.

Rt Hon Francis Maude MP: Yes, absolutely.

Q36 Chair: And they will be reappointed by Ministers.

Rt Hon Francis Maude MP: Indeed, and many are not being paid—and these are people of very high standing and integrity, whose professional reputation depends on them doing what they're there to do, which is to exercise independent judgment and challenge, and that's what they will, in the real world, do. So, this idea that, somehow, they'll gang up on a poor, defenceless accounting officer and browbeat him or her into not issuing a direction just doesn't seem to me credible.

Q37 Mr Bacon: Can I pursue this with Sir Gus and with Sir Nick, because I think the concern is—and the concern of the NAO is—if the position of the accounting officer were inadvertently weakened, when that's not the intention. My concern has been that accounting officers don't stand up to Ministers enough, and the suggestion, I suppose, is that they might not stand up to boards enough, although, from the documents I've read, it's fairly plain what their duty is to do. But, Sir Gus, you mentioned examples of where—it might have been Sir Nick—accounting officers didn't actually have to issue a direction. I think of Catherine Bell, who came before this Committee about MG Rover, which was during a general election, and she said that she would have asked for a direction if the policy of lending £110 million had been pursued, which it wasn't, and the system worked exactly as it was supposed to. And indeed, when I wrote to Peter Housden about unitary government in Norfolk and Devon, it worked exactly the way it was supposed to. In fact, he used feasibility as a criterion.

What concerns me is that far, far more often I see cases not just on defence procurement, although that was a very startling case, but all over the shop. I've been having discussions with every Permanent Secretary in DWP or its successors ever since I've been on this Committee, where, because the accounts have been qualified since 1988, I've said, "Look, you are being asked as a matter of policy to do things that make it impossible for you to do your job because you can't turn round to parliament and say, 'I can account for this money.' You can't, so why don't you ask for a direction before we have these incredibly complex benefit systems?" And that was before tax credits, which was just another more extreme example of the

same thing. You could say the same thing about the Rural Payments Agency, you could say the same about the Criminal Records Bureau; you could say the same about Individual Learning Accounts and lots of others. So, I take it you'd agree that accounting officers aren't doing as good a job as they should in standing up to the requests of Ministers now. Is that fair?

Sir Gus O'Donnell: Well, your point about the Catherine Bell case and others: in nearly all of these cases permanent secretaries will talk to me about the whole issue, and my objective in life is to solve things without there necessarily having to be a direction, so that we don't do the things that we shouldn't do in the first place if I think there's an attempt to do something wrong. So, that's partly why, as I say, those were successful cases, so that's the first thing I'd say.

The second thing I'd say is I think non-execs—I think this is what the Minister was saying—are actually going to strengthen us on the boards in terms of—the phrase about “bonkers policies”; I wouldn't possibly have used that, but—

Q38 Mr Bacon: Actually, funnily enough, the Rural Payments Agency, an official used the word “madness” and another one used the word “nightmare”. I always used to get them mixed up, so I brought it with me. Actually, it's very interesting from this point of view: it was Bill Duncan who called it a nightmare—that's if they went with the dynamic hybrid—and David Hunter was the senior DEFRA official who called it madness. But later on, it was an official speaking to an official who said the RPA would do what it was told. It was ultimately because of a ministerial decision higher up, but it was a bonkers decision that was forced through by officials on other officials, who were forced, to use Sir Richard Mottram's description of tax credits, to implement the unimplementable, and that was exactly the same here and it just carried on until the car crashed, and that's what we see again and again.

Sir Gus O'Donnell: What this change is doing is providing for us very much stronger NEDs on boards, who I would rely on to bolster my case. I actually think it goes the other way. I think this does strengthen the hands of accounting officers. The point about whether we are worried about these people snitching behind our backs; the truth is I do Permanent Secretary appraisal, I ask already non-executive directors for feedback because they are sitting on the boards. Departmental boards in the old days, chaired by the permanent secretaries, “How's the perm sec doing? Give me feedback, work out which ones are doing well, which ones aren't, what sort of things we need to do”, I regard that as a good thing to do. I think strong non-execs are very useful for us and they will be very useful for strengthening the accounting officer function.

Q39 Dr Creasy: But you have to make that part of the guidance that you're issuing, because guidance note 2.15 does give the provision that the chair could depart from the collective view of the board. Isn't that rather making the case that the Secretary of State

should now be the accounting officer if they are going to be the chair?

Sir Gus O'Donnell: This is the point where you will find a number of Secretaries of State saying, “Ultimately, I am responsible to Parliament for policies and, therefore, if I want to make a certain decision I will go and defend it.” Now the board can argue about it, but in the end, as we say, the accountabilities aren't changed with this. But the board I think will make the Secretary of State have to work their way through and try and convince their board of this. That's the point. The Minister in the end says, “I want to do this.”

Rt Hon Francis Maude MP: Then just as they can now, they can do it and they can override it and issue a direction if that is what the accounting officer wants. Again, one of the safeguards that we have put in is that the non-execs will have their own section of the Department's annual report that will be under their editorial control. There will be much more transparency.

Q40 Dr Creasy: In terms of our concerns about who we hold accountable for value for money, do you envisage the situation where more Secretaries of State could be called to this Committee because they are the ones who have overridden the decision-making process that the accounting officer would make because they are now the chair of the board?

Sir Gus O'Donnell: There has been no change in that.

Q41 Dr Creasy: You don't see any situation where these powers could be exercised?

Rt Hon Francis Maude MP: I am sure they would find it as enjoyable as I am.

Sir Gus O'Donnell: They're responsible for policies and always have been.

Q42 Mrs McGuire: I suppose a question to Lord Browne. Given what we have just heard, which is that ultimately the Minister still makes the decisions, and ultimately the accounting officer is still the person who is held responsible, what do you really think the role of the non-exec directors is in all of this if ultimately, no matter how many friendly meetings that you attend, the decision-making still resides with the Minister and the accountability still resides with the accounting officer? Isn't it a case of actually nothing has really changed, with the one exception of the additional power to remove the Permanent Secretary? Maybe we can come back to discuss that. I just get a sense that nothing has actually changed although we have established these new Departmental boards.

Lord Browne of Madingley: As I have said, I think their role will be one of both advice and then challenge and clarification. I think they work in that way both to see fair play, to be able to get the right decision made in the right way with absolutely no axe to grind. I think that that is what happens. It is not dissimilar to corporate boards. Corporate boards very rarely vote. In fact I have only been, in my whole 25-year experience of sitting on boards, at one vote, I think; one formal vote. It is about the debate. It is about illuminating the debate. It is about putting a stronger light on the decisions that are then made by the people who take the accountability for the

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decision. I think that is what they do. By agreement with the board, they will provide a supervisory process. That is to say, if something is agreed, they will make sure that they'll give advice on whether it is being done or not being done.

Q43 Mrs McGuire: Except you have one more weapon. If the directions, which Sir Gus called "the ultimate deterrent"—I may have paraphrased that—are the permanent secretaries' ultimate deterrent, the non-exec directors have an ultimate deterrent as well, which is to say that they can recommend the removal of the Permanent Secretary if they believe that he or she is a barrier to effective delivery. I think that is where the change is coming in these new boards.

Lord Browne of Madingley: It's certainly there. They can recommend the removal of the Permanent Secretary. I find it a rather extreme solution, I would say, one which I imagine would rarely be used, because I think most of these disagreements are a function of failure. At that stage, I think it's really a matter of making it work. So I think the other weapon, of course, the non-executive directors have is to resign, which I think would be just as, if not possibly more, damaging to the situation if they really believe things were going off the rails and the behaviour was inappropriate.

Q44 Chair: Can you tell us a little bit about how you are recruiting? You're not openly advertising.

Lord Browne of Madingley: The competition was open. We've had three strands of appointment. One is through open advertising and we received well over 100 applications. Secondly, we employed pro-bono head-hunters to help us out, at least two firms. Thirdly then, by reference; we put them all in a pot and then we went around, I went around, to see every Secretary of State and every Permanent Secretary to discuss the type and nature of characters that one might need to be useful to the Department's purpose. Then we put together lists and then discussed them with permanent secretaries and with Secretaries of State. That is how we did it.

Q45 Nick Smith: Just on that, could you tell us a little bit about your new lead non-execs and how you intend that new set of people to work?

Lord Browne of Madingley: So the lead non-execs are just another non-executive board member but they have a role in providing the focal point for the non-executive board members, principally if something goes wrong. Also to provide some advice to the Secretary of State, should she or he want it, to do with how to chair a board, how to think about an agenda, and advice on how the board is going. They also are going to form a group; so all the lead non-executive directors will form a group under my chairmanship where we'll try and figure out what is good and what is bad in the way in which the boards are working—what is good practice, what's bad practice—so that we can keep things moving forward in an integrated way.

Q46 Ian Swales: I would just like to build a little on this line of thinking, and I guess it's Lord Browne again. I know from personal experience that when one

reads the guidelines for non-exec directors in the private sector it is pretty scary stuff. You have very serious responsibilities and ultimately can end up in jail if certain things go wrong, and I think John Wakeham had big problems as a non-exec.

Mr Bacon: I don't think he ended up in jail.

Ian Swales: Close. Really, my question was what the parallels and non-parallels are that you see between these roles and what they would actually be in the private sector. I am particularly thinking of some of the roles like sub-committees that they may have in the private sector. Maybe you could just say a little bit more about that to differentiate the two jobs.

Lord Browne of Madingley: The legal construct is of course completely different. Therefore liability is completely different and therefore we are able to attract a very different set of people. It's very difficult and indeed there are very strong restrictions on people joining legal boards, as you know, if they are employed by other people. We've had the opportunity of being able to recruit not only people with great experience but also people who are actually in the flow of things today existing Chief Executives of FTSE 50 companies for example. The structures we are going to use are very similar. There will be an audit committee. That audit committee and risk committee will operate on behalf of the accounting officer. I think it works pretty well now. We want to make sure that we have a chairperson of that committee who is a financial expert. Then we have at least one other committee which is a nominations, governance and remuneration—if relevant—committee, and it is designed to look after the health of the board: who's going to come to do the next job; is the board operating; is there a succession plan; and to talk to the Permanent Secretary about his own succession plan in the normal way.

Chair: If any of them resign, I think it would be really interesting if they come and explain why to this Committee. That might be a really helpful innovation that we might look at.

Q47 Austin Mitchell: Frankly I can't see what use these are going to be. You are recruiting proverbially impossibly busy people who have got very little time, many of whom are still pursuing full-time careers as chief executives or running voluntary organisations, and I can't see what value Argos is going to bring to the DCLG, or Lazard to the DCMS, or Rothschild to the Department for Education, or Tate & Lyle to DEFRA—might be able to tell them about American takeovers perhaps—or BUPA to the Home Office. I mean I just can't see what they're going to bring in terms of value of advice from their own business. They might bring a few after port obiter dicta from business wisdom. I just wonder what use they're going to be. Sir Gus has already given us his panegyric; he said they are going to be bringing value of experience and insights. I would like to put the question over to Treasury because we recommended—as I scrabble to try and find it—that accounting officers should be made personally responsible for delivering the savings to which they've committed. What use are these non-executive directors going to be, because they are not much use

in business where they tend to be the chief executive's golf club mates and Maude's just told us that they're Ministers' mates as well now.

Rt Hon Francis Maude MP: No, that is not what I said.

Austin Mitchell: What use are they going to be and will they have any authority in that area? Is it going to make the responsibility of the accounting officer to you and to us much more difficult to perform, or is it going to be a great cushion?

Sir Nicholas Macpherson: The first point I would make is that I do think corporate governance has come quite a long way in the last 25 years. I would have thought that 25 years ago you might have got your mate from the golf club on the board, but I think Lord Browne can confirm that is not how BP appointed its NEDs.

Q48 Stephen Barclay: Just on that, I mean the Texas oil disaster where 15 people were killed was a spectacular failure of corporate governance. I think there is a point that Austin's raising, which is in terms of how that was an absolutely disastrous area. I mean James Baker's report highlighted serious failures of corporate governance, so there must be concerns in terms of some of the companies you are hiring from.

Sir Nicholas Macpherson: To come back, I am not an expert on BP, but I can vouch for the effect non-executives have had on the governance of the Treasury. I am coming to give evidence on some of our banking interventions in the coming weeks to this Committee, and I can assure you that our non-executives, admittedly under the previous regime, were hugely helpful in developing some of the infrastructure that was necessary to make those interventions a success. Their expertise in designing new organisations necessary to deliver those banking interventions was very relevant.

Q49 Mr Bacon: Sir Nick, just on that very point. I was looking at the article in the *Observer* from Andrew Clark from December in which he talks about non-execs. I fully accept your point; there has been a huge shift in the last 20 to 30 years in the way that corporate governance works. But it remains the case that the non-executives on all the banks and the big converted building societies that demutualised and then went wild and crashed the whole world, basically, didn't do their job at all. As he says here, "Non-execs completely failed to stop the executive pay explosion that we've seen in the last 10 to 15 years." Now we are talking purely about the private sector here, so they are no panacea, are they?

Sir Nicholas Macpherson: No, I totally accept that. I am not claiming that if you have got non-execs everything will be fine. I just think on balance they can make a difference and they can improve decision-making processes. Coming back to the point of Mr Mitchell, the point I would make is that all Departments now have to live within very challenging spending ceilings and although I fully accept the accounting officer should be responsible for delivering those spending ceilings—they can't palm it off to someone else; they are in the firing line—I would expect that, as they develop plans within their

Departments to live within their spending settlements, they would bring their non-executives in to that conversation as a source of expertise and advice. Indeed, only last week I met our lead non-executive director to discuss issues such as that. I think it's an improvement. I think it will probably result in better decisions. I don't want to exaggerate its impact, but I think it's a sensible direction of travel.

Q50 Austin Mitchell: Sorry, back to the basics. They give generalised, unspecific advice, and you listen, and it is more useful employing these non-executives than bringing in a collection of taxi drivers to advise the Treasury.

Amyas Morse: Some of these sound very impressive and they are not just general people with general advice. If I may, if you have a chief executive of Tate & Lyle, which is the biggest sugar beet manufacturer in the UK, one of the major agricultural outputs in the UK, coming to be on the board of DEFRA, I find difficulty in seeing why that won't be helpful.

Q51 Austin Mitchell: Business imperatives are always stronger than political imperatives. Business imperatives are always more direct and more nasty.

Amyas Morse: But don't you think they have got some technical knowledge to offer?

Sir Gus O'Donnell: Let me give you two examples from the Cabinet Office board. One of the challenges I've got in the next few years, and I think we may come on to this, is the tight/loose. What should the centre do versus its peripheral rungs? Now BP is a classic example of a company around the world, and they have all sorts of experience, Lord Browne has, about what to do from the centre, what you should mandate, and what you should let go. I think that would be incredibly useful to me.

Rt Hon Francis Maude MP: It is already incredibly useful.

Austin Mitchell: Well it wasn't very successful in Galveston or the Gulf.

Sir Gus O'Donnell: Barbara Stocking, Head of Oxfam; I have got the Office of Civil Society, I've got a whole set of issues about Big Society and how we make this a reality. I think having someone like that on my board would be tremendous. To me I think these things can be incredibly useful. When you think about diversity, what you have got in the Civil service—I have opened it up a lot—is lots of people who've come in from outside. They've generally come in from sectors where the pay isn't so different. We are a bit short of people coming in who have been very successful on the commercial side in the private sector because we are not as competitive on pay. This is a way of bringing in some more diversity, and I am really pleased about the way in which we have managed to attract a very diverse set of non-execs. They are not all from the local golf club, to use Nick's example.

Q52 Joseph Johnson: I disagree with Austin I am afraid. I do think the NEDs can play a hugely helpful role in helping the chairman oversee the delivery and execution of policy. I think they will be hugely

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constructive. I just want to pick up, though, on the question of who actually nominates them again because I wasn't quite sure, listening to Lord Browne and Francis Maude, what the actual process was. Francis, you at one point said Ministers will appoint them but then Lord Browne referred to a nominations committee. If you look at what happens in the private sector, generally boards will have a nominations committee that will find a non-executive director. He won't be appointed in any sense by the chair per se nor will the chief executive, who in this context is the Permanent Secretary, have any form of veto over NEDs. There is no real analogy from corporate governance in the private sector per se. I wondered when you were coming up with this structure whether you had considered there might be any advantage in having a pool of NEDs gathered together by the Cabinet Office and allocated on a more or less random basis to the various Departments so that you don't have exactly this question of ties of patronage and status due to relations with specific individuals. Was that something you considered?

Rt Hon Francis Maude MP: In many cases there aren't pre-existing relationships between the Ministers and the non-executives.

Q53 Joseph Johnson: But there is a dependency. There will be a continuing dependency on the Minister agreeing to that person.

Rt Hon Francis Maude MP: I hope there will be a relationship. Boards work best when they are reasonably well bonded; where people know each other and trust each other and have a proper working relationship. I am not sure I totally get the point.

Q54 Joseph Johnson: The drift was: had you considered getting a pool of NEDs centrally formed by the Cabinet Office? You could then randomly allocate those NEDs to various Department boards so that you shouldn't have the situation where you have Perm Secs having a veto on specific NEDs chosen, effectively, by the chairman.

Rt Hon Francis Maude MP: I mean John has been much more involved with the advising on the recruitment than I have. But the chemistry has got to work. I don't think you could just kind of parachute in random people. Certainly, in putting any board together, the chemistry has to work. You have to have the right fit of the right people working together.

Q55 Chair: That's a danger. I think that's a bit dangerous. It's got to work as a board, but you want the diversity of interest and perspective as well, not just people. You want challenge, and if the chemistry works the challenge may not.

Rt Hon Francis Maude MP: No, I don't agree with that actually. Part of the chemistry working is that you can have open candid challenge without it actually wrecking the whole thing.

Q56 Dr Creasy: I have a question for all of you actually, and it's probably very similar. It is about the role of the NEDs. Francis, just in terms of the first question there, which sprung from what you were saying, what evaluation have you done of the skills

and experience of Secretaries of State and Ministers to chair these new boards, given the make-up of what you've put together?

Rt Hon Francis Maude MP: None. Some of them have experience of chairing boards and some of them don't. As John said, one of the key roles of the lead non-exec will be to support the Secretary of State in his or her role as chair of the board.

Q57 Dr Creasy: So to prop them up.

Rt Hon Francis Maude MP: No, it's not a question of propping them up. It's a question of giving exactly what I said. Giving them advice and support in their role as chair of the board.

Q58 Dr Creasy: Okay. How do you envisage the discussions that they will have without civil servants will be different from those that they'll have with them, because there is provision in this that they will meet with the non-execs without members of the civil service as well as the formal board, won't they?

Rt Hon Francis Maude MP: As any corporate board will do.

Dr Creasy: But what do you envisage given that this is a different arrangement?

Rt Hon Francis Maude MP: I have absolutely no idea. This is not prescriptive. It is to provide a candid forum in which candid views can be expressed without inhibition.

Q59 Dr Creasy: So you haven't set out in your mind why these meetings might be different; there is just the opportunity to have meetings without the civil service.

Rt Hon Francis Maude MP: Absolutely.

Q60 Dr Creasy: In which case then, Gus I wonder if you can explain to us, under the previous arrangements, when you met as an executive board was there anything that you wouldn't discuss with the non-execs that were there? Was there anything that was considered civil service only?

Sir Gus O'Donnell: Just to go back to your former point, there would certainly be occasions when I, as Permanent Secretary, would have meetings just with the non-execs, and we would talk about how the board was operating and how the other members of the board were operating. In terms of whether there are issues that you would talk about without non-execs there, I suspect there might be some, for example, of a security or intelligence nature that you might not want to get into, particularly a board like Cabinet Office, where we're responsible for security and intelligence issues. So yes, there would be some.

Q61 Dr Creasy: How do you imagine those issues will be handled now under the new arrangements?

Sir Gus O'Donnell: I think our chairman envisages that we will concentrate on the efficiency and reform side of the business, and that, if there were some issues, I would talk to him about them. Let's say we needed to increase the amount of resources within the Cabinet Office working on counter terrorism for a specific threat issue: I would talk to the Minister and he would decide how to handle that in the board.

Q62 Chair: I have to say I looked through your structural reform plan. I did a word search. I couldn't find the word "efficient" once.

Rt Hon Francis Maude MP: That's just understood. It's a given.

Q63 Chair: I did the same thing on the other structure reform plans and hardly found it.

Rt Hon Francis Maude MP: I mean it is so fundamental to what the Government is trying to do that if you actually set it out at every stage, which would need to be done if you were going to do that exercise, you would have nothing but that.

Q64 Chair: I did find "reform"; I never found efficient.

Rt Hon Francis Maude MP: Well we can remedy that easily.

Q65 Dr Creasy: There's obviously more work to be done about how you might handle those issues that you wouldn't find appropriate to involve non-executive directors in; there is obviously some more work to be done there about how those decisions might be made.

Rt Hon Francis Maude MP: I don't think there is. I think this is case by case.

Q66 Dr Creasy: So you are saying that non-executive directors will be always involved in every single—

Rt Hon Francis Maude MP: No, no it's not remotely what we are saying. What we are saying is that grown-up people find ways of dealing with issues as they come up, and you don't have to have it all written down; every eventuality covered in advance.

Sir Gus O'Donnell: I think the point is we've been dealing with this for a long time. I remember I was chairing the board with non-execs on the board, so we have managed this process with some things going to the board, some things not. I've just been given our Cabinet Office Business Plan; "Establish the Efficiency and Reform Group."

Chair: Oh yes, you're establishing, I agree with that. But if you look at the rest of all your things that you've done, honestly, the word "efficient" never occurs.

Mrs McGuire: That's a technical point.

Chair: John Browne, I am sorry, I didn't see you and you were trying to come in a little earlier.

Lord Browne of Madingley: I was just answering Mr Johnson's question. When we set up the boards there were no nominating committees, so we had to do it in a very centralised way with a lot of debate and dialogue. When we set up the nominating committees, I would expect, for non-executive directors, the nominations committee to make proposals, and I hope that they will be networked with the Cabinet Office, with the people who look at these appointments. But particularly when the lead non-executive director has to be reappointed, that is something where I believe I will have to have a role, and the sign off has been not only with the Secretary of State but also with the Prime Minister's Office.

Sir Gus O'Donnell: And Deputy Prime Minister's.

Lord Browne of Madingley: Deputy Prime Minister's Office. That then provides a very different type of check and balance.

Q67 Mr Bacon: Is there any expectation as to how long non-execs should serve?

Lord Browne of Madingley: Three years plus a possibility for a renewal for another three.

Q68 Nick Smith: Are we encouraging a culture of constructive challenge then?

Lord Browne of Madingley: First, I hope very much that the people who we are appointing come with this ability to do just that—constructive challenge. Secondly, I think that the boards themselves are a way of building a culture of constructive challenge. We will have to help people through that. I believe the normal processes of facilitation and coaching can create these environments after a period of time.

Rt Hon Francis Maude MP: But what is the concern? Is it whether it will be constructive or challenging?

Q69 Nick Smith: I think it should be both at the same time.

Rt Hon Francis Maude MP: Absolutely yes.

Q70 Nick Smith: It's a quite a simple question but quite a thin answer.

Rt Hon Francis Maude MP: But if the concern is whether the non-execs are going to be sufficiently challenging, very serious senior people, with as Austin has said very busy lives, are not going to give up this to come along and sit there mute accepting everything that is coming along. They are going to be challenging. They are serious people who know how to do that in a constructive way.

Sir Gus O'Donnell: I regard it as a great opportunity. We have got some really serious, very successful people who have been very good at doing things. We are talking now about living with a budget cut of a third. A lot of these people have actually been through that sort of period; I want to get their experience, and I want them to help. I want them to challenge our plans to make them better. For me constructive challenge is going to be really helpful. I think the incentives are absolutely right.

Q71 Chair: I am going to move us on to the third area, if I may, which is the new delivery models that you are developing and, therefore, the accountabilities that arise out of that. We had a session yesterday with David Nicholson, which was a session around productivity, in which he said quite clearly that he is not the accounting officer for Foundation Trusts and would not be when every Hospital Trust became a Foundation Trust. What does that mean? Do you accept that as an answer? And if you do, what on earth does that mean for the accountability of that expending of public money to Parliament? And how can we, as a Committee, ensure value for money?

Sir Nicholas Macpherson: Where do I start? Different Departments have different delivery models with different degrees of devolution, decentralisation and so on. I think there's a critical role for the accounting officer of all Departments in satisfying

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themselves that there is a sensible framework that will promote value for money. For example, an area where spending is very devolved is the money that flows out of the Department for Communities and Local Government to local authorities. In that area, I don't think the accounting officer should be held to account if a local authority spends the money unwisely, but I think he or she should be held to account if there is a system-wide problem that is resulting in bad VFM across all local authorities. The Department of Health proposals are obviously a work in progress. My understanding is that there is a system designed to promote value for money, and within individual Foundation Trusts there will be accounting officers whose main accountability will be to the economic regulator, but it will still be open to this Committee, if you think there are particular issues that you want to pursue, to invite those accounting officers before you. Indeed, I think you have in the past.

Q72 Chair: I understand the system-wide, but the reality is that value for money will go wrong, one imagines, in particular trusts. That's how it will happen. So Monitor will then have the power of intervening. I mean, it is an interesting issue, so: question mark. Then there are other issues because you could do the same around academies and free schools. You could do the same things around local authorities with the abolition of the Audit Commission; so we are getting this as a sort of a pattern across Government. Who sacks and appoints the trusts, the boards, their chief executives, and how do you have a stronghold on value for money?

Sir Gus O'Donnell: It's absolutely a sensible question, because, if you look at the Coalition's programme for Government, localism and devolving power is absolutely central. You gave an example in health, but we could give examples across the whole area of public services. So this is, I think, absolutely crucial. I think, Mr Bacon, exactly the same issue arose in your discussion with Suma Chakrabarti about youth offending. It does raise for me a number of new issues. I have asked Bob Kerslake, who is the Permanent Secretary of DCLG and who's got a localism group that we have set up of key permanent secretaries, to actually go into these sorts of issues and look at the kind of things that are happening with localism and look at the accountabilities issue and come back and report to me, and I would be happy to pass this on to the Committee, about the sorts of issues that are arising and the sorts of solutions we are starting to come up with. We are doing some very new things here; payment by results for a lot of contracts will create some issues about precisely where the accountabilities lie. I think that is something we need to sort out.

Q73 Chair: Okay, that is very helpful and it is helpful that you will share that with us. But for our purpose, in terms of looking after value for money, I was amazed—I was pretty gobsmacked, actually—by David Nicholson's reply, because I had assumed that, even under the new reform, we would hold him or whoever has his job to account for the proper and effective use of that money. There has to be a way in

which Parliament and the PAC can operate without having to deal with 300 GP commissions, 150 hospitals, or whatever it is. You can't do it another way. You have got to have somebody in-between who is then accountable to Parliament.

Q74 Matthew Hancock: Sorry, do you agree with that?

Chair: It's public money.

Rt Hon Francis Maude MP: It is public money. And it is public money that in this instance is going to be spent in reality by GPs on behalf of their patients with providers of healthcare services, which will mostly be in the future Foundation Trusts, but may be other healthcare providers in the independent sector, as the last Government pioneered, or third sector, social enterprises and so on, not-for-profits becoming providers. The principal accountability of whether that money is being well spent is actually between the GP and the patient. If the patient's budget, the money that is—

Q75 Mrs McGuire: That's a politician's answer.

Rt Hon Francis Maude MP: No it isn't actually. It's a real life answer. If the money that has been allocated to the health care of people in the community is being badly spent, then the people who suffer first are those people whose health care is not being well provided.

Q76 Mr Bacon: I completely agree with you in one sense. As far as the patient is concerned, I think Francis Maude is right. But as far as the NAO and this Committee is concerned there is a different accountability. My question is probably for Sir Nick, who appoints accounting officers, to answer. We do have, you are quite right, chief executives of NHS Trusts who have come before us accounting officers. Will all these consortia have a nominated accounting officer, a managing partner, or somebody whose job it is to know that they have accounting officer responsibilities?

Sir Nicholas Macpherson: My understanding is yes. There will be clarity around that. I just want to come back to this issue of the system. You used the example of payment by results. As far as I am concerned, if payment by results was failing across the board, that is a system-wide problem of which the accounting officer for the Department of Health, who receives all the funding from the taxpayer via the Treasury into the Department of Health, should be held squarely to account. If payment by results ensures that an inefficiently run individual trust fails, I think that is a very different issue, and you need to have accountabilities within the system. No doubt the board of the relevant trust would sack the chief executive and try and introduce better systems. I am not certain that Parliament should be seeking to delve into every nook and cranny of an individual trust. Obviously, in the old days that would have fallen to the Audit Commission.

Q77 Ian Swales: That's where I wanted to come in actually. We've already, on this Committee, been struggling sometimes with the fact that the National Audit Office goes so far in Departmental expenditure,

and then in some Departments you are actually then faced with a wall over which a huge amount of money is thrown, and the National Audit Office doesn't go beyond that wall. Obviously with the trend of what the Government is trying to do, which by the way I agree with, we are going to see more and more of that. A twin-pronged attack, if you like, on accountability is the fact that, by its nature, the National Audit Office is going to end up having less and less to look at directly, and we are taking out the Audit Commission as well. Clearly we are going to put some arrangements in place to supersede the Audit Commission, but I am not totally clear what they are. I think this Committee is rightly concerned that the whole checks and balances and audit of arm's length bodies is going to become a bigger and bigger issue. I will just give you one small example. One thing I am dealing with at the moment is fraud in a chain of academies that has been reported to me by a whistleblower in the academies. I am not sure how we would have found out otherwise. That is an example of a trend that I think we need to get hold of.

Rt Hon Francis Maude MP: Wouldn't the auditor have picked it up?

Ian Swales: Appointed by the academy.

Chair: I think the issue of fraud is almost easier because fraud, auditor, police; there is a mechanism. My main concern, slightly different from Ian's, is the value for money issue. I think when you are talking about value for money, as Richard just said to me, we need to be able to follow where the pound goes and assure Parliament and the public that that pound has created real value. If you disperse accountability in a very odd structure—who appoints the Head Teacher of an academy, who sacks the Chairman of a Trust, all these things—and if you disperse it too much, you will end up with massive waste and not proper accountability structures back for that pound.

Q78 Mr Bacon: Sir Nick, can you confirm—because that is what it says in *Managing Public Money*, and it also says it in this draft Corporate Governance document—that a departmental accounting officer using his powers to delegate his responsibilities does not absolve the departmental accounting officer of accountability to Parliament. So can you confirm that, and would you envisage that, if the National Audit Officer wanted to drill down into an individual academy or wanted to drill down into an individual GP consortium, it should have no problem constitutionally in doing so?

Sir Nicholas Macpherson: I think the National Audit Office should be satisfying itself that the system is working. If the system is working you will occasionally have to drill down, this is my personal view, into individual public services to satisfy yourself of that.

Q79 Mr Bacon: The point is: so long as you can do it, you probably won't have to do it that often. But you would agree that you should be able to do it.

Sir Nicholas Macpherson: It is worth also underlining that under the new system that we're introducing, of Whole Government accounts and the clear line of sight, the accounting officer for the

Department of Health will have to sign off the accounts for all of health expenditure, including arm's length bodies like Foundation Trusts, which ultimately will come into those accounts. As with any machinery of Government change, these issues present challenges for the Treasury, the Public Accounts Committee, and the NAO, but I can't believe it is beyond our wit to develop a system that can give Parliament the necessary level of assurance about how taxpayers' money is spent. That seems to be absolutely fundamental to the relationship between Parliament, in particular this Committee, and the Treasury, and it is reflected in the concordat agreed between this Committee and the Treasury in 1932. We have got to try and work through this issue to find a solution. As Gus says, he has Bob Kerslake chairing a committee really to try and develop a methodology around localism.

Q80 Chair: Will you share that with us before you sign it off?

Sir Gus O'Donnell: Absolutely. It is very much a work in progress because a number of these issues are arising, and they are rising in whole different areas of public services. It is not just any one; it's across the board.

Amyas Morse: I largely agree with what Sir Nick has just said. It will mean some differences in the way we all do our work; there is nothing wrong with that at all. It will be important to get down into some of these, if for no other reason than, if you have a model which tends to be less directly managed, freer, it means that you'll get more diverse performance—that's just natural distribution—we will need to test some of it to see. Otherwise what you will have is judgments being made about performances at the extremes and the view that they indicate the quality of everything. In fact it is quite important to test, not only from the point of view of checking on value for money but making sure that the model doesn't get unfairly criticised. So both ways, it is quite important to do that. I am expecting that the way we do our work is going to have to develop and it will involve finding ways to sample and reach down further than we have done in the past. I have no doubt that will be part of the decision. We need to do that in alliance, if I can put it that way, with the way Government structures are doing it.

Q81 Matthew Hancock: Could I ask you one more question about the systemic versus the individual, which you brought out as a distinction? Following that, obviously the commissioning model is absolutely critical to a lot of the more localised delivery systems, but in order to audit and understand their commissioning model you need both a system-wide view and also you need to see what the consequences on the ground are for the commissioning model. Because you are delegating the decision, you then have got to see what decisions are then coming up. If you put money to the bottom, you have got to see where it's going and how much accountability the bottom level decisions are bringing, say, to schools or GP consortia. Are people moving over the border or going to different schools? You started by making the

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distinction between the system and the individual, but this seems to bring them back together again.

Sir Nicholas Macpherson: As I said, to satisfy yourself about the system, you occasionally—probably quite regularly—need to drill down. I think it would be a pity if the NAO's tentacles got so spread out that it ended up employing hundreds of thousands of people. I think it has got an important role here, and it will need to exercise it. Just to come back to another point. We are very committed to a wide NAO remit. Indeed, in the recent period we have extended the NAO's remit both into the royal finances and the BBC, and there are still one or two other areas that I hope at some point we will focus on.

Chair: Bank of England.

Sir Gus O'Donnell: Could I just add one bit? You're right, you can analyse the system and then you can look at individuals. But as Amyas was pointing out, if you have delegated down you might well get more variance at the individual level, but there will be two reasons for the variance at the individual level. One will be that some perform better than others, and that's at the heart of it. The second part will be you've delegated down depending on your commissioning model. Your commissioning model might be quite vague about what outcomes you are trying to achieve, and therefore you will need to work out not just the efficiency of the spend but what you are actually doing it on. Then you will have to come to a value judgment about whether you are going to second guess. Presumably the whole point of localising in the first place, as Mr Swales was saying, is you do want different outcomes in different areas.

Amyas Morse: I agree with that, however we don't want people reinventing the wheel locally. Normal financial controls, checks and balances don't need to be reinvented locally.

Sir Gus O'Donnell: Sharing best practice will be absolutely crucial.

Rt Hon Francis Maude MP: I think it is quite important, as we go down this path, to get away from the idea that every single decision made, however remote from the centre of Government, can be checked, and double-checked and cross-checked for value for money. The whole point about this model is that there are going to be choices available. Parents will have a choice, a greater choice, of schools, and with the growth of transparency, which is absolutely crucial to this, it will be much easier for the users of services—or their proxies in the case of GPs acting on the behalf of their patients, although subject to the will of the patient—to see what is being delivered for the money that is being spent. If there are schools that are doing a really bad job—performing badly in the way they use the money that is being spent for the education of children—parents will see it and they will act accordingly. This will be a different world, in which the principal accountability will not be all the way from the front line to some committee room in Westminster and some desk in Whitehall. It will be to the users of the services. That is the way it is designed to be and meant to be. That's actually a tougher accountability, in many ways, backed up by serious transparency. I think that all of us will need to get our heads in a different place.

Q82 Chair: I think we all welcome the transparency as long as it is meaningful to the user.

Rt Hon Francis Maude MP: Absolutely.

Chair: And the choice will depend really on there being a choice availability; the choice is not always there. Just shoving out a whole load of information without having it properly interpreted doesn't actually help or inform at all.

Q83 Jackie Doyle-Price: Sir Nick, I was very struck by what you said about the improvements being made since the finance director and the financial management disciplines were improved. One of the things that we've been monitoring in the course of our inquiries, is over and over again we are seeing very weak project management disciplines that have delivered very poor value for money. I just wondered what thought had been given to actually strengthening the skills we give to senior responsible owners in that regard. It seems to me that the generalist culture pervading in the civil service really is not equipping them with those skills. I think there is a case, and I would welcome Sir Gus's views on this, as to whether the Cabinet Office needs to grip this as a particular issue so that we are actually putting the right people in with the right skills to deliver what are very, very complicated projects. I would welcome some feedback on how you would tackle something of that magnitude in the private sector.

Sir Nicholas Macpherson: I think it is fair to say that the Cabinet Office is gripping this issue because it is now the responsibility of the Efficiency and Reform Group. My experience of this is that the centre can do quite a lot in identifying where the skills are and then working with Departments to ensure you get really good people in the right place. I think there are also issues around incentivisation. You do sometimes have to pay for skills. As Gus said earlier, general public culture is not terribly conducive to paying public servants large amounts of money. But Gus is now responsible for this, not me.

Sir Gus O'Donnell: This has transferred across from Treasury to Cabinet Office, but I strongly agree with you. You have before you someone who joined the civil service as a specialist, and you may remember the *Yes Minister* episode where someone said, "Well you can't get very far in the Civil service because you're a specialist." It's a great episode. I massively believe in professional skills, and we had the session here on consultancy, and I absolutely agree that there are certain areas where we need to be better: project management skills I think is absolutely clear, and finance is the same. It is trying to find these skills successfully from other areas. One way we can do it is grow our own, but it takes a long time and we have been trying for a while. Sometimes we grow people and then, curiously enough, they are successful and they go somewhere else because they pay them a lot more. There are some challenges for us in this and I think it is perfectly right that we need to better on getting these specialists there and giving them more status.

The other part of *Yes Minister* that I think was right when I joined the civil service back in 1979 was the status was with the policy people, and you looked

down on the operational people; they were out in the front line and doing that sort of stuff, but I was really important because I was next to a Minister. We've tried, with Professional Skills for Government, to get away from that. The message I gave to fast streamers in the Treasury is, "If you want to get on, get out, get some experience, operational experience," and the best people are doing that. I think that is really valuable. They are coming through, but it is going to take a while and we are not there yet.

Q84 Jackie Doyle-Price: It's a cultural shift though isn't.

Sir Nicholas Macpherson: Can I give a very good real world example? We've just drawn up a loan agreement with Ireland. Four years ago the Treasury would have had to employ an investment bank to do that. We didn't need to do it on this occasion because we have built up our in-house expertise as a result of the financial crisis. The critical challenge now is to retain sufficient expertise for the future.

Q85 Jackie Doyle-Price: If we can just relate it to an example, just to move this on, we talked earlier about the funding of the M25, which was subject to so much delay it ended up costing an extra £660 million, which is not an insignificant amount of money, particularly in today's climate, but we are seeing nine years of delay. Just sticking to timetable of milestones is pretty basic project management stuff. If you were looking at managing a really big project, what would be the first things that you would do in terms of implementing that in a business; a major capital investment?

Lord Browne of Madingley: The first point I would make is that the extraordinary thing is that Government isn't alone in this. Over the last five years, in the whole of the oil and gas exploration and production world, the whole world, 50% of the projects over \$5 billion were overspent by 50%. It is a very major issue. My own experience says the following: first, it is very important to have very highly trained specialists in the matter of project management. That is training through not just experience but also the case studies; trying to understand what went right, what went wrong. Secondly, by apprenticeship. In other words, never putting someone in charge unless they have been through, under the wing of someone who has done it before—very, very important—and then certifying them. Thirdly, it is actually understanding the lessons learnt, so every project needs to be analysed against the root cause—the root cause—of what happened that derailed it or made it a success. Fourthly, it's a management point, which is: never put a constraint on that defies feasibility because you will surely either get an estimate that bears no relationship to reality or a project that bears no relationship to the specification.

Q86 Mr Bacon: That is an incredibly interesting point. Sir Gus, could I ask you just to address one of Lord Browne's comments there about never putting somebody in charge who has never done it before? Not only was that precisely what happened with C-Nomis, where by the way the NAO report said there

is £161 million where they still don't know what happened to it. I fear, and I have talked to the NAO director for value for money on this subject, that the person who was appointed, who did not know how to be a project manager and didn't have experience of project management, wasn't really given any alternatives. What can you do in the civil service to ensure that your fellow permanent secretaries make sure that, when people are appointed, what Lord Browne said ought to happen always does happen?

Sir Gus O'Donnell: You have got a good example there of how non-execs can add value: the fact that Lord Browne can explain to us that it doesn't just happen in the public sector; exactly the same issues in the private sector. Secondly, there are some lessons to learn and I completely agree with him. The idea of getting people in there doing relatively small projects then moving on, or as deputies to big projects and then moving on to run their own projects, is exactly how we would like to work this system. It is going to take us a while because we start off with a system where we are relatively short of these skills. So you are going to have to put people in first time. I would love to have a batch of people who had successfully delivered really good projects and then move them on to the next project.

Q87 Mr Bacon: It is not like it is a new problem. The Cabinet Office report in 1994 on the use of external consultants highlighted the fact that consultants come in, and it's the same with every report, and the NAO has now done three since I've been on this Committee. The last point they always make, or the penultimate one apart from valuation, is the failure to transfer skills. The Cabinet Office has known that that is a problem for 15 to 20 years.

Sir Gus O'Donnell: Part of the problem—I keep on about it—is that these skills are quite scarce and they are very highly paid. We are in a situation where you want them to stay in that one job for a very long time, where they are dealing with their contractors and their consultants who are paid multiples of what they're getting, and they'll get tempted away by them. You can bet your bottom dollar. You are saying, "No, no, stay in that post for a long time, please." Then when you've done it, we are now saying, "And now, by the way, we want you to do another one because you did that so well." We have got to try and change that incentive structure.

Q88 Mrs McGuire: In the private sector people don't necessarily stay, and I think Lord Browne alluded to this earlier, for the full length of any project. Surely it is how you develop support/training mechanisms for having collective memory and the proper transfer of the project. I think what we often find is that somebody comes in completely cold with not even that transfer of knowledge. It is not just about saying to people, "You're going to be stuck in this M25 rut for 25 years." It is about how you actually carry the banner on and transfer the baton. I am astonished, as Richard has said, that we have been at this for 15 years.

Rt Hon Francis Maude MP: I think we will be able to do this better in the Cabinet Office now the

Efficiency and Reform Group has become the major projects authority for the whole of Government. This is one of the bits in the tight part of the loose/tight balance. They will have a much higher degree of oversight of the big projects. I think one of the things that has tended to happen in the past, and I think you refer to that, is a tendency for there to be a onetime client, an agency, or a part of Government or a quango, which has only got one big project to do. It doesn't make sense for perhaps a relatively small unit to have control of what may be a huge project. Actually, in those circumstances, a much higher degree of central involvement is necessary, where some real kind of project management clout can be deployed into it.

Q89 Chair: On the M25, I have to say to you that building roads is not the hardest thing in the world, and in the Department for Transport they spend on consultants 70% of what is spent on their in-house staff. You would have thought they'd have learnt how to build roads by now.

Sir Gus O'Donnell: Well they do build a lot of roads.

Q90 Stephen Barclay: Really I am just following up, Sir Nick, to clarify my understanding of your answer to Richard Bacon. You were saying, and I think the evidence is in *Managing Public Money*, that you see the role of the accounting officer is to challenge and satisfy themselves in respect of the delivery on value for money of arm's length bodies.

Sir Nicholas Macpherson: I think it sets out the relative roles of the arm's length bodies, but ultimately the main accounting officer has to take responsibility. He or she will delegate accounting officer responsibilities to the arm's length body, but he or she has got to satisfy themselves that the financial systems in that organisation are satisfactory. If they are not, they need to do something about it.

Q91 Stephen Barclay: That is what it says here. It says, "The accounting officer," as Richard alluded to, "must make arrangements to satisfy himself or herself". That just was at odds with my understanding of Sir David Nicholson's evidence yesterday, where we were questioning him on very wide variations in hospital performance. We have some hospitals with 13/14 staff per bed; we have other hospitals where it is less than four. There was one hospital where less than 20% of its admissions were emergency admissions; there was another where over 60% of its admissions were emergency admissions. Likewise on the consultants' contract. His answer was that these were issues for the board, and that the Department of Health provides the tools—so it provides the tools on job planning to benchmark hospitals consultants' productivity—but it is not for him to challenge the hospitals on value for money; it is an issue for the board. Whereas my impression from what it is saying here is that at the extremes of the range, where there are wide variations of performance, the accounting officer should be satisfying themselves that the hospital foundation accounting officer of that arm's length body has actually achieved value for money.

Sir Nicholas Macpherson: It really comes back to what I said earlier. I think the critical thing, as far as the accounting officer at the heart of the Department of Health is concerned, is whether the system is working. It may be that implicit in the new arrangement is the possibility of quite wide variation. That's okay if it's just the internal market working—

Stephen Barclay: If it's understood—

Sir Nicholas Macpherson: And if the average is actually pushed up as a result. That to me would be a sign that the system might be working. There is a distinction between how the expenditure as a whole is delivering a better health system, compared with the accounting officer at the heart of the Department of Health taking responsibility for each and every unit of delivery.

Q92 Stephen Barclay: No one is saying they should take responsibility for every unit. What I am saying is: to what extent should they satisfy themselves that they understand very wide performance? As a localist, as we discussed yesterday, I fully accept there may be good reasons for variations, and in fact that is one of the reasons for localism: to drive local initiatives and have variation. But if the person responsible, the Chief Executive of the NHS, who is distributing the money, doesn't understand why one hospital has three times—and perhaps it should have twice the level of staffing; there is a good reason—it strikes me that it is at odds with what this requirement is saying for them to say, "Well we provided the tools. It is now for the hospital board to decide whether they use the tools. It is not for me to satisfy myself and understand why it is that they haven't used the tool or they are at odds with the hospital." It is not just on health. We saw a witness, for example, on youth offending: there was a massive variation on youth offending between South Somerset and North Somerset, and there is no evidence in the report as to why there was such a variation there. Again the Department at the centre is saying, "Well, we don't know why."

Sir Nicholas Macpherson: I think that it's the responsibility of the accounting officer. They may not be responsible for each and every unit of delivery but they need to understand what the system as a whole is delivering and be content with that outcome. So where there is a massive variation, they have really got to understand why. That doesn't mean that they should be interfering in each and every organisation, but I do think that for taxpayers' money, which goes through Departments, it is the responsibility of the accounting officer to understand in broad terms what that money is delivering and why there are differences.

Q93 Austin Mitchell: I quite like Francis Maude's vision of the new accountability and transparency that's going to come.

Rt Hon Francis Maude MP: Welcome into the tent.

Austin Mitchell: I can give you a title for it: that's a new paradigm; I've stolen that from Gordon Brown. But I am still worried about, and the Chair mentioned it in the opening, and we've been worried, about how we are going to cope with this new localism in terms of accountability and general control. I understand

you have got a tighter/looser system—sounds good for a Yorkshireman, actually; I'm only loose when I'm tight—you're going to be tighter on central control of efficiency, but looser by passing authority and decision making down. It is our experience, I mean I came on this Committee just after Gladstone had created it, that the worst things that we have come across have always been in outlier Departments where the control has been inadequate. I think the two classic instances are the Metronet contract, on which we lost millions—

Chair: Billions.

Austin Mitchell: And the Rural Payments Agency, which was another masterful cock-up. Now all these emerged only too late but they were characteristic of a system in which there wasn't effective central control or accountability of efficiency and strategy. How will the new system cope with that?

Rt Hon Francis Maude MP: Something like the Rural Payments Agency is an executive agency. It is directly accountable through a Minister to Parliament and is subject—

Q94 Austin Mitchell: So the same applies and we could still have the same mess up?

Rt Hon Francis Maude MP: Well I hope there would be somewhat better governance and control. I would expect a Departmental board in the overseeing Department to take a pretty damn close interest. That is exactly the thing. Big, big projects that carry reputational, financial and operational risk, which that one manifestly did, need pretty close oversight and it clearly didn't get it. I mean there is a bit of a tendency for Ministers to sign off on a policy, forget about it, and assume that it is going to be lovingly carried away by officials and impeccably delivered. Actually, you do not absolve yourself of responsibility for delivery and operational stuff as a Minister just because you have taken a decision. I think one of the benefits of boards will be that they will require Ministers to be a bit involved—not to try to micromanage; that is not what they are there for and they shouldn't need to be doing that—and continue to be a bit involved in the operational delivery of the policies and the programmes that they've launched. That manifestly didn't happen in the case of the Rural Payments Agency, but it should have done.

Q95 Dr Creasy: I just have one final question for all of you to answer. Given the discussion we have had today and your comments earlier, Sir Nick, that some of the problems with spending happen when there is reform in the system, we have obviously talked about a lot of reforms today. What are the alarm bells that you think we should be looking out for as the Public Accounts Committee in discharging our duties to Parliament?

Lord Browne of Madingley: The question is too wide for me to answer. I think I would narrowly say to look at the quality of people in charge of the big projects.

Rt Hon Francis Maude MP: I would say—I think there has been a tendency, and I think this is something that you are seeking to address—be a bit more current and be a bit less retrospective. I think another thing I would say is I think the whole audit

culture we have in Westminster and Whitehall is very good at creating a wonderful environment of probity. We are very un-corrupt; we have very high levels of probity. I think one of the unintended consequences of that is that we are very risk adverse. Good organisations learn as much from the things that are tried and don't work as the things that are tried and do work. I think if you have an excessive blame culture, where for every failure there has to be a scapegoat, every failure is deemed to be a culpable failure, then you have an environment, a culture, in which failure is not recognised, failure is hidden, and you become the prisoner of sunk costs. Good organisations cut their losses early, learn from the things that have been tried and haven't worked, and move on. I think we are really bad at that in Government. I think this Committee can play a real role in certainly celebrating the successes, but also recognising the things that have been tried, whether it was the right thing to try—the decision made on an informed and intelligent basis but which didn't succeed. If you don't do that you never get the transforming breakthroughs.

Sir Gus O'Donnell: I will just make two points. The first one is, if you think about what this Government is trying to do, there are two aspects to it: localism and deficit reduction, so better for less. On the localism part, we have discussed it at great length. I think this does raise a set of issues, and a lot of my conversations with Ministers are about how the whole point is transferring the accountability down to the public. We need to work that out between us, as to what the right answer to all of that is. The second point is, if we are going to do better for less, we are going to have to innovate. This is exactly what the Minister was saying. If you innovate successfully, that means there are failures, and I would like the Committee to be saying occasionally to us, "Well what went wrong there? Nothing failed. Were you taking enough risks there?" Also, talk about the things that have been really successful and what are the lessons learnt from the successes. I've rarely been asked that question.

Chair: Actually, just to put the record straight, there are three Reports that we have done in our six months that celebrate success. You haven't even noticed them.

Sir Gus O'Donnell: They don't get a lot of coverage.

Chair: They don't get coverage. But two of them were in education.

Sir Gus O'Donnell: Can we find ways of getting more coverage of your excellent Reports? I think that is the answer to that one.

Chair: Well if you celebrate success you don't get coverage.

Q96 Dr Creasy: Sir Nick, what are your alarm bells that we should be looking out for?

Sir Nicholas Macpherson: Well I would always follow the money. Is the Treasury managing to control public spending? Are there bits of the balloon where overspends are emerging and control is lost? Consistent with your approach and our previous discussion on efficiency, I do think you need to satisfy yourself about the quality of service that is being bought with taxpayers' money. The final thing that I

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would recommend is don't spread yourself too thinly. Really home in on those areas that have caused you concern in the past. We are trying to develop a better defence procurement programme. For God's sake, hold us to account.

Chair: Thank you very much indeed. I thought that was very helpful and thank you to all of you for spending so much time with us. Thank you.

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