



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 821
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Department for Culture, Media and Sport

Financial Management

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Department for Culture, Media and Sport

Financial Management

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

8 March 2011

We assessed the maturity of the Department for Culture, Media and Sport's financial management against a model developed by the National Audit Office drawn from best practice.

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The National Audit Office study team consisted of:

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This report can be found on the National Audit Office website at www.nao.org.uk/dcms-financial-management-2011

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Summary

Scope of the National Audit Office examination

- 1** Although a small department, the Department for Culture, Media and Sport (the Department) is responsible for £5.7 billion of expenditure across a wide-ranging sector. It delivers its objectives largely through arm's-length bodies. The Department's core Finance team consists of 22 staff, led by a qualified Director of Finance.
- 2** We assessed the maturity of the Department's financial management against a model developed by the National Audit Office (NAO) drawn from best practice (see Appendix One). We have examined "business as usual", the Department's response to the Spending Review 2010, and its review of arm's-length bodies.
- 3** The Department is the lead department for the London 2012 Olympic and Paralympic Games. The Olympic programme is overseen by the Government Olympic Executive, a separate directorate within the Department with its own Finance Director and Finance team. The NAO has a separate programme of work examining the Department's preparations for the Games. The work of the Olympic Executive and the financial management of the Olympic programme is accommodated within this wider work programme, and as it is distinct from the financial management of the Department as a whole, it has not been examined as part of this study.¹
- 4** Our wider body of work examining the Olympic programme has concluded that: responsibilities for costs have recently been clarified, putting preparations for the Games on a firmer financial footing; on current assumptions the Public Sector Funding Package should be sufficient; and the Olympic Executive has improved its understanding of the financial position of the London Organising Committee of the Olympic Games and Paralympic Games for which the Government is the guarantor. However, this study concludes that the commitment to financial management shown on the Olympic programme needs to be replicated across the Department's wider responsibilities.

¹ http://www.nao.org.uk/our_work_by_sector/culture,_media_and_leisure.aspx

Key findings

On the effectiveness and influence of the Finance function

5 The Department's Finance team has improved the standard of its financial management. Its external financial reporting meets the standards set by HM Treasury and it has received unqualified audit opinions on its Resource Accounts since the transition to Resource Accounting. There have been improvements to the controls over capital funding, where bids for funding must be based on fully developed and costed business cases, and put to a new Investment Committee for approval. Internal administrative budgeting has also improved, with budget holders facing direct challenge from the Director-General and Finance Director, while the Finance team has applied rigorous challenge to the set-up costs of a new arm's-length body.

6 The Finance team, however, still needs to improve its performance in a number of areas, in particular in strengthening the role it plays in support of key policy decisions and in providing information to the Board. To drive through these improvements, the Department's leadership needs to place greater emphasis on good financial management. This reflects wider concerns expressed in the 2009 Capability Review² highlighting the lack of influence the Finance team has within the Department. Our report on the Foreign and Commonwealth Office³ has demonstrated how strong leadership from the Accounting Officer and the Board can contribute to embedding a culture of sound financial management.

On performance, financial and risk reporting to the Board

7 The Department has adopted the Cabinet Office's new protocol for Departmental Boards. The Board is now chaired by the Secretary of State and three new non-executive members have been appointed. The Board is supported by five sub-committees. Between July and December 2010, the governance structure was in a transitional stage with the first full meeting of the Board taking place in January 2011.

8 In September 2010, the Department produced a new format of performance report, based on the Department's Business Plan that focuses on the Secretary of State's eight priorities. The Business Plan, however, does not cover several ongoing activities of the Department, including the activities of arm's-length bodies and high-value capital projects. Consequently, we consider that the Department does not provide the Board with sufficient information on the wider aspects of its performance.

9 The Board now receives financial information in a consistent format, including additional finance reports when requested. In our view, there are some gaps in the information reported, in that there is no reporting of performance against Parliamentary supply control totals, nor is information provided on outturn to date. This prevents the Board from examining the Department's financial position in full.

² *Capability Review: the Department for Culture, Media and Sport, progress and next steps*, March 2009.

³ Comptroller and Auditor General's report, *Financial Management in the Foreign and Commonwealth Office*, June 2009.

10 In its new structure, the Board intends to rely on its Policy Committee to provide assurance on finance and performance across the Department. While the Committee is still in a transitional phase, there is as yet no established mechanism to escalate these issues up to the Board.

11 The Department has improved risk management at an operational level. While the Audit Committee Chair provides an update on risk at Board meetings, the Board has not yet included any formal discussion of strategic risks on its agenda. It is also unclear how the escalation of operational risks to the Strategic Risk Register is working in practice. The Strategic Risk Register itself has significant omissions and does not focus on controls mitigation or the financial impact of risks.

On the Department's relationship with its arm's-length bodies

12 The Department faces a substantial challenge in providing effective financial oversight of its arm's-length bodies which differ substantially in size, influence and risk. In line with other departments with devolved delivery chains, the Department faces the challenge of determining the appropriate level of oversight it can commit to its arm's-length bodies commensurate with the resources that it has.

13 The Department has developed risk assessments of its arm's-length bodies to inform the level and nature of its relationship with them. Whilst recently enhanced, however, these assessments have not been incorporated into the Department's monitoring activities and have not been used to inform the level of sponsorship engagement. Applying a targeted approach to monitoring will be increasingly important as the Department adapts to its significant staff reductions announced in the Spending Review in October 2010.

14 The Department does not have an information strategy that defines sufficiently the financial information it needs to apply appropriate management of its arm's-length bodies. Financial data obtained does not provide data about spending on particular projects or a cost breakdown beyond overhead and programme activities. This weakens the Department's ability to make more informed decisions on budget allocations. Until December 2010, the Department had incomplete information on arm's-length bodies' cash balances leading to grant-in-aid being awarded in advance of need. There are also weaknesses in the Department's oversight of arm's-length bodies' compliance with framework documents, many of which are out of date.

15 The Department has a history of over-committing its budget allocations across its arm's-length bodies. In April 2009, initial forecasts for 2009-10 showed capital budgets had been over-committed by £95 million, and in 2010-11 by £110 million. The Department had to negotiate with HM Treasury for access to an additional £120 million of budgetary cover and find £72 million of reductions in planned expenditure in order to reduce the forecast deficit. The impact of over-programming budgets can be significant and can lead to situations where areas of spend may need to be reduced, regardless of their strategic importance.

On the Department's management of cost reduction in its arm's-length bodies

16 The Department faced a substantial challenge in preparing for the Government's Spending Review. It prepared thoroughly, by developing an understanding of the impact of reductions in funding through scenario planning based on information provided by its arm's-length bodies and preparing targeted options. It was also able to inform its bodies of the outcome of the Spending Review on the same day as the HM Treasury announcement.

17 The Department applied specific graduated reductions across a number of its bodies. However, the budgets of the arts and culture sector were cut by a standard flat rate, albeit moderated by differential budgets for capital spending and as yet unallocated access to self-generated reserves and to restructuring funds. The Department also made a 50 per cent cut in its own administration costs and those of a number of larger bodies. While the Department was influenced by the desire to make quick decisions, the use of standard flat rates does not differentiate sufficiently between the existing cost bases of the different bodies, although access to reserves and restructuring funds may address this going forward. However, the level of cuts imposed, combined with the fact that funds for restructuring and use of accumulated reserves have not yet been allocated, means that the Department cannot yet know the ultimate impact on frontline delivery. This followed a decision to apply a 3 per cent cut to the majority of bodies' budgets to meet the new Government's target to reduce spending in 2010-11. Undifferentiated top-slicing of budgets can leave organisations exposed and unprepared for the future, and can lead to higher overall costs or the displacement of costs elsewhere.⁴

18 The Department's decision in 2010 to close and merge a number of its arm's-length bodies was not informed by a financial analysis of the costs and benefits of the decision. The Department did not obtain sufficient financial data about the bodies and based its decisions on estimates that did not take account of the full costs of closure such as lease cancellation, redundancy and pension crystallisation costs. The decision was also not informed by an estimation of future savings or of what the pay-back period would be. In responding to the new Government's review of recent spending decisions, the Department cancelled seven projects with a total value of £73 million, without ascertaining the financial penalties that might be incurred.

⁴ National Audit Office, *A short guide to structured cost reduction*, 2010
http://www.nao.org.uk/publications/1011/structured_cost_reduction.aspx

Conclusion on value for money

19 The Department has improved the maturity of its financial management in specific areas, both within its Finance function and more broadly across its sponsor teams. Our previous studies have acknowledged evidence of good financial management within the Olympic programme. However, this review of financial management across the Department as a whole has found that it is not possible to conclude that the Department is achieving value for money as the following features are absent:

- Senior sponsorship to develop finance to an appropriate level of maturity and influence throughout the organisation.
- A commitment to take decisions based upon appropriate and accurate information that fully analyses underlying costs and understands the consequences of reductions.
- Deployment of a coherent, graduated approach to the challenging task of managing its arm's-length bodies.

Recommendations

20 We make the following recommendations:

a **The Board is not giving sufficient attention to performance, financial and risk management across the Department and its arm's-length bodies.**

The Department should:

- provide the Board with more comprehensive performance and financial information, and facilitate the Board taking ownership of risk management; and
- enhance the Strategic Risk Register so that there is increased focus on control mitigation, the financial implications of risks are defined, and the escalation of operational risks operates appropriately.

b **The Department does not have a consistent approach to overseeing its arm's-length bodies.** The Department should:

- determine the appropriate level of oversight it can commit to arm's-length bodies commensurate with the level of resources it has; and
- use its revised risk ratings to inform this relationship, and keep these ratings up to date.

- c The Department does not consistently obtain information on the financial activities of its arm's-length bodies.** The Department should establish a coherent information strategy that:
- defines the information it needs to hold on its arm's-length bodies to inform decisions on budget allocations and facilitate effective monitoring;
 - defines the quality assurance process that should be in place to challenge the information received from its sponsored bodies; and
 - sets the minimum level of financial and performance information that will be reported to its Board and senior management.
- d The Department over-commits its budget allocations to arm's-length bodies.** It should cease its practice of planning to overspend. If it chooses to over-programme, then it should have a clear plan of action should the over-programming crystallise, supported by accurate and timely monitoring.
- e The Department has made decisions based on insufficient financial information and analysis.** In making future decisions, the Department should:
- stop applying standard flat rate cuts to budgets and make awards to arm's-length bodies that take further account of their differing cost bases and the differing impact that cuts may have on frontline delivery; and
 - use a full analysis of costs, future savings, and pay-back periods when making decisions to merge or close arm's-length bodies and to cancel projects.

Part One

The Department's operating environment and its impact on financial management

The Department's responsibilities

1.1 The Department for Culture, Media and Sport (the Department) aims to “improve the quality of life for all through cultural and sporting activities, to support the pursuit of excellence and to champion the tourism, creative and leisure industries”.⁵ It is responsible for setting government policy for the arts, broadcasting, the creative industries, the historic environment, licensing and gambling, libraries, museums and galleries, the National Lottery, sport and tourism, and is the sponsor department for the London 2012 Olympic and Paralympic Games.

1.2 In November 2010 the Department published its Business Plan,⁶ setting out its six priorities from 2011 to 2015:

- Deliver the London 2012 Olympic and Paralympic Games.
- Facilitate sustainable growth in the tourism, media, leisure, creative and cultural industries.
- Encourage philanthropic giving, redistribute National Lottery monies, and foster the development of local media groups.
- Facilitate the delivery of universal broadband.
- Create a sporting legacy from the Olympic and Paralympic Games.
- Reform arm's-length bodies, and support public libraries.

⁵ Department for Culture, Media and Sport website: http://www.dcms.gov.uk/about_us/default.aspx

⁶ Department for Culture, Media and Sport *Business Plan 2011-2015*, November 2010
http://www.dcms.gov.uk/images/publications/DCMS-Business-Plan_2010-15.pdf

The London 2012 Olympic and Paralympic Games

1.3 The Department is the lead department, and from April 2011 will be the sole budget holder, for central government spending on the Games. The Government Olympic Executive is a separate directorate within the Department which leads the Government's preparations and management of the £9,298 million Public Sector Funding Package. The budget for wider security and policing, which is part of this overall package, is held by the Home Office.

1.4 The Olympic Executive is headed by a Director-General who reports to the Board and the Permanent Secretary, and has its own governance and risk management structures. It has a ring-fenced budget, its own professionally qualified Finance Director, and its own separate Finance team, although the Department's central Finance team is responsible for Estimates, reporting outturn to HM Treasury and grant-in-aid payments. Until May 2010, the Olympic Executive reported to an Olympics Minister. After the general election, the Secretary of State assumed responsibility for the Olympic Programme.

1.5 Given the unique nature of the preparations for the Games, the separate governance structure, plans to disband the Olympic Executive after the Games, and the scale of expenditure, we have not examined in this report the detailed financial management of the Olympics programme. The NAO has a programme of work examining the Department's preparations for the Olympics, incorporating both the work of the Olympic Executive and the financial management of the programme more generally. To date, we have published five reports.⁷

1.6 Our most recent reports have found that:

- following the Spending Review 2010, responsibilities for important areas of cost in the Public Sector Funding Package have been clarified, putting the preparations for the Games on a firmer financial footing;
- on current assumptions, the Public Sector Funding Package should be sufficient; and
- the Olympic Executive has improved its understanding of the financial position of the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG), for which the Government is guarantor.

⁷ http://www.nao.org.uk/our_work_by_sector/culture,_media_and_leisure.aspx

The Department's finances and delivery chain

1.7 The Department's total expenditure in 2009-10 was £5.67 billion (**Figure 1**). The core Department itself is small, currently employing around 450 staff, of which 85 work within the Olympic Executive,⁸ and its main activity is to set Government policy on a wide range of cultural and leisure activities. It also manages a small number of its own programmes, such as ceremonial activities, managing the Government Art Collection, and the Listed Places of Worship Scheme.

Figure 1
Departmental Expenditure

	£ million
Grants paid to bodies subject to Departmental oversight	
Olympics ²	924
Arts	452
Museums and Galleries	368
Sports	201
Architecture and the Historic Environment	165
Libraries	147
Tourism	46
Creative Industries	37
Royal Parks	34
Gambling and National Lottery Licensing	5
Grants paid to Public Broadcasting Authorities	
BBC ³	3,021
S4C	101
Grants paid to other bodies	
Royal Household	16
Churches Conservation Trust	3
Other Departmental Expenditure	
Other grants (including non-national museums)	86
Departmental administration costs	57
Other current expenditure	11
Total expenditure	5,674

NOTES

- 1 This excludes income from the National Lottery, which is held by the National Lottery Distribution Fund.
- 2 This excludes other funding provided to the Olympic Delivery Authority, such as that received from the London Development Agency, the Greater London Authority and the National Lottery.
- 3 The grant paid to the BBC is outside the scope of this report since it is the BBC Trust, not the Department, which is responsible for oversight of the BBC.

Source: Department for Culture, Media and Sport Resource Accounts 2009-10 and audit papers

1.8 The Department relies heavily on arm's-length bodies to deliver its policies and provides a sponsorship function to oversee their activities. It currently sponsors 55 public bodies,⁹ of which:

- forty-six are non-departmental public bodies (NDPBs) (for example, Arts Council England, Sport England, the British Library). Only two other government departments are responsible for a greater number of NDPBs;¹⁰
- four are public corporations (Channel Four Television Corporation, Historic Royal Palaces, the Horserace Totalisator Board (the Tote), Ofcom);
- two are public broadcasting authorities (the BBC and S4C);
- one is an executive agency (Royal Parks); and
- two are unclassified bodies that receive Exchequer funding (the Royal Household and the Churches Conservation Trust).

1.9 Many of the Department's arm's-length bodies are charities and do not rely on the Department for all of their funding, receiving additional funding from other government departments or generating income through donations or commercial activities. Other delivery bodies also do not rely on the Department for their funding, such as the Big Lottery Fund which is funded through the National Lottery.

1.10 The Permanent Secretary, as Accounting Officer, is responsible for ensuring that the Department delivers the standards of governance, decision-making and financial management required by HM Treasury. He appoints the Accounting Officers of the arm's-length bodies which the Department sponsors, and retains responsibility for those bodies' spend.

The Department's Finance function

1.11 The Department's Finance team comprises 24 posts, two of which are currently vacant, under the direction of a qualified Finance Director who was appointed in March 2009. The post had been filled by a non-qualified interim appointment for the previous six months. Of the 22 staff, seven hold CCAB qualifications in accounting. Transaction processing work is outsourced to an external financial services company, Liberata.

⁹ http://www.dcms.gov.uk/about_us/our_sponsored_bodies/default.aspx

¹⁰ http://www.civilservice.gov.uk/Assets/PublicBodies2009_tcm6-35808.pdf; Only the Department for Environment, Food and Rural Affairs and the Ministry of Justice currently have more Non-Departmental Public Bodies with 68 and 378, respectively.

1.12 A key task of the Finance team is the preparation of monthly financial reports to inform the Department's decision making and the monitoring of processes. In 2010, a Government report comparing departments stated that the Department took 15 days to produce financial reports against a median of seven days.¹¹ The Department has indicated that this figure should have been reported as 12 days. The production of management information within the Department is complicated by the number of bodies that it needs to collect information from, although delays in producing timely financial information means that the decisions made in the Department may not be based on the most up-to-date financial position.

Changes to the Department's structure and future financing

1.13 Over the course of the Spending Review period the Department will reduce overall resource spending by 24 per cent by 2014-15.¹² It intends to abolish or reform several of its sponsored bodies.¹³ Through doing so, it hopes to increase "the efficiency, transparency and accountability of public bodies, while at the same time cutting their number and cost". It will:

- abolish four executive NDPBs;
- merge four executive NDPBs into two;
- abolish or declassify six non-executive NDPBs which are funded through the Department at low cost (largely advisory committees);
- substantially reform the role performed by Ofcom, a public corporation; and
- sell off the Horserace Totalisator Board (the Tote) from public ownership.

1.14 Overall, the Department intends to reduce administration costs in the sector by 41 per cent over the Spending Review period to £116 million by 2014-15, which includes reductions to be made when the Olympic Games are completed. This is the second highest percentage cut (only the Department for Communities and Local Government is greater at 42 per cent), and is considerably higher than the total percentage cut across government of 34 per cent.¹⁴

¹¹ Back Office Benchmarking data <http://www.cabinetoffice.gov.uk/resource-library/back-office-benchmark-information-200910>

¹² *Spending Review 2010*, 20 October 2010, p65, http://cdn.hm-treasury.gov.uk/sr2010_complereport.pdf

¹³ http://www.dcms.gov.uk/news/news_stories/7484.aspx

¹⁴ *Spending Review 2010*, 20 October 2010, Table A.11, http://cdn.hm-treasury.gov.uk/sr2010_complereport.pdf

1.15 The Department intends to reduce its own administration costs by 50 per cent to £27 million by 2014-15. It will reduce its headcount of around 450 by up to 70 staff by Summer 2011, starting with a significant reduction in the number of Senior Civil Service posts. The Department will reduce from around 450 staff to 250 by 2014-15, and part of this reduction will come from disbanding the Olympic Executive after the Games are over. Such a large reduction in the resources available to run the Department will pose a significant challenge to how the Department can provide effective oversight of its arm's-length bodies, particularly since the bodies themselves will be under similar budgetary pressures.

1.16 In December 2010, the Prime Minister announced that all competition and policy responsibility for media, broadcasting, digital and telecoms would transfer to the Department from the Department for Business, Innovation and Skills, which will result in up to 100 staff transferring to the Department.

Capability Reviews

1.17 In undertaking its Capability Reviews of the Department in 2007 and 2009, the Cabinet Office commented that the Board needed “to clarify its own role and that of the Executive Committee, and communicate this within the Department”.¹⁵ It highlighted a “lack of pace and ambition in strengthening corporate services”, including the Finance department, that meant “the necessary support [was] not available to the organisation” and that “the lack of impact of corporate services [was] holding back the organisation”. Our previous report on the Foreign and Commonwealth Office highlighted how the Accounting Officer and the Board can contribute to embedding a culture of strong financial leadership.¹⁶ The Department continues to respond to the findings of the Capability Review, and we have taken account of this background in making our assessment of its financial management.

¹⁵ *Capability Review: the Department for Culture, Media and Sport, progress and next steps*, March 2009.

¹⁶ Comptroller and Auditor General's report, *Financial Management in the Foreign and Commonwealth Office*, June 2009.

Part Two

The Department's financial management and its financial oversight of arm's-length bodies

2.1 This section examines:

- The Department's financial governance.
- Budgeting and planning.
- The Department's oversight of arm's-length body performance.
- Using financial information for decision-making.
- Reporting financial information to external stakeholders.

The Department's financial governance

The governance structure of the Department

2.2 The Department's governance structure is in transition, having adopted the Cabinet Office's new protocol for departmental boards, and creating new Corporate and Policy sub-Committees. The revised remit of boards is not to make policy decisions, but to oversee performance (including scrutinising performance of sponsored bodies), strategy, resources, capability and risk.¹⁷ The Department has changed the composition of the Board to have fewer executive and more non-executive members, with the Secretary of State chairing meetings. The Finance Director has been retained on the Board under the new structure. The Board is supported by five sub-committees (**Figure 2**):

- Executive Board, which focuses on the delivery of the Department's Business Plan.
- Audit and Risk Committee, which advises the Permanent Secretary on the suitability of the Department's governance, risk and control frameworks.
- Investment Committee, which provides scrutiny of any capital investments greater than £5 million, or the arm's-length body's delegated limit if lower.

¹⁷ <http://www.cabinetoffice.gov.uk/content/enhanced-departmental-boards-protocol>

- Corporate Committee, which oversees the performance of the Department's corporate services.
- Policy Committee, which oversees the delivery of ministerial priorities and the resources needed to achieve these.

2.3 The Department also has an Advisory Board, whose members include Directors from the Department and Chief Executives from a number of its sponsored bodies to provide external advice on the Department's strategic direction.

Financial oversight by the Board

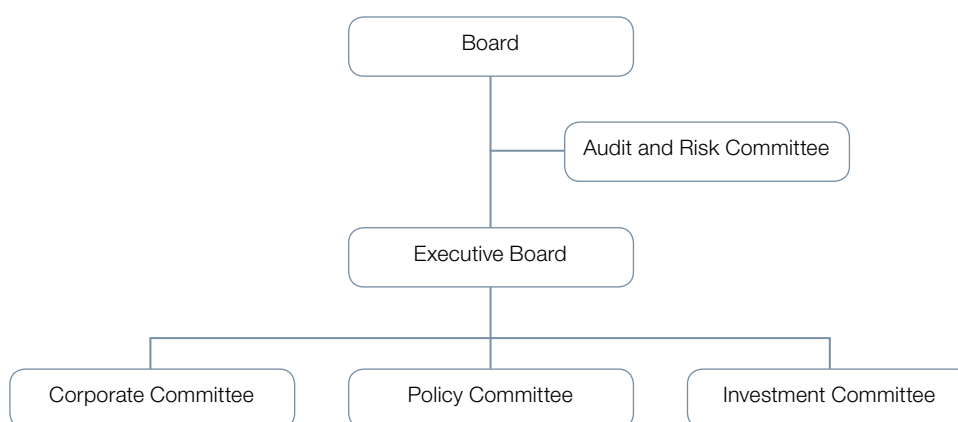
2.4 The Board should set the tone for good financial management within a department. It should receive financial information with a frequency which ensures it is continually sighted on financial matters, including relevant information about arm's-length bodies.

2.5 In response to the changes introduced by the new government, the Board is now chaired by the Secretary of State, and three new non-executive members have been appointed in addition to one existing member. Between July 2010 and December 2010, the Board and its new sub-committees were in a transitional phase. The Board met twice during this period, with the first meeting of the full Board, including the newly appointed non-executive directors, held in January 2011.

2.6 The Department's Board expects to meet six times each year, which is less often than the Cabinet Office recommends (every six weeks), with meetings lasting around one hour. The agendas for the two transitional meetings of the Board allocated 15 minutes to performance and finance. Previously, the Board met ten times a year, with meetings lasting three hours.

Figure 2

The Department's governance structure



Source: National Audit Office summary of Departmental papers

2.7 During 2009 and 2010, as part of a programme to improve the management information provided to the Board, the Department repeatedly revised its performance report. The frequent changes to routine data meant that the Board did not receive consistent information about performance. In September 2010, the Department introduced a new format of performance report that focuses on the Department's Business Plan.¹⁸ The Business Plan comprises the Secretary of State's eight priorities, including the Olympic programme, with one element scheduled to be discussed at each Board meeting. While it sets out the Department's new and significant work programmes, it does not cover several ongoing areas, such as the activities of arm's-length bodies and high-value capital projects, which account for the vast majority of the Department's expenditure. Guidance from HM Treasury states that the Board should receive "information in a form and quality appropriate to enable it to discharge its duties in respect of all the activities of the department, including the work of... arm's-length bodies".¹⁹

2.8 The Board did not previously receive financial information in a consistent format, which we raised as a significant risk to the Department in our 2009-10 Management Letter. It now receives a standard finance report, with an additional finance paper provided when deemed appropriate. We consider, however, that the standard report does not provide sufficient financial information for the Board's oversight of the Department's finances. It reports performance against budget but it does not report performance against Parliamentary Supply control totals although, in the Department's view, these are effectively the same. Also, while there is provision of forecast expenditure, there is no information on outturn to date, which would allow the Board to understand what flexibility there is to reallocate resources, particularly towards the end of the financial year.

2.9 As the Board's own opportunity for oversight is limited, it is dependent on the review functions and reporting of other parts of the Department's governance structure. The Board is supported by the Policy Committee, whose remit is 'delivering Ministers' priorities'.²⁰ The Department expects it to oversee significant programme issues at its arm's-length bodies. The Policy Committee, however, is also in transition and the first three months of its meetings have focused on the Department's policy portfolio, the allocation of flexible programme teams to projects, and on the management of the programme budget. Similarly, the Investment Committee supports the Board by approving significant capital projects, but does not have formal responsibility for monitoring progress of those projects. Whilst these are transitional arrangements, there are as yet no established mechanisms for escalating issues to the Board.

18 Department for Culture, Media and Sport *Business Plan 2011-15*, November 2010, http://www.dcms.gov.uk/images/publications/DCMS-Business-Plan_2010-15.pdf

19 HM Treasury: *Corporate governance in central government departments*, 2005, <http://www.hm-treasury.gov.uk/d/corpgovernancecode280705.pdf>

20 Terms of Reference for the Policy Committee.

The Department's management of risk

2.10 A departmental board is ultimately responsible for the organisation's risk management. It can delegate monitoring of risks, but must retain visibility of the process and should actively challenge the appropriateness and completeness of risks and the mitigating control actions put in place to ensure they are effective. While Boards will typically focus on strategic risks, a department's risk management process must ensure that these strategic risks take account, where relevant, of lower level project and operational risks.

2.11 The Department introduced a revised risk management process in July 2009 which manages risk at three levels: project, directorate, and strategic. To improve risk management, the Finance team has undertaken two rounds of internal assessments of directorate-level risk registers. These involved critically reviewing the registers and considering the reasonableness of the mitigating actions proposed. The Internal Audit Service has also completed a separate review. Each directorate has appointed a Risk Champion responsible for maintaining the register and promoting risk management in their respective teams, for example, by attending project meetings to ensure that risks are appropriately considered.

2.12 Whilst the Department's risk policies allow the escalation of operational risks to the Strategic Risk Register, it is not clear in practice how this is working. There is a risk, therefore, that the Strategic Risk Register does not fully reflect all significant operational risks faced by the Department. Furthermore, it does not include the actions or controls that could be used to mitigate those risks, nor measure the significance of individual risks to the Department. There is no quantification of the financial impact of risks where this is applicable, which constrains consideration of risk appetite. The Department does not measure the costs or benefits of risk management, so control measures taken to drive improvements in outcomes cannot be assessed for cost effectiveness.

2.13 The Audit and Risk Committee oversees the risk management framework on behalf of the Board. The Committee Chair is a non-executive director on the Board and routinely reports back to the Board on issues arising. In addition, the Board has nominated the Finance Director as risk champion. However, the new Board has not yet included any formal discussion of strategic risks on its agenda.

Budgeting and planning

Over-commitment of budgets in the 2007 Spending Review

2.14 The practice of over-committing budgets – granting allocations to arm’s-length bodies which in total are greater than total budgetary cover – is high-risk. Unless a department has good contingency plans in place, it may have to make sub-optimal decisions and identify areas of saving irrespective of the strategic importance or cost implications of the programme or activity being cut.

2.15 In preparing its budget and the allocations to arm’s-length bodies for the 2007 Spending Review, the Department deliberately over-committed. This was based on an anticipation that its bodies would not use all of the funding allocated to them, particularly on capital, and the Department’s intention to use access to previously accumulated under-spends (End-Year Flexibility). In our view, this decision did not take sufficient account of external factors such as the pressures on externally-generated income in the museums and galleries sector, and placed undue dependence on HM Treasury continuing to allow the Department to access previously accumulated under-spends.

2.16 The over-commitment of the Department’s capital budget in 2008-09 was £75 million on its original capital budget of £198 million. It avoided exceeding its annual budget by off-setting this over-commitment with receipts from the sale of land by the British Library that the Department had not included in its original budget. The over-commitment of capital continued to impact the Department for the remainder of the 2007 Spending Review period (**Figure 3**). In April 2009, initial forecasts for 2009-10 showed capital budgets had been over-committed by £95 million, and in 2010-11 by £110 million. To compensate, the Department’s initial action was to negotiate with HM Treasury for access to an additional £120 million of budgetary cover, and identify £72 million of reductions in planned expenditure.

2.17 Resource budgets have also been over-committed over the course of the Spending Review – although to a much lesser extent. For example, for the 2010-11 financial year, the Department has over-programmed its budget by some £19 million,²¹ although it has indicated that it is currently forecasting a small underspend. The Department’s practice is to monitor forecast expenditure throughout the year, increasing the level of direct intervention towards the end of the year if the Department still forecasts that it remains over-committed. Where anticipated under-spending does not occur or alternative financing is not forthcoming, over-committing budgets necessarily requires bodies to cancel or delay activities. Within the context of the Department’s resource budget, this can have a knock-on effect on the strategic planning of organisations that receive grant funding from the Department’s arm’s-length bodies.

21 November 2009 finance reports.

Figure 3

The Department's Capital Commitments and Original Budgets

**NOTE**

1 Budget figures are those allocated during the Comprehensive Spending Review.

Source: Finance paper submitted to Department for Culture, Media and Sport Board, October 2009

Budgeting for the Department's own administrative budget

2.18 Each year, the Department conducts an exercise to distribute its administrative budget across its own directorates. In 2010-11, it revised its internal budgeting process, developing a logical and systematic approach. The Finance team actively engaged with budget managers to identify the level of resources each team would be able to operate within. Their review led to the planned expenditure increasing slightly by £381,000, which was greater than the Department's budget set by HM Treasury.

2.19 The Department then operated a "star chamber", overseen by the Director-General and the Finance Director, to challenge budget managers about their planned expenditure and the feasibility of conducting their work within the proposed budget. The Department identified a number of targeted reductions that reduced planned expenditure by £2.5 million, an overall fall of 6.3 per cent, which brought the Department's budget within HM Treasury's limit.

In-year budget reductions in 2010

2.20 All departments were required to make in-year savings in 2010-11 to contribute to a reduction in expenditure of £6 billion across Government. Consequently, the Department was required to find in-year reductions of £88 million across its activities including the Olympic programme but, with existing over-commitments of £19 million, it actually needed to manage budgetary pressure of £107 million. As its own budget is small, the Department had to reduce grant-in-aid allocations to its arm's-length bodies to meet the reduction target. The Department itself needed to identify £1.8 million of savings, equivalent to 3 per cent of its administration budget. The financial planning process was challenging as HM Treasury had not agreed the required reduction until less than a week before the proposed announcement was to be made.

2.21 The Department prepared several costed options to meet its £88 million target, which demonstrated elements of good management. It chose, however, to make cuts to most of its bodies by 3 per cent. This decision was influenced by the need to provide early certainty to arm's-length bodies and hence facilitate their forward planning. Those arm's-length bodies represented on the Department's Advisory Board supported this approach. However, by applying this top-slice reduction, the Department lost the opportunity to focus resources on its strategic priorities and did not take sufficient account of arm's-length bodies' relative ability to absorb the costs without impacting on delivery.

Allocating budgets for the 2010 Spending Review

2.22 In making budgeting decisions, departments should have sufficient understanding of the cost bases of their arm's-length bodies to know where different bodies could take cuts. They should resist top-slicing budgets that does not take account of bodies' ability to deliver savings without impacting upon frontline delivery. As our guide to *Structured Cost Reduction* explains, undifferentiated top-slicing of budgets can also "leave organisations exposed and unprepared for the future and can lead to higher overall costs or the displacement of costs elsewhere".²²

2.23 The Department prepared thoroughly for the Spending Review process, requesting information from its arm's-length bodies on how they would manage resources if spending were reduced in three different scenarios, including which programmes to curtail and it provided Ministers with options for targeted reductions using this analysis.

2.24 The Department grouped its arm's-length bodies and their activities based on the Secretary of State's priorities (**Figure 4**). In determining its final allocations, the Department applied specific and graduated reductions to some bodies but in other areas budgets were cut by a standard flat rate. Core funding for the arts and culture sector had a flat 15 per cent reduction, although these bodies vary widely in size and scope: Sir John Soane's Museum has a budget of £1 million for 2011-12 whereas the British Library's is over £93 million. Overall, of the 34 bodies which receive grant-in-aid from the Department, 22 were given a 15 per cent cut. For these bodies, the headline

²² National Audit Office, *A Short Guide to Structured Cost Reduction*, June 2010
http://www.nao.org.uk/help_for_public_services/structured_cost_reduction.aspx

cuts were moderated through different allocations for capital spending, and as yet unallocated access to self-generated reserves and to restructuring funds. Administration costs at the Department, and those at five strategic arm's-length bodies (Arts Council England, English Heritage, Sport England, UK Sports Council and VisitBritain), were subject to a flat rate cut of 50 per cent. In both these areas, insufficient account was given of the relative impacts on frontline delivery or the longer term impact that these reductions will have. Going forward, access to self-generated reserves and restructuring funds will provide the opportunity for the Department to differentiate further between the different bodies, although as yet the Department is not in a position to assess fully what impact the cuts made will have on frontline delivery.

2.25 The outcome of the Spending Review was communicated to arm's-length bodies on the same day that HM Treasury announced high level funding settlements in October 2010. This provided certainty of allocations to facilitate forward planning by all arm's-length bodies.

2.26 The Department has retained some flexibility to respond to future financial pressures by making it clear to arm's-length bodies that budgets in the later years of the Spending Review are subject to change.

Figure 4

The Department's Spending Review Settlement

Protected Spend 15 per cent reduction

Museums, Galleries and British Library
Renaissance in the regions
Grants to Regularly Funded Arts Organisations
Whole Sport Plans
Elite Athlete Funding
Football Licensing Authority
British Film Institute

20-25 per cent reduction

The Royal Parks Agency
Chatham Historic Dockyard Trust
Royal Naval College Greenwich
Ceremonial Support
Humanitarian Assistance Unit
Listed Places of Worship
Churches Conservation Trust
Occupied Royal Palaces
UK Anti Doping and World Anti Doping Agency
Sianel Pedwar Cymru (S4C)

Targeted savings 25-83 per cent reduction

English Heritage Other (26 per cent)
English Heritage Grants (38 per cent)
Tourism Spending (38 per cent)
Media support (35 per cent)
Other Sport Spending (40 per cent)
Design Museum (65 per cent)
Arts Council Administration and other Arts Spending (83 per cent)
English Heritage Administration (50 per cent)
Sport Administration (50 per cent)
Department for Culture, Media and Sport Administration (50 per cent)

Cease funding

Museums Libraries and Archives Council
UK Film Council
Commission for Architecture and the Built Environment

Source: Department for Culture, Media and Sport spending review settlement
<http://www.transparency.culture.gov.uk/wp-content/uploads/2010/10/DCMSallocationsbyspend.csv>

Impact of the 2010 Spending Review on the core Department

2.27 In preparing for the Spending Review in July 2010, the Secretary of State decided to reduce the Department's administrative costs by 50 per cent. The Department did not work out what cost reductions it could make based on the activities it needed to perform, but instead will need to fit its activities to the 50 per cent reduction to which it has committed. At the point of the Spending Review announcement, the Department had not fully identified how such a large reduction in its costs would be achieved and which functions it would reduce or cease, though the Department subsequently announced that it will reduce its workforce by half. The Department is planning to reform the way it interacts with its arm's-length bodies, by adopting a more flexible structure without fixed sponsor teams. A reduction in the number of staff is likely to impact on the Department's ability to deliver the improvements needed in financial management.

The Department's oversight of arm's-length body performance

The Accounting Officer's responsibilities

2.28 The Permanent Secretary, as Accounting Officer, is responsible for ensuring that the Department delivers the standards of governance, decision-making and financial management required by HM Treasury. He must retain oversight of how arm's-length bodies spend the Department's money, and needs to assure himself it is done in accordance with Parliament's intentions (the principle of regularity) and that they are providing value for money. The large number of arm's-length bodies that the Department sponsors, which differ substantially in size, influence and risk, presents a significant challenge to meeting this responsibility.

2.29 The challenge is not unique to the Department and is one that is faced across Government. It is particularly acute at a time when resources are being cut, a point illustrated by the impact of the 2010 Spending Review on the Department's core staffing. All Departments will have to gauge what is the appropriate level of oversight and how to manage risk with fewer resources, and balance this with its assessment of the competence and experience of the boards and audit committees of its arm's-length bodies.

2.30 The Department has traditionally taken a light-touch approach to managing its arm's-length bodies. In terms of its financial oversight, it has chosen to apply a risk-based approach so that low-risk bodies with good financial management should receive less oversight than higher-risk ones.

The Department's risk-based approach to oversight

2.31 In line with HM Treasury's guidance,²³ the Department developed a risk-based approach to overseeing its arm's-length bodies. It aimed to facilitate more strategic relationships, with less frequent, higher quality contacts, determining the level of routine monitoring based on risk assessments. The risk assessments were developed from an exercise undertaken by the Department in 2007-08, with arm's-length bodies themselves agreeing the ratings they were given. The assessments were made against three categories: delivery of Departmental Strategic Objectives; systems; and the external environment.

2.32 We found that sponsor teams did not use the risk assessments to inform the level of sponsorship engagement that they devoted to arm's-length bodies, although funding agreements and departmental guidance advised that the ratings should be used in this way.

2.33 In October 2010, the Department improved the quality of its risk assessment. The latest assessment was developed by the Department's Finance and sector teams and was more objective because it did not involve consultation with the arm's-length bodies. It considered a more focused range of indicators than the previous assessment, including financial management, political influence, operational management, capacity for change, leadership and governance and an unpredictability rating to account for unforeseen factors.

2.34 These new assessments should give the Department a foundation to help inform its relationships with the arm's-length bodies. While this has not yet been incorporated into its monitoring activities, the Department intends to use these ratings in allocating staff resources and managing relationships and has charged one of the Department's new directors with managing this. This risk-based approach will become increasingly important as the Department adapts its working practices to account for the loss of half its staff, although it has not yet demonstrated that it will implement this relationship with its arm's-length bodies consistently.

Oversight of financial performance

2.35 The Department collects financial data on its arm's-length bodies through monthly grant-in-aid drawdown forms which bodies submit when requesting funding. The forms provide information on monthly expenditure on salaries and grants, but do not give more detailed information about spend on particular projects, or the full cost breakdown beyond overheads and programme activities. Such information could facilitate more informed decision making regarding budget allocations.

²³ HM Treasury: *Corporate governance in central government departments*, 2005, <http://www.hm-treasury.gov.uk/d/corpgovernancecode280705.pdf>

2.36 This form also allows arm's-length bodies to report their monthly cash balance which allows the Department to monitor expenditure flows and ensure that bodies do not draw down monies in advance of need. Until recently, the Department did not require bodies to complete this section but, since December 2010, information on cash held is a prerequisite for the approval requests for grant-in-aid.

2.37 In our audit of its 2008-09 accounts, we found that the Museums, Libraries and Archives Council (MLA) had been drawing down the full amount of grant-in-aid to which it was entitled, rather than requesting only the monies required each month.²⁴ It held cash balances far in excess of its immediate cash requirements – £15 million by March 2009. The drawing down of grant-in-aid in advance of need contravenes guidance set by HM Treasury. Although the Department has informed us that it undertakes other monitoring activities to take account of the cash balances held by its bodies before approving drawdown of grant-in-aid, it did not detect the issue at MLA. The Department subsequently changed its relationship with MLA and has requested copies of MLA's bank statements before payments of grant-in-aid are made.

2.38 The grant-in-aid drawdown form also includes forecast expenditure for the remainder of the year, which the Department has used successfully to ensure that Parliamentary and HM Treasury budgetary control totals are met.

2.39 The Department's final outturn is typically within 3 to 5 per cent of its Estimate. In the five years from 2005 to 2010, the Department required four Supplementary Estimates, requesting an additional £477 million of net expenditure. However, the Department only exceeded its original Estimates by £216 million (**Figure 5**).

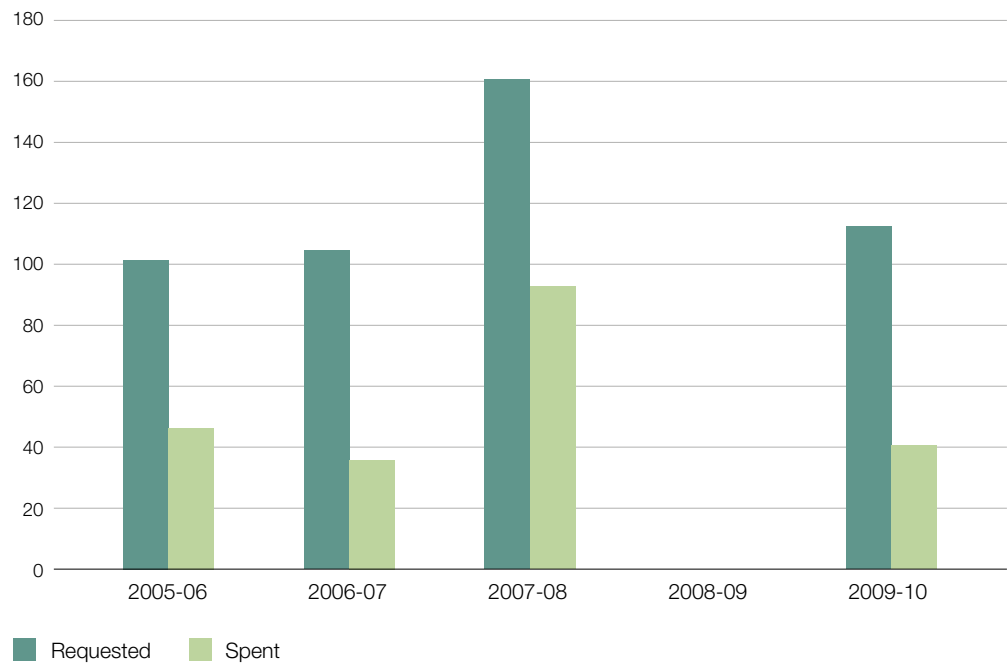
2.40 In the years 2005-06 to 2007-08, the Department used the Supplementary Estimate process to request budgetary cover to accommodate the spend of self-generated reserves by a number of its arm's-length bodies. As those bodies already held sufficient cash, they did not need additional grant-in-aid from the Department. However, the Department was obliged to call for Estimate cover which resulted in an underspend of some funds.

2.41 In 2009-10, the overall underspend against Estimate related mainly to a combination of the repayment of grant-in-aid by the MLA (as noted above) and a lower than expected drawdown of grant-in-aid by the Olympic Authority Delivery.

²⁴ Museums, Libraries and Archives Council annual report and financial statements, 2008-09, <http://www.mla.gov.uk/about/corporate/~media/Files/pdf/2010/corporate/MLA%20Final%20accts%2008-09.ashx>

Figure 5

The Department's Supplementary Estimates and the additional resources used between 2005 to 2010

Additional Expenditure (£m)

Year	Original Estimate (£m)	Actual net expenditure (£m)	Additional resource requested, (percentage of original estimate) (£m)	Additional resource used, (percentage of additional resource used) (£m)
2005-06	1,412	1,458	101 (7.2%)	46 (46%)
2006-07	1,618	1,653	104 (6.4%)	36 (35%)
2007-08	1,758	1,850	160 (9.1%)	93 (58%)
2008-09	2,303	2,233	0 (0%) ¹	0 (0%)
2009-10	1,863	1,904	112 (6.1%)	41 (37%)

NOTE

¹ In 2008-09, the Department requested a Supplementary Estimate to allow it to transfer unused budget from the Olympic programme to cover overspends on the core Department spend. HM Treasury did not approve this, since the Department had sufficient cash and budgetary cover and instead approved the transfer outside of the Supplementary Estimate process since no additional resources were required.

Source: Supply Estimates and Department's Resource Accounts

Oversight of compliance with framework documents

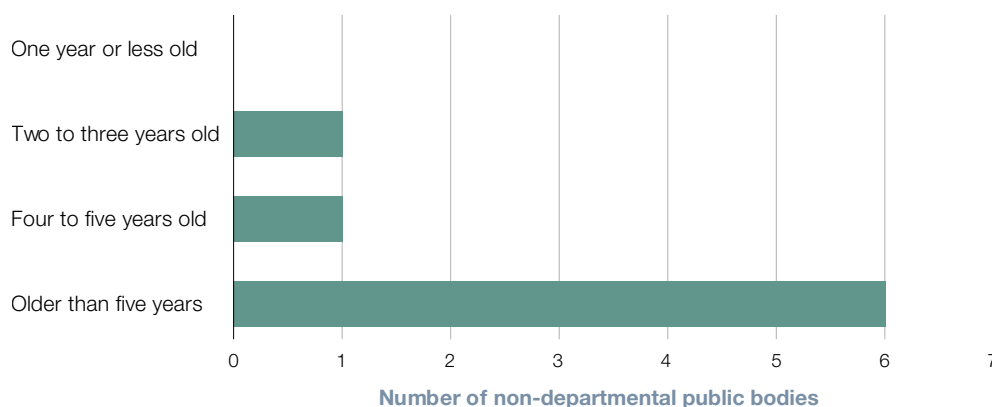
2.42 The Department sets out its relationship with its arm's-length bodies in framework documents, but many of these have not been revised for several years. These documents indicate how resources should be used and for what activities the body must seek prior approval. Central government guidance now recommends that departments review framework documents at least every three years.²⁵ We found that the majority of documents that we reviewed were over five years' old and some had not been updated since 2002 (**Figure 6**). Consequently they do not reflect changes in the external environment or to HM Treasury's spending rules. The Department is in the process of issuing new framework documents that will replace and consolidate the existing governance requirements into a single document. The effectiveness of these documents, however, will depend upon the Department ensuring that appropriate monitoring of compliance is in place.

2.43 The Department's sector teams have had different ways of monitoring their arm's-length bodies, including periodic meetings, with the frequency of activities varying by the team and body concerned. There is no common agenda for these meetings. Some sector teams hold monitoring meetings three times annually or less, whilst others meet their bodies monthly, or more frequently. Despite the existence of Departmental guidance, the level of the Department's monitoring activities does not yet correlate with its risk assessment of the arm's-length bodies.

Figure 6

Age of framework documents for the Department's non-departmental public bodies which should be reviewed every three years

Department for Culture, Media and Sport non-departmental public bodies reviewed



Source: Non-departmental public body Performance Reporting, National Audit Office analysis (sample of 41 non-departmental public bodies across government of which eight were sponsored by the Department for Culture, Media and Sport)

25 HM Treasury, *Reforming Arms-Length Bodies*, 2010, p.17.

2.44 The Department places undue reliance on third parties to check arm's-length bodies' compliance. For example, for non-national museums, the Department takes assurance from the Museums, Libraries and Archives Council's (MLA's) checks on museums. It does not, however, request copies of the Council's reports, while the Council's monitoring is limited to specific grants which would not cover issues around governance and general expenditure at the museums. The Department has indicated that it places a degree of reliance on the NAO's audit to detect unapproved and irregular activities by arm's-length bodies. It is not, however, the purpose of the audit to act as a management check and, being an annual review, there is a time-lag inherent between activity, audit and reporting.

2.45 We have found three significant breaches of the Department's framework documents by arm's-length bodies in the past two financial years. These involved the MLA as described above, issues over contractual payment approvals at the National Museums Liverpool, and financing arrangements at the Imperial War Museum where the Museum had entered into a sale and lease back arrangement to fund a new security system without the necessary Departmental approval. Despite the Museum seeking retrospective approval, this was declined by the Department.²⁶ We do not believe that the Department's current framework offers sufficient assurance that it will identify all significant breaches.

Using financial information for decision-making

Investment appraisal

2.46 In managing arm's-length bodies, a department needs a good understanding of their capital commitments and a mechanism in place for overseeing them. It needs to be able to prioritise opportunities effectively in relation to the availability of funds and other resources.

2.47 The Department has established an Investment Committee to strengthen control of its capital budget and allocations against strategic projects. It has delegated responsibility from the Executive Board for making investment decisions. The Finance Director chairs the Committee and two directors and a representative from the Office of Government Commerce are members.

²⁶ *Report of the Comptroller and Auditor General on the 2008-09 accounts of the Imperial War Museum*, http://www.nao.org.uk/publications/1011/imperial_war_museum_accounts.aspx

2.48 The Committee reviews investment decisions at three stages: strategic outline business case; outline business case; and full business case. The Department requires arm's-length bodies to submit business cases that are compliant with HM Treasury's Green Book.²⁷ Sector teams, Finance, the Commercial Team and the Evaluation and Analysis Unit scrutinise draft business cases before they are submitted to the Committee.

2.49 As it has been in place for only a year, it is too early to conclude whether the Committee has improved the Department's ability to manage its capital allocations. It is, however, providing a common set of data for making investment decisions across all arm's-length bodies, and the information used by the Committee was also used to inform the Department's capital bid for the Spending Review.

Setting up a new arm's-length body

2.50 In 2008, the Department provided effective challenge to UK Sport, one of its arm's-length bodies, in setting up a new anti-doping agency called UK Anti-Doping Ltd (UKAD). In the initial business case, UK Sport expected the transition costs for establishing an independent agency to be £3.9 million. The Department requested clarification of a number of areas in the business case, including costs related to project management and transition; the need for an Athlete Biological Passport; and what funding could be made available from National Governing Bodies of sport towards the cost of UKAD. Following its review, the transition costs were revised to £1.8 million, largely due to revised IT, office and staff costs.

Closing existing programmes

2.51 In closing programmes or bodies, departments need to make decisions based on a good understanding of costs, with robust analyses of the financial impacts of different options.

2.52 When the new Government was formed in May 2010, departments were asked to review all spending decisions made by the previous Government during 2010 to identify possible savings to help address the fiscal deficit. The Department identified twenty-four decisions, and provided the Secretary of State with submissions on each of the projects. The information prepared by the respective teams did not, in all cases, analyse the full financial impact of the decision, making an assessment of the relative value of the projects difficult. For projects delivered by arm's-length bodies, the Department did not obtain sufficient information to state with certainty the value and number of contracts that had been awarded and the financial penalties that might be incurred if these projects were cancelled. In total the Department cancelled seven projects with a value of £73 million.²⁸

²⁷ http://www.hm-treasury.gov.uk/d/green_book_complete.pdf

²⁸ http://www.culture.gov.uk/news/media_releases/7191.aspx

2.53 While these decisions were influenced by the need for speed and certainty, a lack of data on the net financial impact of exit costs impaired the Department's ability to make a fully informed decision.

Mergers and closure of arm's-length bodies

2.54 In 2010 the Government conducted a review of arm's-length bodies to "increase efficiency, transparency and accountability". The Department chose not to approach its arm's-length bodies to request information on how much it would cost to abolish or merge that body. The Department estimated the potential cost of reforming its bodies using information gathered as part of the scenario planning for the Spending Review process, and then derived the expected costs through extrapolation. It did not, however, have information on the penalties of cancelling contracts such as property leases, nor the cost of settling pension liabilities. It was therefore not in a position to estimate reliably what the cost of closing its bodies was, the value of future savings, or what the pay-back period would be. In total, 14 bodies were affected (**Figure 7** overleaf). The total gross expenditure of the bodies being abolished – excluding the Horserace Totalisator Board and the Olympic bodies, since these changes were planned before the Spending Review – was £148 million in 2009-10, and they held £86 million of gross assets as at March 2010.²⁹

2.55 Despite setting a £39 million budget to cover general restructuring costs across the Department and its arm's-length bodies, the Department has not identified what those costs would be, or what proportion would be borne by bodies themselves. It is therefore not clear yet how realistic this budget is. For example, the Department announced the closure of UK Film Council in July 2010, but it had not performed sufficient analysis of the financial implications of the decision. It announced the transfer of functions four months later, but still had no formal arrangements in place as to which Film Council staff would transfer to other bodies. It had also not calculated the expected costs of closure, although it had decided the transfer of functions would take place on 1 April 2011. Similarly, when the Department presented information on the proposed closure of the Museums, Libraries and Archives Council, it identified the ongoing costs of the activities it wished to continue, but was not able to identify the actual closure costs that would be incurred, or the full marginal costs of transferring activities to Arts Council England.

2.56 The Department has since established programme boards designed to oversee each of the proposed reforms. These include representation from across the Department including members of the Finance team and Internal Audit. It is too early, however, to assess the extent to which these boards will provide appropriate oversight.

²⁹ From the published accounts of each of the bodies.

Figure 7

Reforms of the Department's Arm's-Length Bodies

Reforms announced in Public Bodies Review¹**Abolished or reclassified, functions transferred within Government**Advisory Committee on Historic Wreck Sites²Advisory Committee on National Historic Ships²Advisory Committee on the Government Art Collection²

Football Licensing Authority (gross spend £1 million, gross assets £0.4 million)

Museums, Libraries and Archives Council (gross spend £59 million, gross assets £13 million)

Public Lending Right (gross spend £7 million, gross assets £0.2 million)

UK Film Council (gross spend £81 million, gross assets £72 million)

Abolished, functions ceaseAdvisory Council on Libraries²**Merged**

Gambling Commission (gross spend £14 million, gross assets £9 million) and National Lottery Commission (gross spend £5 million, gross assets £1 million)

Sport England (gross spend £423 million, gross assets £289 million) and UK Sport (gross spend £175 million, gross assets £26 million)³**Transferred out of government**The Theatres Trust³**Reforms announced with Spending Review****Funding ceased**

Commission for Architecture and the Built Environment

NOTES

1 In addition the Legal Deposit Advisory Panel had previously been abolished, and reforms proposed for OFCOM, which the Department shared responsibility for with the Department for Business, Innovation and Skills.

2 Non-executive non-departmental public bodies which have no separate funding and no separate published accounts.

3 The figures above for Sport England and UK Sport Council include their lottery activities.

Source: http://www.culture.gov.uk/news/media_releases/7485.aspx; http://www.culture.gov.uk/news/ministers_speeches/7508.aspx; spend and asset data from the published accounts of each body.

Reporting financial information to external stakeholders

2.57 The Department reports its financial performance to stakeholders primarily through its annual accounts. The Department's Resource Account has had a clear opinion from the Comptroller and Auditor General every year since the initial transition to Resource Accounting.

2.58 The Department's financial reporting meets the standards set by HM Treasury. During our financial audit of the 2009-10 Resource Account, however, we found that project management of the accounts production could be improved. The accounts submitted for audit were incomplete and had not been subject to sufficient management review, despite having raised this issue in previous years. This suggests that the Department needs to invest greater resources in project-managing the accounts production process and management review of draft accounts.

2.59 The Department is required to publish a Statement on Internal Control as part of its Resource Account, which outlines the Department's risk and control environment. In 2009-10, the Department improved the coverage and transparency of the Statement on Internal Control. The Statement now gives a comprehensive description of the types of risks facing the Department and the governance arrangements in place to address them, and does not simply follow the standard HM Treasury template which it had done in previous years.

2.60 HM Treasury is changing government's financial reporting and budgeting processes to improve transparency and consistency, a reform called the Alignment Project. The Department's consolidation will be complex as it needs to include over 50 arm's-length bodies, with differing accounting frameworks. The Department's ability to meet these challenges will rely ultimately on whether it can encourage its arm's-length bodies to produce meaningful financial information in a timely manner. The Department will find it challenging to meet the pre-recess deadline for publishing the first consolidated accounts for 2011-12.

Appendix One

Methodology

1 The NAO developed a model of financial management maturity which was used in this assessment³⁰. The model identifies good financial management under five main criteria: financial governance and leadership; financial planning; financial decision making; financial monitoring and forecasting; and financial and operational reporting.

2 In making our assessment, we used the methods set out below. A fuller methodology is provided on our website.

Semi-structured interviews

3 We interviewed 32 members of staff from across the Department including those in Finance and other corporate services, the sector teams and staff involved in the Spending Review and Arm's-Length Body Review. When interviewing the sector teams, we followed a semi-structured interview approach, which we used to inform the findings throughout the report.

Analysis of financial data

4 We reviewed financial data published by the Department and HM Treasury to analyse the Department's expenditure over the years 2005-06 to 2009-10. We examined capital and revenue budgets, Parliamentary Supply Estimates and expenditure to examine trends over time, and the extent to which the Department informs its decision making.

Analysis of Departmental papers

5 We reviewed key documents from the Department, both published and unpublished, including Board and sub-committee minutes; papers supporting the 2010 Spending Review; framework documents; the Department's risk assessments of arm's-length bodies; and the data underlying the National Audit Office's survey on Non-Departmental Public Bodies Performance Reporting to Departments.³¹

30 http://www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

31 http://www.nao.org.uk/publications/1011/ndpb_performance_reporting.aspx



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