



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

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Ministry of Justice

Financial Management Report 2011

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Ministry of Justice

Financial Management Report 2011

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

18 November 2011

This report examines the progress made by the Ministry of Justice since our financial management review of July 2010.

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Key facts

£10.4bn

the amount spent by the Ministry of Justice and its arm's-length bodies in 2010-11

93%

the amount of the Ministry's money that is spent on courts and tribunals, legal aid and offender management

23%

the real terms funding cut the Ministry of Justice will undergo by 2014-15

£120 million

the amount of expenditure commitments in 2011-12 that the Ministry was able to bring forward through identifying potential underspends in 2010-11.

38 per cent

the proportion of Ministry expenditure made up of staffing costs.

74 per cent

the proportion of Ministry staff working in the National Offender Management Service.

80 per cent

the amount of court costs recovered in fees in 2010-11.

25 per cent

the increase in the amount of fines outstanding between 2006-07 and 2010-11.

Summary

The Ministry of Justice

1 The Ministry of Justice (the Ministry) is responsible for setting and delivering government policy on the criminal, civil and family justice systems. The Ministry was created in May 2007, bringing responsibility for the whole criminal and civil justice systems of England and Wales under one Secretary of State for the first time. The Ministry has a departmental board, chaired by the Secretary of State for Justice, which sets the Ministry's strategic direction.

2 The Ministry of Justice (referred to as the 'core' Ministry) is relatively small compared with the various organisations it sponsors. In particular, the Ministry's two largest executive agencies,¹ the National Offender Management Service and Her Majesty's Courts and Tribunals Service,² are both considerably larger than the Ministry. It also has some small but functionally important arm's-length bodies such as the Parole Board for England and Wales and the Judicial Appointments Commission. One of its arm's-length bodies, the Legal Services Commission, also deals with a bigger budget than the core Ministry.

3 The Ministry was formed from parts of other departments and has complex functions. Its services are demand led and the types and functions of bodies it sponsors are varied. These factors mean that it is challenging for the Ministry to achieve high quality financial management.

¹ Executive Agencies are part of the Department but have their own executive functions.

² HM Courts and Tribunals Service was formed through the merger of HM Courts Service and the Tribunals Service on 1 April 2011. Throughout this report we refer to HM Courts and Tribunals Service, except where our findings specifically relate to HM Courts Service prior to this date.

The Ministry's financial management

4 Our report in 2010³ was critical of the Ministry's financial management in three main areas:

- a The consistency of the Ministry's financial management approach** The Ministry's differing financial management processes in its arm's-length bodies reduced the efficiency of its financial management and affected the departmental board's ability to monitor the full range of financial and operational risks.
- b The Ministry's understanding of its costs** The Ministry's incomplete knowledge of the costs of its activities and policy proposals reduced its ability to make decisions on the efficient allocation of resources.
- c The Ministry's financial management systems and processes** The Ministry's multiple financial systems and incomplete financial reports affected the board's ability to monitor its overall budgetary position and its awareness of the full range of the Ministry's assets, liabilities and future cash requirements.

5 The Committee of Public Accounts (PAC) considered our report and made nine recommendations. These emphasised the need to improve costing data, enhance business planning, improve fee collection, implement better performance measures for collecting fines, streamline financial management processes and quantify and reduce the volume of errors in legal aid. The Committee also requested that the Ministry report to them on progress in improving financial management by September 2011.

Our review

6 We have examined the steps taken by the Ministry of Justice to improve its financial management since July 2010 and have assessed financial management against our maturity model.⁴ We have also assessed progress against the implementation of the PAC' report recommendations.⁵ A full description of our methodology is provided in Appendix One.

³ Report by the Comptroller and Auditor General, *Ministry of Justice: Financial Management Report*, Session 2010-2011, HC 187, National Audit Office, July 2010, http://www.nao.org.uk/publications/1011/moj_financial_management.aspx.

⁴ http://www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

⁵ Public Accounts Committee, *Ministry of Justice Financial Management*; Sixteenth Report Session 2010-2012, 18 January 2011.

Key findings

Financial management at the centre of the Ministry

7 The Ministry has effective new governance structures in place. Finance is represented at senior levels including the new departmental board, the executive management committee, which supports the board, and through the financial management committee, which includes finance directors from all of the Ministry's major delivery arms. Financial management is now much more central to the Ministry's operations and awareness of financial management has been raised through targeted training and communications. The Ministry has plans in place to address its gaps in financial reporting skills and the improvements required to underlying systems.

8 The Ministry has enhanced its oversight of its arm's-length bodies. It has carried out a structured risk assessment to identify the sponsored bodies that pose the greatest risks, and has sound governance arrangements in place to manage those risks and work with those sponsored bodies more generally.

9 The Ministry has developed a good financial planning model which, combined with data provided by its workload models on criminal, family and civil justice, allows it to estimate the financial implications of potential future workloads. The Ministry has made good progress in this area, and continues to refine its modelling approach. The use of these models has given decision-makers greater transparency, clearly identifying the financial impact of delivery options and the extent of the remaining funding pressures. These important developments mean the Ministry is well placed to understand the implications of its financial planning and adapt accordingly.

10 The Ministry has managed its money much more effectively during the 2010-11 financial year, meaning it could redeploy funds to meet long-term liabilities and to meet other spending priorities. The financial management committee used collated data from different accounting systems to identify likely areas of underspend and make use of these funds, reducing funding pressures in 2011-12 and beyond.

11 The Ministry was one of only two government departments that did not produce their financial accounts by the 2011 summer Parliamentary recess. There were several factors behind the Ministry's problems, although the most immediate cause was that accounts for the National Offender Management Service were produced late, leaving little time to consolidate them into those of the wider Ministry family. There was also insufficient senior control and oversight of the accounts production process both in the Ministry and in its largest agency, the National Offender Management Service. Producing accounts for 2011-12 on time will be an even greater challenge due to the requirements of the clear line of sight initiative.

Financial management needs for the front line

12 The Ministry understands its costs more thoroughly and has used work to date to help drive improvement, but there is much work remaining with its most detailed costing work before the benefits can be realised fully. Detailed costing work is complex and resource intensive, but the Ministry has used its higher-level costing information to identify areas for efficiency improvements in its operations.

13 The Ministry's procurement function is expanding its coverage of Ministry expenditure and continues to identify and make savings. The Ministry is continuing to build on the strength of its predecessor function which was moved in from the National Offender Management Service, and has recently been re-accredited by the Chartered Institute of Purchasing and Supply.

14 For a third consecutive year, the Legal Services Commission's accounts were qualified due to material errors in respect of payments made to providers. In addition, it was necessary to limit the scope of the audit opinion on the balances owed to the Commission as there was not sufficient evidence to support these. The Commission needs to make substantial improvements to the quality of records supporting the money owed to it, primarily from clients who have benefitted from legal aid. The Commission has made progress in reducing the level of estimated error in payments made to providers, which has reduced by a third, but it remains too high.

15 The Ministry raises significant amounts through charging fees for court services, but does not currently achieve full cost recovery in line with HM Treasury guidance. The Ministry is aiming to achieve full cost recovery for these services by 2014-15, after a period of restructuring within HM Courts and Tribunals Service which should reduce costs. In the interim, the Ministry is now raising fees in line with inflation. In 2010-11, the Ministry recovered 80 per cent of associated costs in fees.

16 The Ministry has designed new and better indicators for measuring how well it is performing in collecting fines. The previous 'payment rate' was a weak performance indicator, criticised by the PAC. The Ministry has now started reporting these data to its departmental board although more trend data will be required before it will be of most use for performance reporting.

17 There has been little change to how the Ministry monitors and collects assets due under confiscation orders, with the amount of outstanding debt increasing by £388m in 2010-11 according to the Ministry's records. This is a difficult area as the collection of assets under confiscation orders is shared between different parties, although all of the liabilities sit in the Ministry's accounts. The Ministry estimates that much of the value of these cannot be recovered and at present, there is no statutory solution to irrecoverable balances.

Managing assets and liabilities

18 The Ministry is using balance sheet information more and has reduced its cash balances to a more appropriate level. It has recently started using balance sheet reporting and more work needs to be done to produce accurate monthly balance sheet data.

Conclusion on value for money

19 Since our last report, the Ministry has improved considerably the prominence, quality and consistency of financial management in the department as measured against our financial management maturity model. The quality and consistency of financial planning and forecasting have improved; financial management is led from the top and financial information for decision-making is more relevant and useful. The Ministry is now achieving clear benefits from these improvements, which is crucially important given the Ministry's target for cost reductions under the 2010 Spending Review settlement. They have achieved these benefits while reducing the number of finance staff by a quarter. The Ministry's work on improving financial management has therefore delivered good value for money.

20 In some important areas, however, the Ministry still has a great deal to do and it has recognised that in its forward plans. For instance, although there are plans in place to improve income collection, these will take some years to achieve. Remaining challenges include completing costing work and integrating this into business as usual, and the Ministry and its wider family improving the timeliness, and in some areas the quality, of their financial reporting. The Legal Services Commission needs to continue to reduce the error levels on legal aid. The Ministry's approach to financial management suggests that it is much more strongly placed to deliver these improvements than at the time of our previous report.

Recommendations

21 Our recommendations take into account the progress that the Ministry has made since our last report, and assume that the Ministry will continue to implement its financial improvement programme and embed improvements into business as usual.

- a There is room for improvement in the collection of income.** The Ministry should make more progress dealing with the strategic difficulties that hinder improvements in collecting fees, fines and assets under confiscation orders.
- b The Ministry needs to produce next year's resource accounts in a more timely way, the first under the clear line of sight initiative.** The Ministry needs to develop and implement a robust, properly resourced and cohesive project plan, including mapping the key interdependencies in the accounts production process in order to deliver its 2011-12 resource accounts in a more timely way.

Part One

The role of the Ministry of Justice

The Ministry's responsibilities

1.1 The Ministry of Justice (the Ministry) is responsible for setting and delivering government policy on the criminal, civil and family justice systems. The Ministry was created in May 2007, bringing responsibility for the whole criminal and civil justice systems of England and Wales under one Secretary of State for the first time.

How the Ministry is organised

1.2 The Ministry is headed by the Secretary of State for Justice (who is also the Lord Chancellor). He chairs the departmental board, which sets the Ministry's strategic direction. Its members include the ministerial team, the Permanent Secretary, the Director General Finance and Corporate Services, the Director General Transforming Justice, and the departmental non-executive board members. An executive management committee of the board is responsible for day-to-day management of the Ministry.

1.3 The Ministry is organised into four main business groups, whose purpose the Ministry defines as follows:

- **Justice policy** Delivers a more effective and efficient justice system, improves access to justice for citizens and leads policy on sentencing and rehabilitation.
- **HM Courts and Tribunals Service** Supports the administration of justice in courts and tribunals.
- **National Offender Management Service** Commissions and delivers prison and probation services.
- **Corporate performance** Provides professional services and administrative support, sets corporate strategy and standards and provides specialist advice.

1.4 The Ministry of Justice is relatively small compared with the organisations it sponsors. In particular, the Ministry's two largest executive agencies,⁶ the National Offender Management Service and HM Courts and Tribunals Service, are considerably larger than the Ministry. Subject to legislative approval, the Ministry's two largest arm's-length bodies,⁷ the Legal Services Commission and the Youth Justice Board, will both cease being arm's-length bodies, with the former becoming an executive agency and the latter a part of the Ministry. Throughout this report where we specifically refer to the core elements of the Ministry itself, we will do so as the 'core Ministry'; where we specifically refer to the Ministry in the wider sense, including its executive agencies and arm's-length bodies, we will do so as the 'wider Ministry family'.

Where the Ministry spends its money

1.5 In 2010-11, the Ministry spent £10.4 billion,⁸ of which 93 per cent was spent by its 12 largest sponsored bodies on its core justice responsibilities (see **Figure 1** overleaf). Aside from the devolved administrations, the largest recipients of funding were the National Offender Management Service and the Legal Services Commission. In total, the Ministry employs over 90,000 staff, including those in Probation Trusts, staff in the Ministry itself, its agencies and arm's-length bodies.

1.6 The Ministry spent around £550 million during 2010-11 on capital projects. Over £400 million was incurred on estates projects in prisons and courts; the largest being £142 million of expenditure on a new prison. The Ministry is also spending large amounts over several years on projects that will have a direct impact on financial management, including the delivery of a shared services function (budgeted at £127 million over whole life) and the Integrated Delivery Programme within the Legal Services Commission (£43 million).

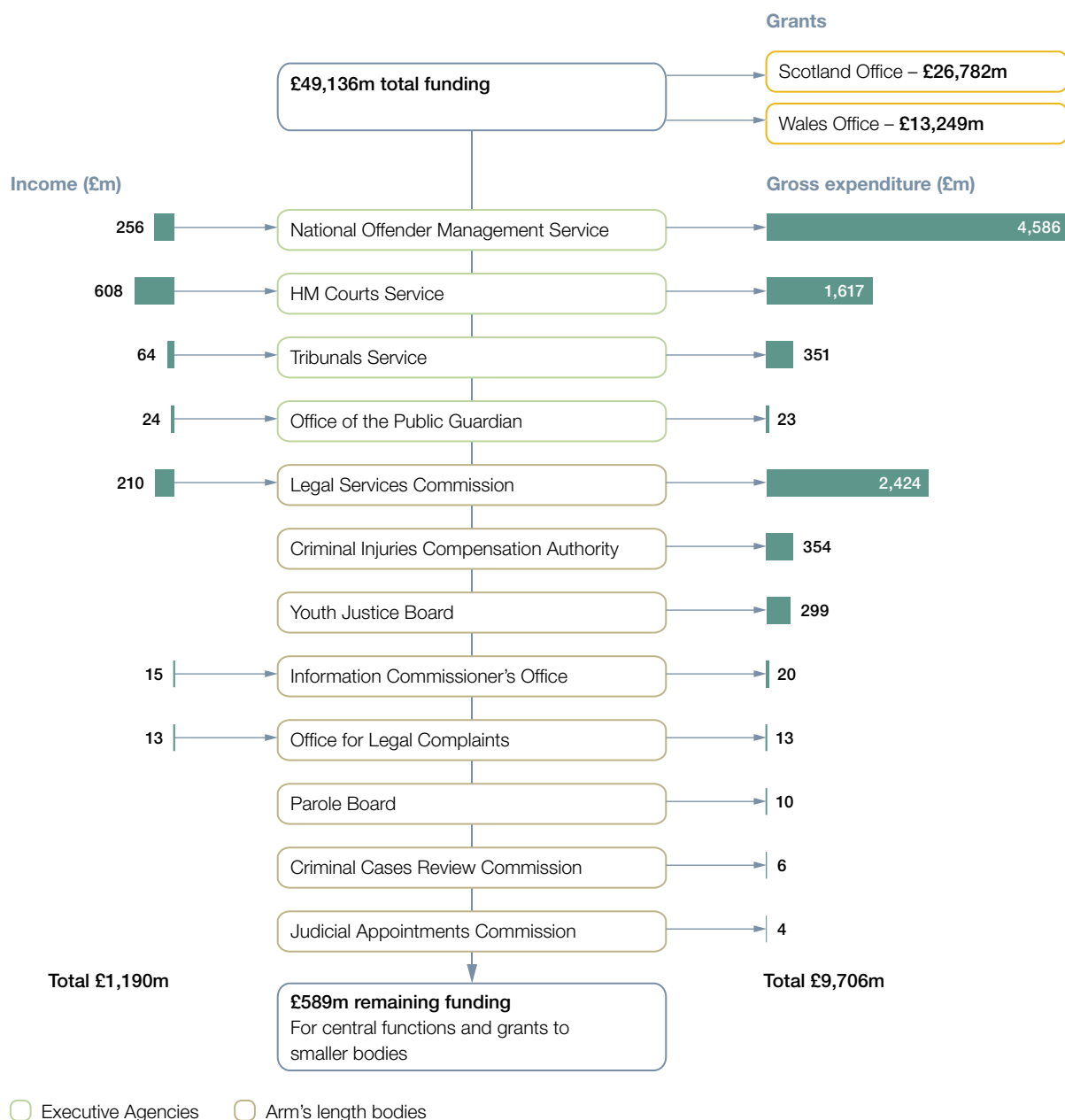
⁶ Executive Agencies are part of the department but have their own executive functions.

⁷ A body that has a role in the processes of national Government, but is not a government department or part of one, and that accordingly operates to a greater or lesser extent at arm's-length from ministers.

⁸ Not including grants made to the Scottish and Welsh Offices.

Figure 1

The funding of the Ministry of Justice and its main sponsored bodies, 2010-11

**NOTES**

- 1 All income and expenditure figures are shown net of intra-departmental transfers. The most significant of these is the £153 million that is transferred from the Youth Justice Board to the National Offender Management Service, primarily for commissioning places in young offender institutions. This £153 million has therefore been removed from Youth Justice Board expenditure and National Offender Management Service income for the purposes of this analysis.
- 2 Figures include administration costs and are not necessarily representative of general trends. For example, the expenditure by the Criminal Injuries Compensation Authority includes £21 million of expenditure not incurred on compensation payments, and is higher than usual due to in-year transfers from other business units referred to in paragraph 2.18 of this report.
- 3 Expenditure figures include both cash and non-cash items, such as costs incurred for depreciation of non-current assets.
- 4 Differences due to rounding.

Source: Annual reports and accounts for all listed bodies above

The purpose of expenditure by the Ministry of Justice

1.7 The purposes of expenditure by the wider Ministry family can be broadly categorised as follows:⁹

- a Courts and tribunals** HM Courts Service incurred £1.3 billion of operational spend running courts in 2010-11, and a further £350 million was spent by the Tribunals Service. The Ministry also generates income in this area: in 2010-11 it received over £460 million in income for civil court services.
- b Dealing with the consequences of crime** Nearly half of the Ministry's spending is for probation work and running prisons, with over £4.5 billion spent by the National Offender Management Service and the Youth Justice Board in 2010-11. The Ministry also makes compensation payments to victims of crime under the Criminal Injuries Compensation Scheme, and paid out £280 million in cash terms in 2010-11. The Ministry collects fines for the Government and in 2010-11 retained a share of £104 million, with the rest surrendered to the consolidated fund.
- c Legal aid** The Legal Services Commission provides legal aid for both civil and criminal cases £1.1 billion was incurred on the Criminal Defence Service in 2010-11, and a further £1.1 billion was spent through provision of funds for the Community Legal Service.
- d Administration and policy** Much of the spending here is incurred by the core Ministry on developing policy and overseeing the Criminal Justice System. In 2010-11, the Ministry spent £429 million on this; other significant spend in this area was incurred by the National Offender Management Service (£339 million) and the Legal Services Commission (£99 million).
- e Other spending** The Ministry incurs some operational expenditure which does not fit within the above categorisations. For example, the Youth Justice Board spent £36 million in 2010-11 on crime prevention programmes, which target young people who have not committed crimes, but may be at risk of doing so. The Ministry also has a large number of small and diverse sponsored bodies. For example, in 2010-11, the Ministry provided funding of £7.2 million to the Information Commissioner's Office.

⁹ All figures provided are resource costs incurred in 2010-11 unless otherwise stated.

The history of financial management in the Ministry of Justice

1.8 The NAO evaluated the Ministry's financial management capability in a report published in July 2010.¹⁰ The report recognised that with 94 per cent of the Ministry's spending incurred by sponsored bodies, there were a number of challenges, in particular, producing standardised, accurate and timely financial management information for the board. These problems were exacerbated by the relative sizes of the Ministry's delivery bodies that often had their own accounting systems, particularly with the National Offender Management Service, which has over half of the Ministry's staff and uses a different financial system to the Ministry and Her Majesty's Courts and Tribunals Service. The NAO had also reported in November 2009¹¹ on poor management of Criminal Legal Aid by the Legal Services Commission, the Ministry's largest arm's-length body. The Ministry therefore faced challenges in getting its financial management to a sufficient standard for running all of its business well.

1.9 The Committee of Public Accounts (PAC) took evidence on financial management at the Ministry in November 2010. The Committee was critical of the Ministry's progress and made nine recommendations for improvement.¹² The PAC requested that the Ministry report to it in September 2011 setting out its progress in improving financial management, which they duly did.

1.10 While the Ministry already had some initiatives in place to improve financial management in 2010, the work of the NAO and PAC led to three specific initiatives:

- In October 2010, the Ministry set out a **financial improvement strategy** which identified five key areas where the Ministry needed to improve. These areas were: its governance arrangements; the systems and processes used across the Ministry family; information provided for decision-making; the structure of finance functions; and in the level of financial capability of its staff.
- The Ministry has used the NAO's **financial management maturity model** to assess the strength of its financial management. The model sets out five aspects of financial management¹³ and levels of maturity for each, ranging from one (the lowest level) to five, which the NAO considers highly sophisticated. The level of maturity appropriate for different organisations varies overall and within the five aspects of financial management, depending on that organisation's needs and the level of benefit that could accrue from improvement. The Accounting Officer considers level four maturity to be an appropriate ambition for the Ministry. The NAO broadly agrees that this is appropriate for an organisation of the size and complexity of the Ministry, while also recognising that some variation within this may deliver the best balance between value for money and improved financial management.

10 Comptroller and Auditor General, *Ministry of Justice: Financial Management Report*, HC 187, Session 2010-11 www.nao.org.uk/publications/1011/moj_financial_management.aspx.

11 Comptroller and Auditor General, *The Procurement of Criminal Legal Aid in England and Wales by the Legal Services Commission*, HC 29 Session 2009-10.

12 Public Accounts Committee, *Ministry of Justice Financial Management; Sixteenth Report Session 2010-12*, 18 January 2011.

13 Financial governance and leadership; financial planning; finance for decision-making; financial monitoring and forecasting; and financial and performance reporting. The financial management maturity model can be obtained here: www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx.

- The Ministry also carried out work to **respond specifically to the PAC recommendations**, both through the usual 'treasury minute' process and by submitting its update to PAC in September 2011. These improvements were being covered under either existing initiatives or the financial improvement strategy, although in the case of costing, the Ministry did not accept the recommendation to accelerate the process already under way.

1.11 In September 2011, the Ministry reported to the PAC on how much it had improved its financial management, assessing its financial maturity as being between three and a half and four. The Ministry assessed itself as strongest at financial governance and leadership and financial planning, with more improvements to be made in finance for decision-making and financial and performance reporting.

1.12 Overall, we consider that the financial improvement strategy is a coherent, well thought through and managed response to the problems identified in our previous report and the report from the PAC. Appendix Two contains our summarised assessment of the Ministry's response to the PAC report recommendations. Here, we consider that the department has made some good progress in the last year, with three out of nine either fully or mostly implemented, and some progress on five of the remaining six.

1.13 The Ministry's own assessment against the NAO's financial management maturity model is that it is at level four on two of the five criteria and between three and four in the other aspects. We are in broad agreement with the Ministry's assessment, but there are however, some important elements below this level of maturity, in particular, those relating to management of income and external financial reporting. The Ministry is aiming to achieve level four maturity in all aspects of the model and we consider that the systems and processes now implemented will enable achievement of this ambition. The department has also implemented some processes which we consider as leading edge in government and these could be replicated by other departments. To meet its aspirations, the Ministry needs to go further to embed the improvements it is making throughout the wider Ministry family while also addressing certain areas of weakness. The most pressing area for attention is external financial reporting.

The impact of the 2010 Spending Review

1.14 In June 2010, the Government announced the process for the 2010 Spending Review. This stated that substantial reductions in spending would be sought from departments, with the expectation that front-line services would be protected. The Ministry made its first submission to the Treasury on 16 July 2010. The senior management of the Ministry was therefore aware for some time that it would need to deliver more for less, and this too will have increased their focus on financial management.

Part Two

Financial management of the Ministry of Justice

2.1 This Part sets out how the core part of the Ministry of Justice is financially managed, including its responses to relevant PAC recommendations in this area.

Managing the Ministry well

2.2 The Ministry has revised its governance structures following the change of government, with a departmental board chaired by the Secretary of State, attended by other ministers and key senior Ministry staff. The departmental board meets quarterly and is supported by the executive management committee of the board, which meets weekly. The Director General Finance and Corporate Services sits on both and finance is a standing agenda item. The executive management committee is itself supported by the financial management committee (see **Figure 2**). These arrangements have led to more effective financial discussions at the appropriate level in the organisation, and increased the prominence of finance in the Ministry.

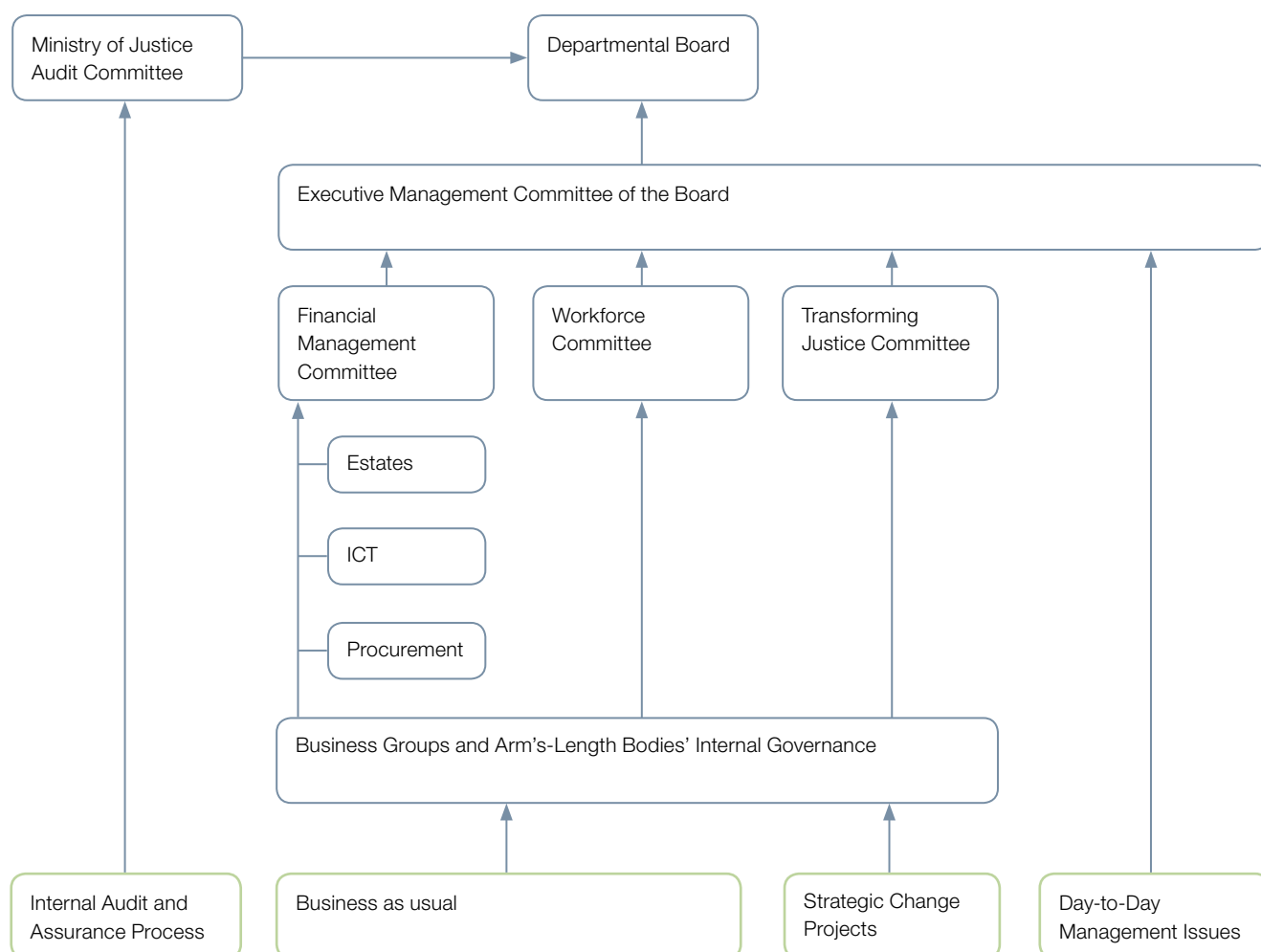
2.3 The financial management committee¹⁴ brings together finance directors and other key staff (such as the Director of Procurement) from across the Ministry to discuss financial matters, with the Director General Finance and Corporate Services. We found that the committee is working well and encouraging better corporate behaviour in the Ministry. A particular example of this was in-year management of underspends, to which we return in paragraph 2.18.

2.4 The financial improvement programme board monitors progress against the Ministry's financial improvement strategy. This board, which has met monthly since December 2010, is also chaired by the Director General Finance and Corporate Services. The board has been given highlight reports that set out progress against implementing the strategy with traffic light ratings, supported with narrative summaries. This is a good way of presenting the information for management review.

¹⁴ Formerly known as the VFM Improvement Committee.

Figure 2

Governance arrangements in the Ministry of Justice



Source: Ministry of Justice

2.5 The finance improvement programme board has identified mixed progress through its highlight reports. Progress was rated as most positive on restructuring, governance of arm's-length bodies and staff capabilities, with more difficulty being encountered in work on costing, improving management information and improvements in accounts production. In particular, resource pressures arising from the spending review settlement have meant that at times staff were not available to advance or oversee key project work streams. The Ministry has been able to monitor this through its governance of the programme but it has impacted on delivery periodically.

Finance capabilities within the Ministry

2.6 The Ministry's aim is to have good representation of finance skills at senior level, sufficient qualifications and experience in the finance team, and a suitable understanding of finance among operational staff. Our review found increased scrutiny and focus on dealing with financial matters and a clear message from the top of the Ministry about the importance of financial management. Improvement in the wider Ministry family is indicated by the fact that the finance team in the Midlands region of HM Courts and Tribunals Service has just received the Government Finance Professionals Finance Team of the year award.

2.7 The Ministry's senior management also has a good level of skill and experience in dealing with finance, with a qualified accountant (the Director General Finance and Corporate Services) sitting on both senior boards and a financially qualified non-executive Director chairing the Audit Committee.

2.8 The Ministry and many of its sponsored bodies are currently restructuring their back-office functions, partly to meet spending targets, and also to implement shared services across the Ministry family. Whether the restructuring improves finance capability will not become apparent until at least 2012-13. We provide more detail about the shared services programme in Part Four.

2.9 The Ministry has put in place a new training strategy to improve the financial capability of its staff, and is identifying training needs for both finance and non-finance staff. At the time of our fieldwork, the Ministry had also recognised it was short of expertise in financial reporting and was recruiting at least six further qualified staff. To improve financial management further, the Ministry has determined that all senior civil servants and budget holders should have a financial objective in their annual objectives. The Ministry will check compliance with this policy in early 2012.

Managing the Ministry's arm's-length bodies

2.10 The Ministry came in for particular criticism from the PAC in its January 2011 report for its management of arm's-length bodies. The PAC recommended that the Ministry be clearer about its expectations from arm's-length bodies and that its oversight arrangements should reflect the level of risk those bodies represented.

2.11 The Ministry has made good progress in this area and we judge that it has almost met the requirements of this recommendation. The Ministry set up a steering group to oversee arm's-length bodies from April 2011. This group has been informed by a structured risk assessment of the Ministry's arm's-length bodies, which identified that the greatest risks to the Ministry were the complexity of their business, the challenges they faced and the demanding outcomes they had to deliver. The arm's-length bodies posing the most risk were identified as:

- the Legal Services Commission;
- the Criminal Injuries Compensation Authority;
- the Court Funds Office;
- the Youth Justice Board; and
- the Parole Board for England and Wales.

2.12 The Ministry has been working to mitigate the risks posed by these organisations and each has been allocated a senior policy sponsor accountable for oversight. Finance Directors and Chief Executives we interviewed from the arm's-length bodies were positive about these arrangements and we verified that items raised for action in the governance committee were followed through. The main work left to meet the requirements of the PAC recommendation fully is completing and distributing updated framework documents that set out clearly the expectations and responsibilities between the Ministry and its arm's-length bodies. In addition, the Ministry is changing the status of two arm's-length bodies, subject to legislative approval. The functions of the Youth Justice Board will be moved to the core Ministry, and the Legal Services Commission will become an executive agency.

Planning to spend well

2.13 The Ministry has invested significant time and effort in developing its modelling capability. It now has workflow models covering criminal, family and civil justice, and uses data from these in its financial planning model to estimate the potential impact of changes in demand throughout the justice system; for example, increased flow through the courts and prisons due to the impact of the summer 2011 riots. The financial planning model is operated by the Ministry's corporate finance and analytical services directorates. The model shows the Ministry's decision-makers how far current saving plans will bridge the gap between 'business as usual' projected spending and target spending under the spending review settlement. For example, HM Courts and Tribunals Service gave the core Ministry its assessment of future savings from its programme of reducing the number of magistrates' courts. These projected savings have been included in the financial planning model and contribute to the estimated spending requirement for the Spending Review period for the wider Ministry family.

2.14 We reviewed the financial planning model to see whether the information included was treated consistently and appropriately. The items we reviewed were correctly treated within the model and consistent with information provided by business groups. The model is periodically updated and the resulting analysis presented to the departmental board for review, with savings categorised by the level of confidence from business groups that they will be delivered. This therefore provides clarity to decision-makers as to the Ministry's ability to meet its required savings forecasts.

2.15 The Ministry has also improved its understanding of the cost implications of policy proposals. To identify whether the financial implications have been sufficiently well costed all new policy proposals raised internally are subject to review by corporate finance, with assistance from analytical services, before being submitted to the board. The Ministry also seeks to forecast costs for policies proposed by other government departments that could have a financial impact. This enables early discussion of financial implications and which department might bear the cost. The extent of the analysis possible inevitably varied depending on the availability of suitable supporting data. In the cases we reviewed we found that policy submissions did provide suitable commentary where estimates were particularly uncertain.

2.16 PAC recommended that the Ministry should integrate its operational modelling with the full cost information systems it is developing. While the Ministry has not yet met this recommendation, owing to continued work on costing front-line services, it has used available data and expertise well, to help decision-makers to consider financial implications. For example, the Ministry analysed the implications of policy decisions made since the Spending Review to show the impact on its saving plans and worked with the National Offender Management Service to estimate savings that could arise from the competition for the delivery of the prisoner escort service. Overall, the Ministry has a good financial planning model with which it is well-placed to understand the implications of its financial planning and adapt accordingly. The Ministry has recently invited some external peer review of some of its more advanced modelling tools and we would expect to see this continue as the models develop.

Managing the Ministry's money

2.17 The formation of the Ministry brought together bodies with different accounting systems which made it more difficult to collate consistent financial information. The Ministry now has a managed process for collecting this information monthly and processing it into a consistent format on its own accounting system. This gives the Ministry summary data covering more than 99 per cent of spend within the Ministry family within ten working days of the end of the month. There are still uncertainties, however, about the accuracy of some balance sheet information (for example, for non-current assets) and data could be more timely.

2.18 The Ministry focused more clearly on in-year management of spending in 2010-11 through the financial management committee. This brought together finance directors across the Ministry family and discussed spend against forecast as a standing agenda item, using collated data. We found that the Ministry had continually discussed spending and had used 'run-rate analysis' (extrapolating spending to date for the full year and comparing to forecasts) to challenge forecasts. Between November 2010 and March 2011, the Ministry was able to reprioritise £140 million of funding using this process, reducing its spending commitments for 2011-12 by £120 million. There is therefore good evidence that the Ministry exercised strong control over in-year spending and has reduced funding pressures in 2011-12. The Ministry is planning to introduce performance indicators to rate accuracy of forecasting by business units. This should improve the quality of forecasting data if performance is monitored appropriately and forecasters held to account.

Accounting for spend

Reporting to management and the board

2.19 The NAO reviewed the quality of board reports for the Ministry of Justice, National Offender Management Service and HM Courts Service in 2011. The reports for the Ministry were sufficient for its operation and used good performance reporting techniques, such as traffic light ratings, but overall there was scope for improvement. Board reporting at HM Courts Service, and in particular, the National Offender Management Service, was rated as more advanced with good frameworks for reporting, useful performance information provided and evidence that the board was using the information.

2.20 During this review, we revisited the reports given to the Ministry's management committees and the board, and noted an improvement in presenting information, including more use of operational data and balance sheet information. The financial management committee is already using operational data better, for in-year forecasting.

2.21 We also reviewed new reports for the departmental board that provided operational and financial data across the Ministry's wider business. However, these data have not been available for long enough to evaluate them and, in some cases, need work to make data timely and useful. For example, the 31 August 2011 balance sheet data presented to the financial management committee had caveats on the accuracy of data on non-current assets, and noted that the Ministry's internal processes could not yet produce reliable balance sheet data at this time of year. Reporting to management in the wider Ministry family varies in sophistication; an example of good practice is the Criminal Injuries Compensation Authority, which provides a monthly balanced scorecard to its board covering key operational and financial data. Overall, the Ministry is performing better in this area and continuing to improve but has further to go.

Reporting externally

2.22 Producing timely, accurate financial accounts is a key element in parliamentary accountability. HM Treasury has set a target for departments to produce accounts before the summer parliamentary recess of the following financial year. This is usually in July, giving departments around three and a half months to deliver.

2.23 The Ministry did not deliver its 2009-10 accounts in time for the parliamentary recess in July 2010 and the PAC subsequently stated that the Ministry “must produce its accounts on time in the future”. The Ministry took action to improve the project management of accounts and overall the Ministry and its sponsored bodies were able to produce accounts earlier for 2010-11 (see **Figure 3**). However, the improvements were insufficient for the Ministry of Justice to produce departmental level accounts before the July 2011 parliamentary recess. Although the Legal Services Commission have worked to meet PAC’s recommendation on reducing error rates, their accounts are still qualified on this basis.

2.24 In the NAO’s view, there were several factors behind the Ministry’s problems, although the most immediate cause was that accounts for the National Offender Management Service were produced late. This left little time to consolidate them into those of the wider Ministry family. Other contributory factors included poor staff capacity and capability, and governance and project management arrangements which did not work as well as they could have. Also, more central oversight at senior levels within the wider Ministry family would have been beneficial. These factors coincided with the 2010-11 accounts production process starting late, which adversely affected progress. In August 2011, the Ministry commissioned the Chartered Institute of Public Finance and Accountancy to carry out an independent review of its failure to meet the summer recess deadline. The Ministry intends to use the lessons learned from this exercise to improve its accounts process for 2011-12.

Figure 3

Dates of accounts being laid in Parliament, 2008-09 to 2010-11

Organisation	2008-09 accounts laid (2009)	2009-10 accounts laid (2010)	2010-11 accounts laid (2011)
Ministry of Justice	21 July	15 September	15 September
National Offender Management Service	21 July	9 September	19 July
HM Courts Service	20 July	15 July	5 July
Tribunals Service	16 July	22 July	12 July
Legal Services Commission	29 October	30 November	27 October
Youth Justice Board	20 July	26 July	18 July

Source: Published accounts

2.25 If the Ministry applies the lessons of its more successful projects under the finance improvement programme and builds on any improvements identified in the independent review, this should give a good foundation for the production of accounts in 2011-12. Nevertheless, the requirements of the 'Clear Line of Sight' project will mean that the Ministry's task remains difficult, and much progress will be required in the next few months if the Ministry is to be able to lay accounts in Parliament before the summer recess. The Ministry has set itself a target of producing the 2011-12 accounts before the 2012 summer recess and is currently working with its agencies and arm's-length bodies to develop a detailed plan for delivery. The NAO will review and assess the deliverability of this plan when it is available.

Trust Statement Audit

2.26 Starting in 2010-11, HM Treasury required HM Courts and Tribunals Service to prepare a Trust Statement. This statement should set out relevant financial detail about fines and confiscation orders that are imposed by the courts and fixed penalties imposed by the police. Some of the money collected is returned to HM Treasury, with the rest allocated between other government bodies including the Home Office, Crown Prosecution Service and HM Courts and Tribunals Service and non-government third parties including compensation to victims of criminal activity. More detail on fines and confiscation orders can be found in Part Three.

2.27 The Trust Statement is additional to the conventional accounting reports provided by the Ministry and its sponsored bodies. Fines and confiscation order data for the Trust Statement are drawn from the HM Courts and Tribunals Service case management system Libra. The fixed penalty data is drawn from the Vehicle Procedure and Fixed Penalty Office system maintained by local police forces. These are operational systems and were not designed for financial reporting. This has meant that the Ministry and HM Courts and Tribunals Service have not been able to provide the evidence to support the data presented in the Trust Statement. However, the Ministry considers that the systems and information provided to managers is sufficient for the day-to-day operational enforcement function for which it was originally developed. The Comptroller and Auditor General is currently considering his opinion on the Trust Statement report, although his assessment does not extend to considering the suitability of the information for operational purposes.

Part Three

Financial management needs for the front line

3.1 To manage its finances well, the Ministry must have a sound understanding of its income, spending, assets and liabilities. This chapter sets out the Ministry's position in this area, the progress it has made since our last report and how much further it needs to go to meet its aspirations.

Understanding the Ministry's costs

Components of costs

3.2 The Ministry's spending is largely made up of three key components, which accounted for the following in 2010-11:

- **Staffing costs** Costs are primarily salaries and pensions (£4 billion, or 38 per cent of gross spending).
- **Goods and services** The majority of the cost is for prisons, but there is also significant spending on courts and tribunals (£2.8 billion, or 27 per cent of gross spending).
- **Payments made to the public** Payments are mostly for legal aid and compensation payments to victims of crime (£2.7 billion, or 26 per cent of gross spending). The payments are administered by the Legal Services Commission and the Criminal Injuries Compensation Authority.

Understanding cost

3.3 The Ministry has improved the oversight of its costing work. It set up a costing committee which first met in January 2011 and reports to the finance improvement programme board. The Ministry has set out its expectations for costing work, including how far it understands the costs of its key business areas, how this has been used, and what more it needs to do. To spend as cost-effectively as it can, the Ministry must thoroughly understand its costs, and how these compare between business units and to best value benchmarks.

Staffing costs

3.4 The Ministry of Justice is the one of the largest employers in central government. In 2010-11, there were on average over 90,000¹⁵ employees within the wider Ministry family.¹⁶ Of those, 74 per cent worked in the National Offender Management Service and a further 19 per cent in HM Courts Service. To manage spending, these organisations therefore need to understand their staffing requirements well and to judge whether operations are offering value for money.

3.5 Within the National Offender Management Service, this understanding has been advanced through its specification, benchmarking and costing project. Within HM Courts and Tribunals Service, this has been advanced by work on activity-based costing. The PAC's January 2011 report recommended that the Ministry speed this work up. The Ministry decided, however, not to change the pace of the work, citing its complexity, the need for thoroughness, and competing pressures for resources.

3.6 The specification, benchmarking and costing programme aims to specify the minimum legal and safe requirements for services delivered in the prison and probation services and quantify how much these services should cost. The National Offender Management Service is also undertaking further work to identify how much the services actually cost. Specification work is over 90 per cent complete and the Ministry has provided detail of the results on its website, although providers of services will not be required to demonstrate that they have made use of specifications until later in 2012. The specifications are comprehensive, setting out minimum standards, proposed operating models, key assumptions, and spreadsheet tools that should allow users to understand how much their services should cost. The Ministry has stated that this work has helped inform both budget allocations and its tendering for contracts for private prisons. Progress in estimating what services should cost is also well advanced but more work is required to calculate the actual cost of services, particularly in prisons. This work could contribute considerably to better financial management and lead to front-line cost savings, but the Ministry has more work to do to realise its potential fully.

3.7 Activity-based costing in HM Courts and Tribunals Service has a different rationale and approach to the costing work in the National Offender Management Service. HM Courts and Tribunals Service has been working with the Ministry's Analytical Services Directorate on producing models to inform regional budget allocations. These help estimate appropriate resourcing levels given different levels of activity and other relevant factors. Models for magistrate and county courts were used to inform allocations for 2011-12, and this will also be done for crown courts in 2012-13. HM Courts and Tribunals Service are undertaking further work so that these models can provide more detailed cost information to enable benchmarking of specific services. This will be key to the ongoing work to reduce costs in HM Courts and Tribunals Service and therefore improve the level of cost recovery achieved by court fees, as well as meeting wider Ministry savings targets.

¹⁵ This includes Probation Trust staff.

¹⁶ The largest central government employer is the Department for Work and Pensions, which had 115,839 staff in 2010-11.

3.8 While these projects continue to develop, the Ministry has made good use of other costing data to help improve performance. For example, the National Offender Management Service is better placed to drive performance improvement and spending reduction through its work refining prison cost analysis. This enables comparisons of cost and performance between prison establishments, by adjusting for factors that make like-for-like comparisons difficult. The Ministry also uses Cabinet Office benchmarking data to assess its own costs for back-office functions and identify areas for improvement.

Spending on goods and services

3.9 The Ministry's procurement function originated in the National Offender Management Service, which began major reforms in this area in 2004. In our report *The procurement of goods and services in HM Prison Service*¹⁷ we found that procurement was well delivered and had made substantial savings. Over the last year, the remit of the procurement function has continued to expand within the wider Ministry family.

3.10 The Ministry understands the cost of most of its goods and services well and is able to drive savings and mitigate cost increases. The Ministry can produce detailed financial information on spend, which it uses to report monthly to its procurement committee. These reports examine progress against achieving savings and of 'cost pressures' which may increase costs, and are discussed as part of the standing agenda in the procurement committee chaired by the Director General Finance and Corporate Services. In March 2011, the Ministry calculated that its procurement work had led to cashable savings of £37 million in 2010-11, and enabled it to avoid £50 million of cost increases.

Payments made to, or on behalf of, the public

3.11 The majority of payments made to, or on behalf of, the public are by the Legal Services Commission, which procures both civil and criminal legal aid. The NAO reviewed the Legal Services Commission's work, in relation to Criminal Legal Aid, in 2009 and was critical about how far the Commission understood its providers and how it administered the scheme. In addition, the Comptroller and Auditor General has qualified his opinion on the Commission's accounts for the last three years because levels of error in payments to providers were too high. The Commission has made some good progress in reducing the level of estimated error from £76.5 million in 2009-10 to £50.7 million in 2010-11. This has been through an increased focus on higher risk areas, enhanced audit testing and provision of additional clarity and guidance to providers. However, at over 2 per cent of the Commission's annual expenditure, this level of error is still too high to allow an unqualified audit opinion.

¹⁷ Comptroller and Auditor General, *The procurement of goods and services by HM Prison Service*, Session 2007-08, HC 943, National Audit Office, July 2008.

3.12 The Criminal Injuries Compensation Authority made payments of over £280 million to victims of crime in 2010-11. Compensation payments are made to people who suffered harm due to criminal behaviour, under two different schemes. The current tariff scheme, which applies to cases since 1996, specifies and limits the amounts payable in compensation. However, there are a small number of cases where predicted liabilities are significantly larger. These are 'pre-tariff' cases, where the injury occurred before 1996 but the claimant has not yet reached the eligible age for compensation. The Ministry is aware that the liabilities carried by the Criminal Injuries Compensation Authority are substantial. In 2010-11, the Ministry moved a further £45 million of funding from other business areas to meet compensation liabilities as part of the in-year forecasting and monitoring process described in Part Two.

Managing the Ministry's income

3.13 As well as its central government grant, the Ministry raises a significant amount of its funds through imposing fees for court services, and collecting assets through fines and confiscation orders. In 2010-11, the Ministry recorded £464 million of income raised through fees, and £104 million in respect of its share of fines and other assets collected.

Fees

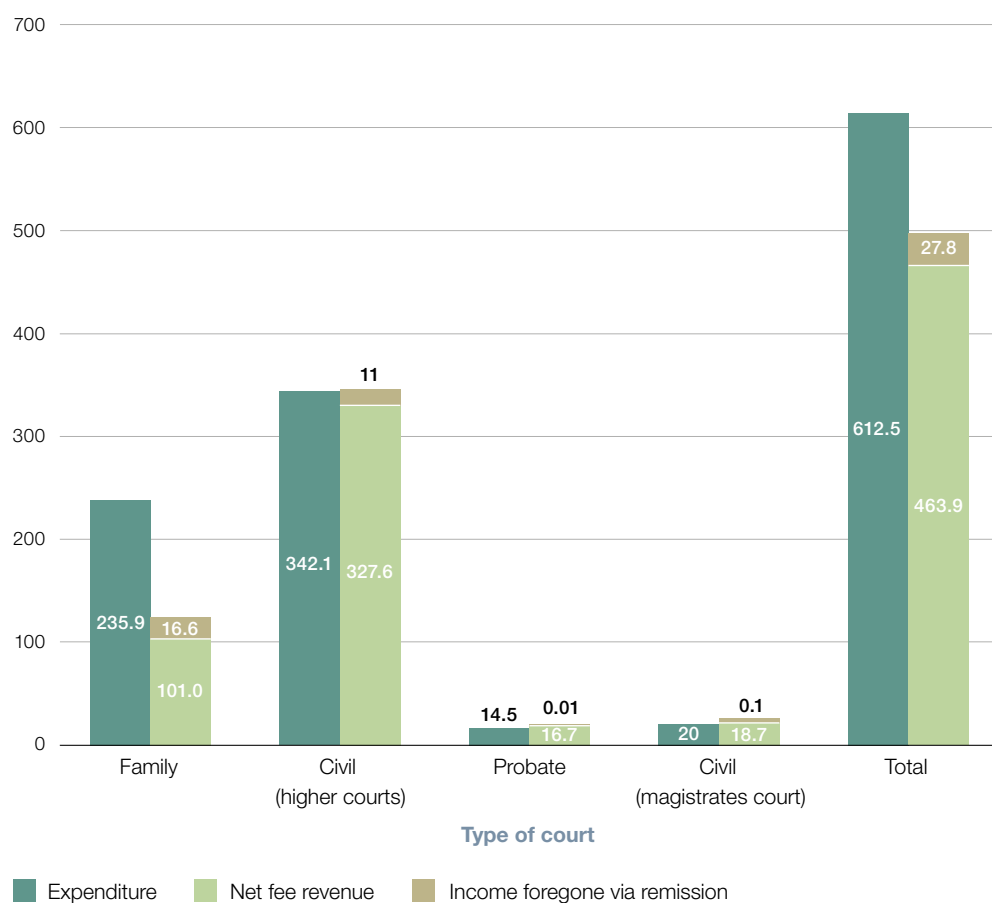
3.14 The PAC recommended that fees should be set to achieve 100 per cent cost recovery for the services to which they relate. However, between 2009-10 and 2010-11, the amount of costs recovered through fees fell from 82 per cent to 80 per cent, a shortfall against cost of £121 million.¹⁸ This figure also masks some significant variations in fee recovery rates, detailed in **Figure 4** overleaf. The Ministry does not fully understand how changes in fees could affect demand. It estimates that setting fees to recover full costs for some areas of family law would increase fee levels by at least 500 per cent, affecting access to justice for many people. In view of the wider changes in HM Courts and Tribunals Service designed to reduce cost levels, and work on costing and modelling potential changes to fees, the Ministry has restricted raising fees only for inflation. However, it plans to recover costs fully, less waived charges, by the end of 2014-15.

¹⁸ The shortfall is after allowing for £28 million of income foregone through remission, which is a fee waiver agreed with HM Treasury to mitigate the risk of denying access to justice.

Figure 4

Recovering costs through fees by service provided

£ million



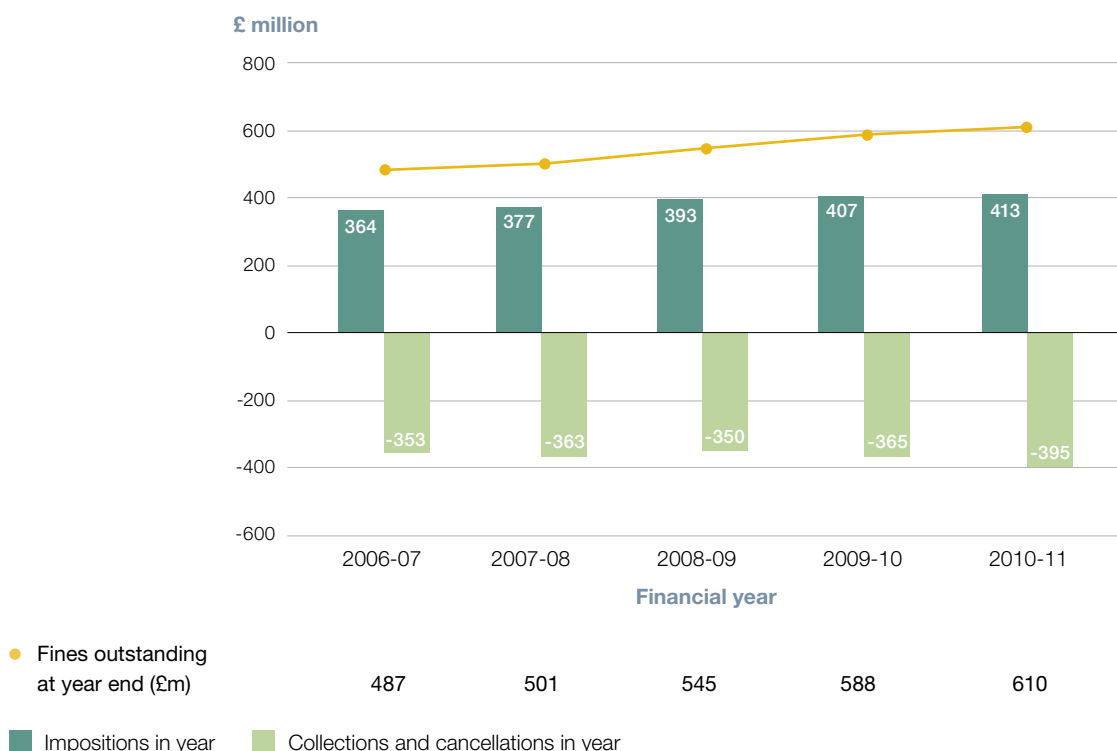
Source: HM Courts and Tribunals Service

Fines

3.15 The Ministry has up to now measured its success in collecting fines using the ‘payment rate’. This performance indicator is weak because it does not match collection rates to the fines from which they originate. The indicator calculates how much income is collected as a percentage of fines levied in that year, even though much of the income collected is from previous years. The PAC has criticised this measure and recommended that the Ministry improve its performance measures.¹⁹ The Ministry has now developed three new performance measures to monitor collection rates, timeliness and levels of arrears for individual fines, and has started reporting this information to the departmental board. This should improve the Ministry’s understanding of its income collection once it has sufficient data for monitoring. The Ministry’s data on actual movements in fine balances is shown in **Figure 5** below. Since 2006-07, the outstanding amount of fines has increased by 25 per cent, despite an increase of over 15 per cent in collections over the same period.

Figure 5

Movements in fine amounts outstanding, 2006-07 to 2010-11



NOTES

- Figures have not been adjusted for inflation.
- Figures for impositions do not include amounts that have been cancelled in previous years but subsequently have been judged to be enforceable. These amounts have therefore been added back to the amount outstanding. For example, such re-impositions amounted to £3 million in 2010-11.

Source: Ministry of Justice

Confiscation orders

3.16 The PAC also recommended that the Ministry improve collection rates for confiscation orders. Although all amounts from confiscation orders sit as liabilities on the balance sheet of HM Courts and Tribunals Service, it is the lead enforcement agency for the collection of 18 per cent of the value of them, with the CPS Proceeds of Crime Unit being responsible for almost two-thirds of the value. The Home Office is responsible for setting policy for confiscation orders in Government. **Figure 6** shows a breakdown of the total outstanding amounts of confiscation orders, by size and number, and **Figure 7** illustrates the changes in outstanding balances since April 2007. The Ministry is working to improve the quality of information on the Joint Asset Recovery Database, which records details of confiscation orders and has held discussions with the Home Office.

Figure 6

Outstanding confiscation orders by size, as at 30 September 2011

Original value of order (£)	Number of such orders	Current order value outstanding (£m)	Value of orders where HMCTS is lead agency (£m)	Percentage of value of which HMCTS is lead
0 – 25,000	12,877	23	16	73
25,001 – 100,000	1,903	71	40	57
100,001 – 500,000	1,216	204	71	35
500,001 – 1,000,000	229	148	38	26
1,000,001+	181	874	69	8
Total	16,406	1,321	235	18

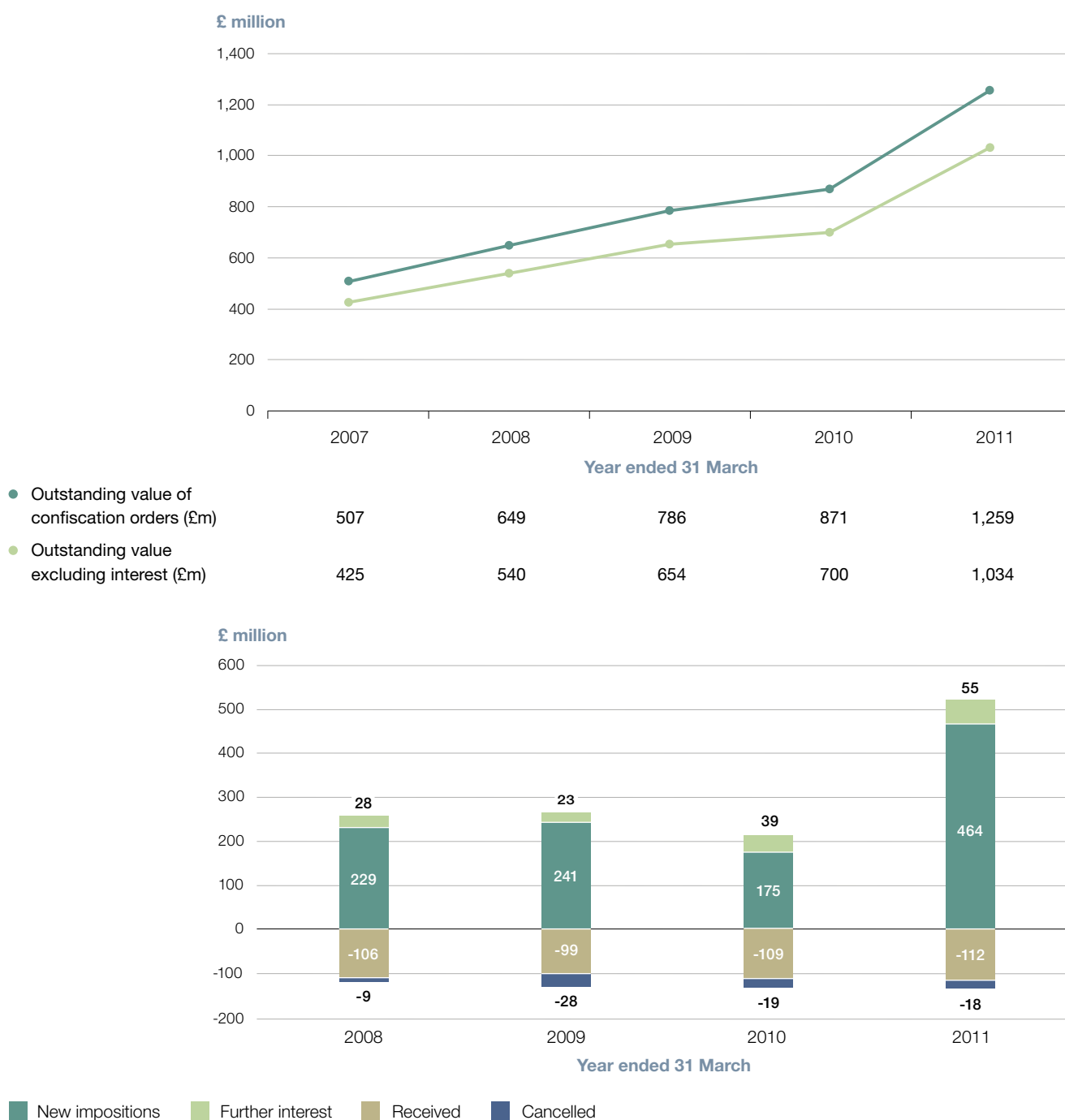
NOTES

- 1 Order values outstanding include interest.
- 2 These figures have not been audited.
- 3 Differences are due to roundings.

Source: Ministry of Justice joint asset recovery database

Figure 7

Year-end balances and in-year movements for confiscation orders since 2007-08

**NOTES**

1 These figures have not been adjusted for inflation.

2 These figures have not been audited, with the exception of those relating to 2010-11. For more information, please refer to paragraph 2.27.

Source: Ministry of Justice joint asset recovery database

3.17 There has been little change in the amount of confiscation orders collected, with amounts owing increasing by £388 million in 2010-11 according to the Ministry's records. The Ministry has identified three key factors in this increase in 2010-11:

- a** The value of confiscation orders imposed was significantly greater in 2010-11 than previously, including one imposition of £189 million, 15 per cent of the total value of outstanding debt at year end.
- b** All outstanding confiscation orders (including those classified by the Ministry as 'inactive') accrue interest at 8 per cent each year.
- c** Under the Proceeds of Crime (2002) Act, HM Courts and Tribunals Service can only apply to the Crown Court to write off up to £50 of an order balance. Other unrecoverable amounts cannot be written off. HM Courts and Tribunals Service has stated this is "consistent with the principle of administering justice and ensuring that every effort is being made to collect outstanding debts." However, half of the outstanding debt is no longer being pursued as HM Courts and Tribunals Service has judged that incurring further costs would not represent value for money given the likelihood of recovery.

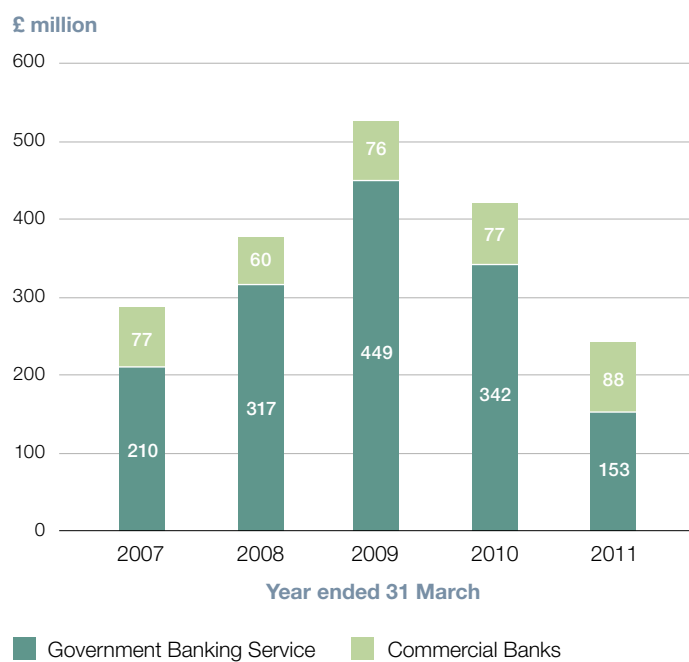
Managing the Ministry's assets and liabilities

3.18 The Ministry is responsible for managing almost £10 billion in non-current assets, consisting of buildings managed by the National Offender Management Service and HM Courts and Tribunals Service: prisons, probation sites and court buildings. Although the Ministry has adequate financial information in relation to these assets, complex accounting for assets within the National Offender Management Service was a major contributory factor in its statutory accounts being late.

3.19 In our report of July 2010 on the Ministry's financial management, we noted that the balances of cash held by year end had increased significantly. In 2010-11 prices, the Ministry held £287 million in 2006-07, but this increased to £526 million in 2008-09. In our previous report we said that this represented poor value for money; departments should manage their cash more tightly and HM Treasury can manage government funds more efficiently from the centre. In 2009-10, the amount of cash at year end declined to £419 million (2010-11 prices) with a substantial reduction to £240 million in 2010-11 (see **Figure 8**). Although in this period the proportion of cash held in commercial banks increased, overall this represents improved performance in cash management by the Ministry. The Ministry is aiming to improve its in-year cashflow forecasting further as part of its finance improvement programme.

Figure 8

Year-end cash balances for the Ministry of Justice,
2006-07 to 2010-11

**NOTE**

1 Figures for prior years have been adjusted to 2010-11 prices on the basis of CPI inflation.

Source: Ministry of Justice

Part Four

Implications for the future

Spending review pressures

4.1 Under the terms of the settlement in the 2010 Spending Review, the wider Ministry family will see a real terms reduction in funding of 23 per cent by 2014-15 compared with 2010-11. This means, for example, that the Ministry needs to make savings of over £500 million in 2011-12 alone. The Ministry aims to make front-line savings of around 10 per cent and reduce back-office function costs by around a third; if successful this will contribute around £1 billion of the annual savings of more than £2 billion required by 2014-15.

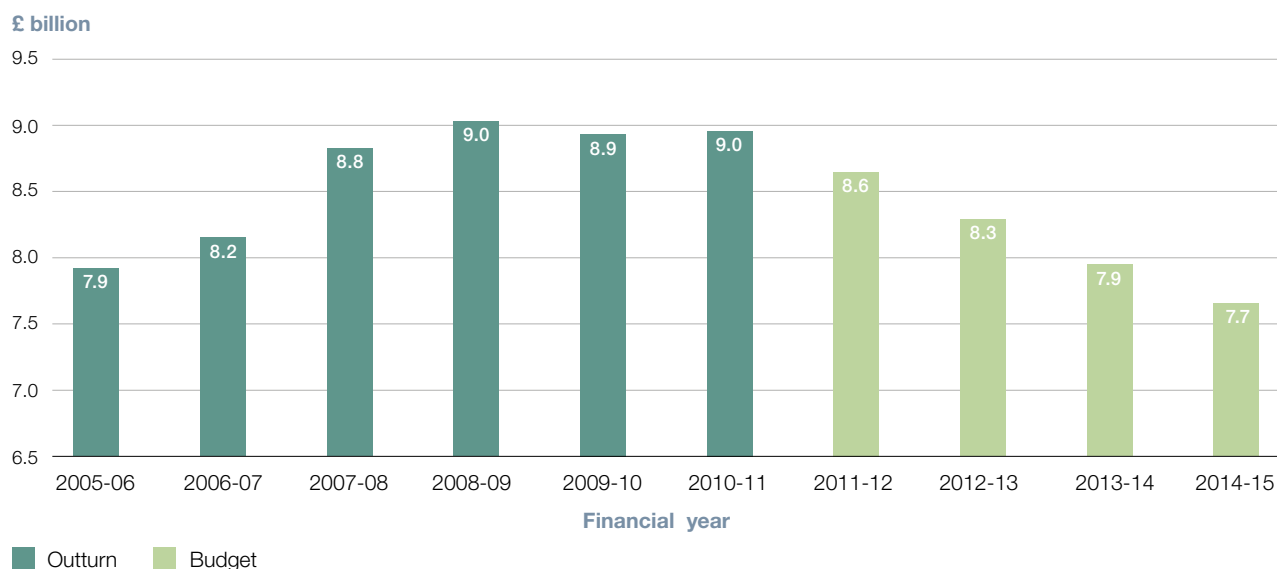
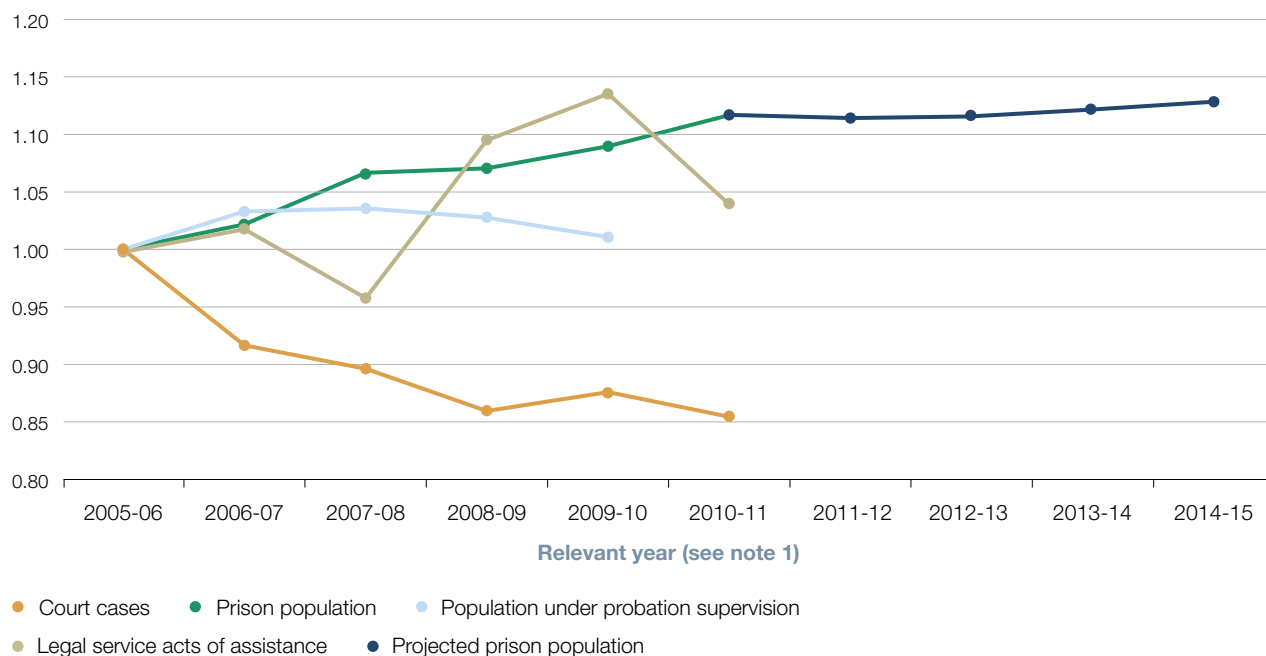
4.2 The Ministry's business is mostly 'demand-led': costs are affected by the volume of applications for grants (legal aid or compensation) and the level of criminal activity resulting in court use and community or custodial sentences. **Figure 9** shows the proposed changes in funding levels against past funding, back to 2005-06, along with the following key workload data for the Ministry over the same period:

- Prison population as at June each year.
- Projected prison population as at June each year.
- Number of court cases handled each year.
- Number of cases under probation supervision as at December each year.
- Acts of legal assistance (civil and criminal) each year.

4.3 Available data show that the Ministry's funding increases in recent years have reflected increases in demand for its two largest spending requirements: prison places required and legal aid. Probation caseload has been more variable and the number of court cases has fallen steadily. With forecasts of further rises in prison population and trends in other areas mixed, the Ministry will have to make significant efficiency savings to match business demand with the proposed reductions in spending.

Figure 9

Ministry of Justice funding and workload, 2005-06 to 2014-15

**Workload compared to 2005-06****NOTES**

- For workload data, court cases and legal service acts of assistance measure workload per year. Prison population (including projections) is at June in the relevant financial year, and probation caseload as at December.
- Financial data presented in the top graph relates to outturn and budget under the Departmental Expenditure Limit. This is the main planned budget for departments and their sponsored bodies. Gross expenditure in year would ordinarily be higher due to raising of income and some Annually Managed Expenditure which is budgeted for separately.
- All outturns, estimates and workload data has been indexed such that 2005-06 data = 1.
- Funding figures have not been adjusted for inflation and are rounded to the nearest £0.1 billion.

Source: National Audit Office analysis of published data

The Ministry's plans for making savings

4.4 The Ministry has set out to achieve savings of one third in back-office functions. In 2010-11, it had a budget of £704 million for administration, and the Spending Review 2010 settlement requires that this falls to £517 million by 2014-15, a reduction in real terms of 33 per cent. The Ministry has plans to achieve these reductions, including a voluntary early departure scheme.²⁰

4.5 The Ministry is currently restructuring a number of administrative areas, in particular its finance functions. Staffing requirements in finance are also likely to be affected by the shared service project being implemented. The Ministry expects to realise significant savings from implementing the shared service programme, and a number of benefits to financial management such as improved management information. As both the structural changes and the shared service implementation programme are still in progress, we have not audited them as part of this review.

4.6 As well as making efficiencies in back-office functions, the Ministry also proposes to make efficiencies in front-line services. The Ministry's current plans are to achieve around 60 per cent of the required savings by 2014-15 through efficiency savings. The Ministry aims to achieve the remainder of the savings required through projected workload demand reductions and possible or planned changes in policy.

4.7 High quality financial management is essential to the Ministry achieving its savings plans. The initiatives the Ministry has pursued over the last year will help it cope with spending restrictions, through improving understanding of business costs and the implications of changes in policy or implementation. If the Ministry can improve further its understanding of costs at a detailed level, and fully integrate this understanding with its improved monitoring and forecasting processes, then it should be well placed to meet its aspiration of providing a professional financial management capability.

²⁰ These figures do not include depreciation on items under the administration budget.

Appendix One

Methodology

Our methodology consisted of the following:

Method	Purpose
<p>Semi-structured interviews of key Ministry personnel, including:</p> <ul style="list-style-type: none"> • Accounting Officer; • Director General Finance and Corporate Services; • Director of Financial Planning and Performance; • Director of Procurement; • Head of Sponsorship of arm's-length bodies; • Head of Internal Audit; • Chair of the Corporate Audit Committee; and • Chief Executives and Finance Directors of key sponsored bodies. 	<p>Each interview was tailored to the recipient and mainly explored:</p> <ul style="list-style-type: none"> • actions taken in response to the NAO and PAC reports on financial management; • changes in financial management since July 2010; • what benefits had been realised; and • remaining challenges. <p>In our interviews with chief executives and finance directors from the key sponsored bodies, we covered the above topics and the relationship with the core Ministry.</p>
<p>Analysis of Ministry financial and performance data including:</p> <ul style="list-style-type: none"> • analysis based on audited financial statements; • validating underlying financial data, where feasible; and • sample testing of data within internal management information. 	<p>To validate claimed improvements in systems and processes. Our sample testing focussed on ensuring that business data was correctly sourced, processed and reported. Where necessary we clarified our analysis with operational and financial staff.</p>
<p>Reviewing departmental documents, including internal management information and board reporting, systems documentation, and project records.</p>	<p>To identify and evaluate the extent of changes in financial management processes since our 2010 report on financial management.</p>
<p>Validation of the Ministry of Justice's self-assessment against the NAO's financial management maturity model and implementation of PAC recommendations.</p>	<p>To draw conclusions on the Ministry's level of financial management maturity and the extent to which it has met PAC recommendations on financial management.</p>

Appendix Two

Progress against PAC recommendations

Recommendation summary	Does the proposed action meet the recommendation?	Has the recommendation been implemented?	Report reference
1 Produce a report to PAC on financial management progress by September 2011.	Yes	Yes	1.11
2 Clarify funding arrangements with, and expectations of, arm's-length bodies and tailor oversight arrangements to level of risk.	Yes	Mostly	2.10
3 Bring forward costing work in the National Offender Management Service and HM Courts Service, and develop proposals for similar analyses for the rest of the business.	Partially	Partially	3.5
4 Produce a robust business planning process and integrate operational modelling with full cost information systems being developed.	Yes	Mostly	2.16
5 Produce accounts on time in future.	Yes	No	2.23

Recommendation summary	Does the proposed action meet the recommendation?	Has the recommendation been implemented?	Report reference
6 Set fees to ultimately achieve 100 per cent cost recovery in a fair and equitable manner.	Yes	Partially	3.14
7 Introduce promised improvements to performance measurement by September 2011.	Yes	Partially	3.15
8 Take the lead in improving collection rates for confiscation orders, through closer working between the Accounting Officer and the heads of criminal justice partners.	Yes	Partially	3.16
9 The Commission should categorise and analyse the causes of error, and then target its resources and initiatives to reduce that level, so that its accounts are no longer qualified.	Yes	Partially	2.23



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