National Audit Office

Report
by the Comptroller
and Auditor General

Cross-government

Accountability to Parliament for taxpayers' money

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Cross-government

Accountability to Parliament for taxpayers' money

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This study examines what accountability to Parliament means, and the role and responsibilities of accounting officers (AOs); the robustness of the AO role as a control over value for taxpayers' money; the 'health' of current accountability to Parliament; and challenges to existing accountability systems.

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Contents

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Summary

Introduction

1 Accountability to Parliament for taxpayers' money is an inextricable part of good public management and democratic government. It can provide assurance over government's activities, highlight improvement actions, improve policy-making, and engage stakeholders and service users in decision-making. Effective accountability can also identify who is responsible if something goes wrong, and enable redress.

2 Both ministers and civil servants are accountable to Parliament for the spending and performance of government departments. The departmental accounting officer or AO (normally the permanent secretary) is personally responsible and accountable to Parliament for managing the department, including its use of public money and stewardship of assets. The departmental AO is also responsible for ensuring the department's arm's-length bodies have systems adequate to meet the standards of governance, decision-making and financial management expected of public sector bodies.

3 Departmental AOs have other responsibilities: as permanent secretaries, their primary responsibility is to serve their minister, while as AOs, their responsibility to Parliament is to safeguard public money. AOs therefore find themselves at the interface between the policy and implementation spheres, and have to balance the priorities, risks and pressures associated with their dual accountabilities. In drawing attention to this balancing role, we are not suggesting that it cannot work, but that AOs require, as well as a high degree of skill and experience, the right incentives and support to allow them to perform it effectively.

4 However, as the complexity of both policy and implementation has increased over the decades, the balance of pressures on AOs has shifted in a way that potentially undermines accountability to Parliament. AOs now operate in an environment where ministers often perform a more 'executive' role in policy implementation and have sought greater involvement in top civil service appointments, while appointing increasingly influential special advisers to act on their behalf. This appears to have tilted the balance so that AOs have greater pressures to give weight to political drivers rather than public value. The increased rigour of backbench committees and greater government transparency have had some compensating effect, but overall there are serious concerns that these developments are steadily eroding AO accountability to Parliament.

5 We consider it important for us to open up these issues for debate because we recognise that it is difficult for senior civil servants to raise them, given their obligations to serve ministers. This also means that, while our report draws on a considerable volume of evidence, it also reflects our perceptions from working across the civil service.

6 Our analysis builds on the Committee of Public Accounts' (the Committee's) 2011 and 2012 reports on *Accountability for public money*.[1] These reports re-emphasised the importance of AO accountability to Parliament, while highlighting challenges from both increased devolution of powers to local bodies and the closer interest ministers have taken in how their policies are implemented.

7 Accordingly, this report is concerned with the effectiveness of arrangements for securing accountability to Parliament for taxpayers' money. It draws on the National Audit Office's (NAO's) catalogue of some 300 major reports since 2012, as well as the work of the Committee, which published 158 reports over that period and held AOs to account roughly 60 times a year. This is not a standard value-for-money report and we do not conclude on the value for money of the accountability system itself. Instead, we highlight major concerns about how accountability of taxpayers' money is exercised:

- what is meant by accountability to Parliament and the key role and responsibilities of AOs;
- the robustness of the AO role as a key control over value for taxpayers' money;
- the 'health' of current accountability to Parliament based on four essentials of accountability; and
- challenges to existing accountability systems presented by developments in government.

1 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011; HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010–2012, HC 1503, April 2012.

Key findings

Why there is a problem with accountability

8 **The incentives on an AO to prioritise value for money are weak compared with those associated with the day-to-day job of satisfying ministers.** In terms of the balance of priorities AOs have to strike, the emphasis has shifted over a number of years towards political drivers – sometimes at the expense of safeguarding public value. AOs appear to lack confidence to challenge ministers where they have concerns about the feasibility or value for money of new policies or decisions, not least because standing up to ministers is seen as damaging to a civil servant's career prospects. This is not a recent phenomenon, but a result of how government has evolved over the decades since the first AOs were appointed in the 1870s. Developments contributing to this climate include (paragraphs 1.23 to 1.29):

- the more 'executive' role of ministers in specifying the detail and timing of policy implementation (and consequently AOs being held responsible for implementation decisions not directly under their control);
- ministers seeking greater involvement in the selection of civil servants appointed to senior posts; and
- concerns over the influence of special advisers to ministers.

9 **The AO's power to request a formal 'ministerial direction' is not being used effectively as an accountability control to safeguard value for money.** Where an AO has serious concerns about value for money, he or she can flag the concern to Parliament by formally (and publicly) requesting a direction to proceed from the minister. The threat of this can prevent poor decisions about use of taxpayers' money, but evidence suggests the mechanism is not being used effectively. Many major projects where there were clear value-for-money concerns, such as implementation of the Single Payment Scheme for farmers (2005–2014) or the National Programme for IT in the NHS (2002–2011), have not been the subject of directions. It can reasonably be argued that discussions about possible directions will have had 'invisible' positive influence, leading to better decisions and hence better value for money. However, there is no way of knowing how systematically this happens. HM Treasury suggests that 'AO assessments' be prepared when AOs have concerns about propriety, regularity, value for money or feasibility of policies, but this procedure is neither well known nor well used. Overall, we think that a robust, accountable system of decision-making would feature much more transparent and visible activity than we see happening (paragraphs 1.17 to 1.21 and 1.32).

10 Accountability arrangements have evolved, but need to keep pace with transformational changes to government, including greater local devolution. The traditional model of AOs being solely and personally accountable to Parliament for all spending under their remit dates from when government was far smaller and simpler. AOs now commonly delegate, devolve or share delivery responsibilities, and accountability systems have begun to adapt. In response to the Committee's demands during the last Parliament, HM Treasury made senior responsible owners (SROs) of major projects directly accountable to Parliament for project implementation. HM Treasury's progress with the Whole of Government Accounts (WGA) is also a significant step forward in transparency over financial management. However, ensuring the essentials of accountability in some areas of government still seems to be an afterthought. Devolution of powers and funding to the local level has often not been accompanied by clarity over who is accountable for what, and how value for money is to be secured. Another example is increased cross-departmental working in government, which can result in gaps in accountability unless roles and responsibilities are clearly defined at the outset. **Figure 1** overleaf sets out more detail on progress and challenges to achieving effective accountability for delivery (paragraphs 1.33 and 1.34, and Figure 1).

11 The creation of accountability system statements was a positive development, but they are not comprehensive and often are little more than a compliance exercise. Government has provided helpful clarity over locally devolved funding by publishing accountability system statements for sectors such as local government, education, health and policing. While the system statements are a good starting point, only 7 of the 17 main departments have prepared them and they generally provide weak evidence of the quality of underlying accountability systems. In particular they lack clarity on how departmental AOs oversee entire systems of delivery to secure value for money. Parliament has had difficulties using the system statements to hold AOs to account, and there is little evidence of departments using them in practice (one exception is the local government system statement, which explains how DCLG exercised its oversight responsibilities to deal with failing local authorities at Doncaster, Tower Hamlets and Rotherham). None of the statements encompass the full set of accountability relationships within the AO's remit – including, but not limited to, arm's length bodies, outsourced activities, major projects, and central and cross-cutting initiatives (paragraphs 1.35 to 1.39, and Figure 13).

Figure 1

National Audit Office findings on the state of accountability: progress and challenges

Accountability essential	NAO findings
1 **A clear expression of spending commitments and objectives**	Government has made good progress on improving the **transparency of its finances** through initiatives such as the Clear Line of Sight and Whole of Government Accounts (paragraphs 2.3 and 2.5). More needs to be done on using the WGA balance sheet to **manage long-term risk** across government; and to clearly link financial commitments to the **policy objectives** they are designed to achieve (paragraphs 2.4 to 2.8).
2 **A mechanism or forum to hold to account**	Accountability and oversight regimes for **local delivery bodies**, eg in education and health, do not provide Parliament with adequate assurance over how the whole system of delivery is working, and if it is value for money (paragraphs 3.4 and 3.5). Devolution of funding and powers to **local areas, cities or regions** is increasing rapidly, but central oversight arrangements (eg to ensure overall value for money) have yet to catch up (paragraphs 3.6 to 3.8).
3 **Clear roles and someone to hold to account**	AOs **delegate responsibilities** where appropriate, but retain ultimate accountability. Senior responsible owners of major projects are directly accountable to Parliament for implementation, but similar accountability does not apply to others, eg contractors (paragraphs 4.3 to 4.7). **Cross-cutting initiatives** involving several departments can leave accountability unclear and weaknesses in performance unchecked (eg as seen in services for care leavers and confiscation of criminal assets) (paragraphs 4.8 and 4.9).
4 **Robust performance and cost data**	**Poor data quality** is an endemic problem and government has failed to embed a strong culture of accountability for performance based on robust, relevant data (paragraphs 5.4 and 5.5). Departments frequently fail to specify appropriate **performance or cost measures**, instead selecting indicators that are easy to measure. This leaves government too often with no proper means to assess performance (paragraph 5.3).

Source: National Audit Office

12 HM Treasury has not asserted its own key role in setting the overall framework for AO accountability and providing clarity about expectations on AOs. HM Treasury has a crucial role across government as the overall guardian of accountability for taxpayers' money. It oversees guidance for AOs, such as the authoritative *Managing Public Money*, and has recently issued supplementary guidance on the AO role and duties.[2] It also provides advice when requested, for example if an AO is considering seeking a ministerial direction. However, HM Treasury could do more to develop the strong culture of accountability within government that would support AOs in fulfilling their important accountability responsibilities. For instance, it does not systematically review accountability system statements or monitor how effectively accountability regimes operate in practice (paragraphs 1.30 to 1.32).

How the problem could be addressed

13 We consider that action is needed to rebalance the incentives on AOs, if the checks and balances required by Parliament over taxpayers' money are to be effective in the modern government environment. To counterbalance the shift towards political drivers, in our view effective accountability now requires that permanent secretaries explicitly exercise their responsibility to Parliament as accounting officers in a more transparent and positive way. Our recommendations below are intended to help government achieve such a shift, which should help:

- AOs to understand and express more clearly their accountabilities to Parliament and clarify how these are shared, delegated and devolved to others within the overall system for which they have responsibility;
- departments and their delivery partners to put in place effective accountability systems to support AOs in their role;
- ministers and AOs to clarify their respective accountabilities and work together more effectively, especially around challenging decisions about value for taxpayers' money; and
- Parliament and its select committees to hold AOs to account for the decisions they have made, their management of risks and the robustness of the accountability systems they oversee.

In taking this forward, a clear focus on our four essentials of accountability (Figure 1), at all levels of government, should help AOs establish priorities for improvement across their respective delivery systems. For example, AOs could use our accountability essentials to check that accountability system statements are clear about who is accountable for what, and how they will be held to account.

2 HM Treasury, *Parliamentary scrutiny of public spending*, December 2015; HM Treasury, *The accounting officer's survival guide*, December 2015; HM Treasury, *Making an accounting officer assessment*, December 2015.

Recommendations

For HM Treasury

14 HM Treasury should introduce a new requirement on AOs to provide **positive assurance** about regularity, propriety, feasibility and value for money ahead of key implementation decisions. This would be an extension of existing requirements in *Managing Public Money* relating to major projects and policy initiatives,[3] and would **reinforce scrutiny processes** by providing assurance that appropriate, informed judgements had been made before public resources were committed. For example, HM Treasury should require for major projects and policy initiatives:

- more explicit **sign-off by AOs at certain implementation stages**, such as at business case approval and when major changes to project specifications are agreed; and
- **AO assessments** to be prepared following Treasury guidelines, where AOs have concerns about the regularity, propriety, feasibility or value for money of particular policies. AOs should make their AO assessments available to Parliament and HM Treasury should report regularly on the number of AO assessments, in the interests of transparency.

15 HM Treasury needs to provide **stronger leadership to AOs across government**, to fulfil its lead role as the guardian of overall government accountability. For example, it should act as a **critical friend** to help AOs develop their accountability systems. HM Treasury should coordinate and periodically assess accountability system statements, including ensuring that they are prepared to common standards and are revised when significant changes to departmental systems are implemented. Treasury spending teams should provide advice as necessary on developing and maintaining effective accountability systems.

For accounting officers

16 Departmental accounting officers must take **firmer ownership of the whole systems of accountability** for which they are responsible, particularly where responsibilities are delegated, devolved or shared with others. With the help of HM Treasury, AOs should review their accountability systems and rectify any accountability gaps or lack of clarity about responsibilities.

17 All departmental AOs should provide to Parliament **an accountability system statement** setting out all of the accountability relationships and processes within that department (including those not currently covered by existing accountability system statements). AOs should test and update their system statements regularly, to ensure they are relevant and can be used in a practical sense to hold AOs and delivery bodies to account.

3 HM Treasury, *Managing Public Money*, July 2013, paragraph 3.3.3.

For the Cabinet Office

18 The Cabinet Office should identify and put in place **specific measures to change incentives for permanent secretaries** to emphasise their AO responsibilities, alongside their duty to ministers. For example, it should ensure that AO responsibilities are given more weight in the formal appraisal of each permanent secretary's performance. It should also give more emphasis to AO duties in each permanent secretary's performance objectives. This should go beyond mere general statements about the AO's role; for example, objectives should make explicit how specific programmes and priorities will be pursued in accordance with value for money.

Part One

Accountability to Parliament and the role of the accounting officer

1.1 This part sets out the context for understanding accountability for taxpayers' money. It defines accountability, maps accountability flows within government, and examines the principles and the system for providing accountability to Parliament. In particular it focuses on the role of the departmental accounting officer (AO), who is directly responsible and accountable to Parliament for the use of public money.

What is accountability?

1.2 Accountability essentially involves being responsible or answerable to someone for some action. It can involve *giving an account* of your actions to someone (for example, through a reporting requirement), or being *held to account* for your actions (such as a select committee questioning officials about departmental performance in a formal evidence session). The purpose of accountability can be to provide assurance over an activity, identify who is responsible if something goes wrong, or enable redress to affected parties.[4] It is also essential to identify recommendations and improve future decisions.

1.3 Both ministers and AOs are accountable to Parliament for the spending and performance of government departments:

> "The minister in charge of the department is responsible and answerable to Parliament for the exercise of the powers on which the administration of that department depends. He or she has a duty to Parliament to account, and to be held to account, for all the policies, decisions and actions of the department, including its arm's-length bodies."
>
> "The departmental accounting officer is personally responsible and accountable to Parliament for the organisation and quality of management in the department, including its use of public money and the stewardship of its assets".[5]

4 Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001, paragraph 3.5.

5 HM Treasury and Cabinet Office, *Corporate governance in central government departments: Code of good practice 2011*, July 2011, paragraphs 1.1-1.2.

What are the roles and duties of an accounting officer?

1.4 An accounting officer is an individual to whom HM Treasury formally delegates responsibility for the stewardship of resources used by a government body, including a specific duty to account to Parliament for how public money has been spent. In a government department, the permanent secretary is normally the AO. There may be other accounting officers within a department – for example, for executive agencies, arm's-length bodies and trading funds – but the permanent secretary is the principal AO for the department.

1.5 A permanent secretary's departmental AO responsibilities are distinct from the other roles that he or she performs as the most senior civil servant in the department, including acting as chief policy adviser to the minister. In general, civil servants' main accountability is to their ministers, as set out in *The Civil Service Code*.[6] A permanent secretary's role therefore combines a civil servant's accountability to his or her minister, with AO accountability to Parliament. The activities and performance of permanent secretaries are also overseen by the department's board (chaired by the Secretary of State) and the Cabinet Secretary (**Figure 2** overleaf).

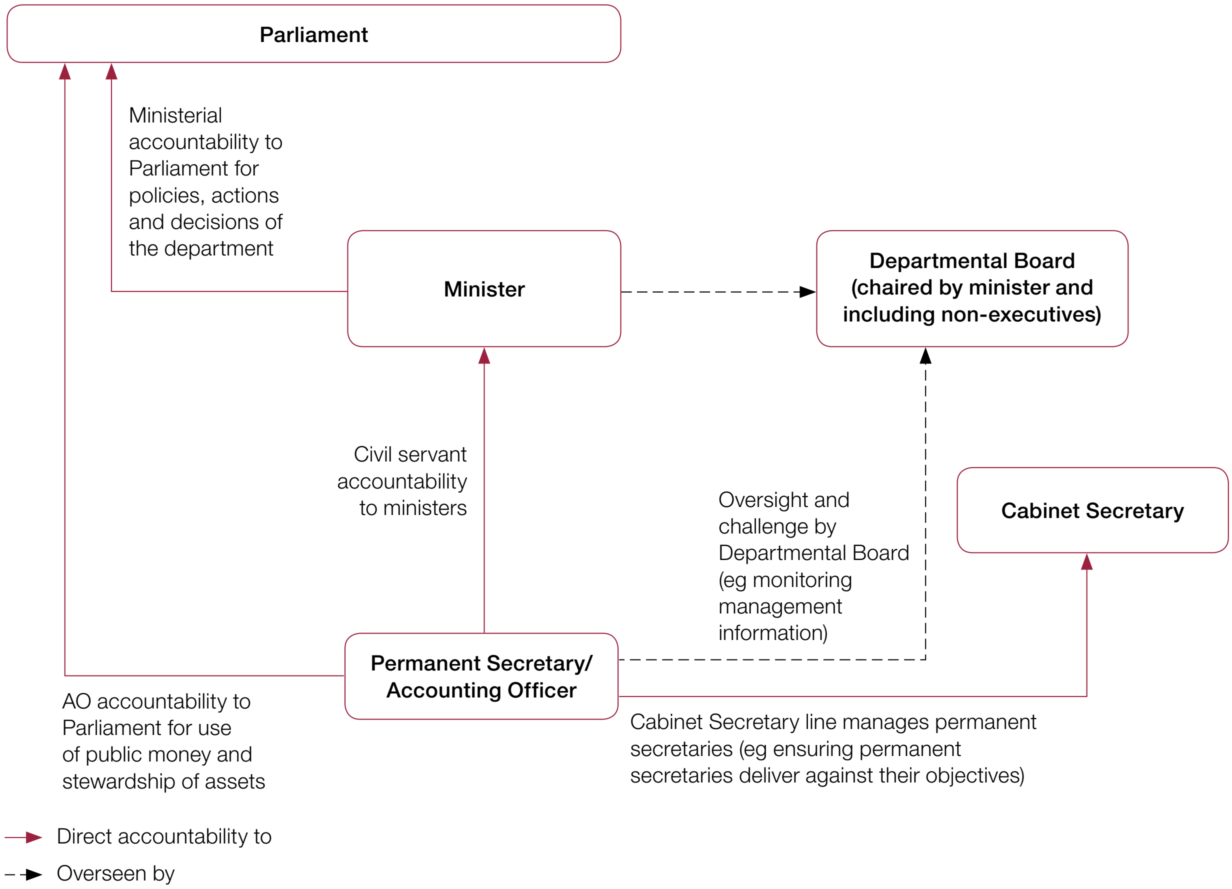
1.6 HM Treasury outlines the expectations and duties of AOs in its guidance on *Managing Public Money*, including the principles underpinning the role (**Figure 3** overleaf). AOs personally sign the published financial accounts of their department. In doing so, they are acknowledging that they have a personal responsibility to ensure their departments, and any arm's-length bodies they sponsor, operate effectively and to a high degree of probity. This includes making sure there are high standards of governance, decision-making and financial management.[7] AOs also have a specific responsibility to personally approve and confirm their agreement to major projects and policy initiatives before they proceed.[8] If required, the AO must attend Parliament and be held to account in public, usually by the Committee of Public Accounts (the Committee). The role of the AO is therefore one of the key checks and balances in the parliamentary system for safeguarding taxpayers' money.

1.7 Parliament has also set out expectations of AOs. The importance of AO accountability to Parliament for taxpayers' money was expressed by the then-Chair of the Committee of Public Accounts Margaret Hodge in 2012, in her evidence to the House of Lords Constitution Committee on the accountability of civil servants:

> "I come at it from the perspective of the Public Accounts Committee, which is charged with ensuring economy, efficiency and effectiveness with respect to public expenditure. ... The depressing reality of all the inquiries done by our Committee is the continuous recurrence of waste that leads to a perpetuation of wastefulness; people never learn the lessons. We think that accountability is at the heart of the problem of trying to secure better value for money, so we come at this from that view."[9]

6 HM Government, *The Civil Service Code*, March 2015, available at: www.gov.uk/government/publications/civil-service-code/the-civil-service-code
7 HM Treasury, *Managing Public Money*, July 2013, box 3.1.
8 HM Treasury, *Managing Public Money*, July 2013, paragraph 3.3.3.
9 Margaret Hodge evidence to HL Constitution Committee, *The accountability of civil servants: Oral and written evidence*, 23 May 2012, Q 1. Available at: www.parliament.uk/documents/lords-committees/constitution/CivilServ/ACSEvidenceFINAL.pdf

Figure 2
Permanent secretaries' accountability and oversight relationships



Source: National Audit Office analysis of HM Treasury, *Managing Public Money*, July 2013; HM Treasury, *Corporate governance in central government departments: Code of good practice 2011*, July 2011; HM Government, *The Civil Service Code*, March 2015

Figure 3
Principles for spending taxpayers' money

Regularity: The principle that resource consumption should accord with the relevant legislation, delegated authorities and *Managing Public Money*.

Propriety: The principle that patterns of resource consumption should meet high standards of public conduct and robust governance and respect Parliament's intentions, conventions and control procedures, including any laid down by the Committee of Public Accounts.

Value for money: The process under which an organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, value and avoidance of error and other waste, judged for the Exchequer as a whole.

Feasibility: The principle that proposals with public expenditure implications should be implemented accurately, sustainably and to the intended timetable.

Source: HM Treasury, *Managing Public Money*, July 2013, pages 205–211 (Glossary)

1.8 In 2011, the Committee identified its "fundamentals of accountability" – the basic elements that need to be in place to ensure accountability is effective (**Figure 4**). The Committee was concerned that greater localism in service delivery was eroding its ability to hold AOs to account for public money, without providing an alternative accountability mechanism. Appendix Three outlines the commitments made by government in response to the Committee's 2011 and 2012 recommendations.

1.9 It is important to note that the AO operates at the head of a *system* of accountability. Other individuals within the delivery system have responsibilities to account for performance. Accountability can be delegated at a working level to the most appropriate person who can answer for delivery, such as the senior responsible owner (SRO) of a major project. In a system of devolved delivery, there may be separate AOs for individual institutions, such as academies or NHS foundation trusts. However, as the Committee re-emphasised in 2011, the departmental AO retains overall accountability, and therefore needs to ensure that the accountability framework in place enables him or her to provide assurance to Parliament over all the public spending in the system.[10] Former Cabinet Secretary Lord O'Donnell reiterated the importance of clarity about accountability, noting that "accountability systems work best where you can make it black and white".[11]

Figure 4

The Committee's 2011 fundamentals of accountability

The Accounting Officer is personally and ultimately responsible to Parliament for the spending of taxpayers' money and must be unfettered in the discharge of these responsibilities.

Where a department provides funding to other bodies, the Accounting Officer is responsible for ensuring that there is an appropriate framework in place to provide him/her with the necessary assurances and controls.

Responsibilities and authority for policy and operational decisions are clear throughout the delivery chain.

There is a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services.

All bodies which receive public funds are well governed and have robust financial management arrangements in place.

Source: HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, Figure 1

10 Former departmental AOs and SROs can also be summoned by select committees to give evidence on their previous responsibilities: Cabinet Office, *Giving Evidence to Select Committees: Guidance for Civil Servants* (Osmotherly Rules), October 2014, paragraphs 23-24.

11 W Agbonlahor, 'Interview: Gus O'Donnell, Former UK Cabinet Secretary', *Global Government Forum*, 3 March 2015, available at: www.globalgovernmentforum.com/interview-gus-odonnell-former-uk-cabinet-secretary/

For what spending and delivery systems are AOs accountable?

1.10 Departmental AOs are responsible for complex systems of delivery, where public money and accountability are often delegated or devolved to others to provide services or implement projects (**Figure 5**).

1.11 AOs are also accountable for stewardship of government assets and liabilities, as set out in departments' statements of financial position. **Figure 6** on pages 18 and 19 sets out the value of these assets and liabilities.

Example: Department for Transport

1.12 **Figure 7** on pages 20, 21 and 22 shows the funding and accountability flows within the Department for Transport (DfT). It illustrates the complex system for which a departmental AO is responsible.

1.13 In particular:

- DfT's companies and arm's-length bodies include Network Rail and Highways England (which respectively account for 49% and 22% of DfT's spending).[12] Each of these organisations has its own AO, who is directly accountable to Parliament for its use of public resources. However, these bodies must also provide assurance to DfT; in Network Rail's case, the relationship is governed by a framework agreement (which requires Network Rail to submit monthly financial reports to DfT and seek approval for any new commercial business).[13] The Office of Rail and Road regulates the health and safety performance of the railways and the delivery performance and efficiency of Network Rail, and monitors Highways England's management of the strategic road network.

- DfT, like many departments, provides grants to local government. Some of DfT's grants are non-ringfenced (for example, for highways maintenance), with accountability through the local government assurance framework overseen by the Department for Communities and Local Government. Other grants to local authorities are based on funding bids for specific purposes, for example for bus services and cycling improvements, and DfT has its own assurance processes over these.

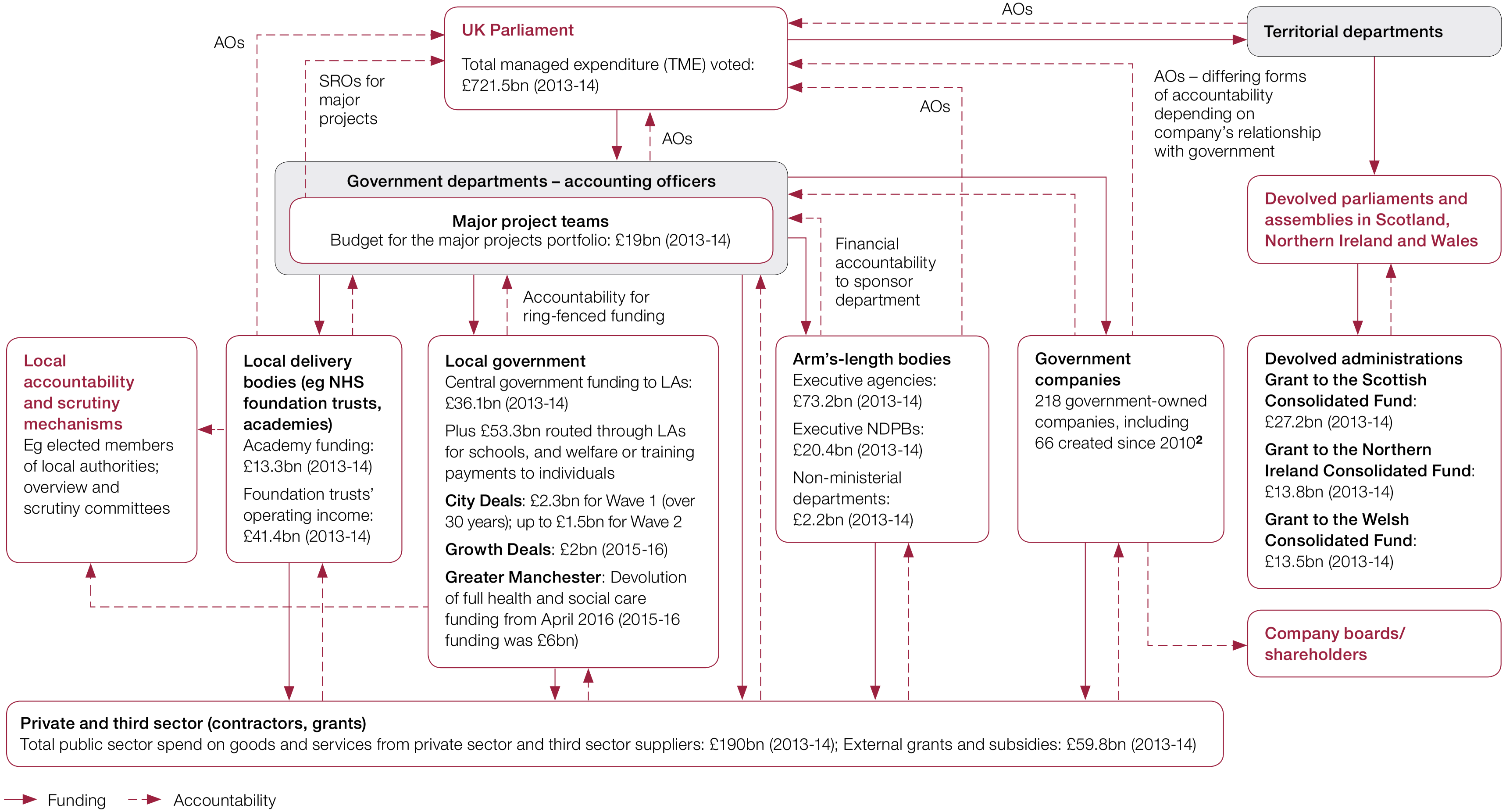
- DfT has outsourced many of its back-office functions to the Independent Shared Service Centre 1 (ISSC1) run by the contractor arvato. ISSC1 is funded by the bodies who use it; DfT is currently the single customer. Access to ISSC1 for government departments is via a framework agreement managed by the Cabinet Office.

12 The Highways Agency, an arm's-length body of the Department for Transport, became Highways England, a government-owned company, on 1 April 2015. Assuming the profile of departmental spend remains broadly similar in 2015-16, this means that over 70% of DfT's expenditure will be grants to companies (Network Rail and Highways England).

13 Department for Transport, *Network Rail Framework Agreement*, September 2014, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/349439/framework-agreement.pdf

Figure 5

Annual expenditure and accountability flows within government[1]



Notes

1 Figures are the latest available for the same year (2013-14) at the time of publication (apart from City Deals, Growth Deals and Greater Manchester devolution).

2 There is no consolidated figure for total public funding to government companies.

Sources: Adapted from Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001, page 11. Financial data from: HM Treasury, *Budget 2015*, HC 1093, March 2015; HM Treasury, *Whole of Government Accounts: year ended 31 March 2014*, HC 1091, March 2015; Cabinet Office, *Major Projects Authority Annual Report 2013-14*, May 2014; Cabinet Office, *Public Bodies 2014: summary data*, November 2014, available at: www.gov.uk/government/publications/public-bodies-2014; Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014; Monitor, *NHS foundation trusts: consolidated accounts 2013/14*, HC 341, July 2014; Department for Education, *Consolidated Annual Report and Accounts 2013-14*, HC 745, January 2015; National Audit Office, *Companies in Government*, December 2015; Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015; Association of Greater Manchester Authorities and NHS England, *Greater Manchester Health and Social Care Devolution Memorandum of Understanding*, April 2015; Scotland Office and Office of the Advocate General for Scotland, *Annual Report and Accounts 2014-15*, HC 41, July 2015; Wales Office, *Annual Report and Accounts 2014-15*, HC 74, June 2015; Northern Ireland Office, *Annual Report and Accounts 2014-15*, HC 72, July 2015

Figure 6

Government assets and liabilities[1]

Liabilities (2013-14)

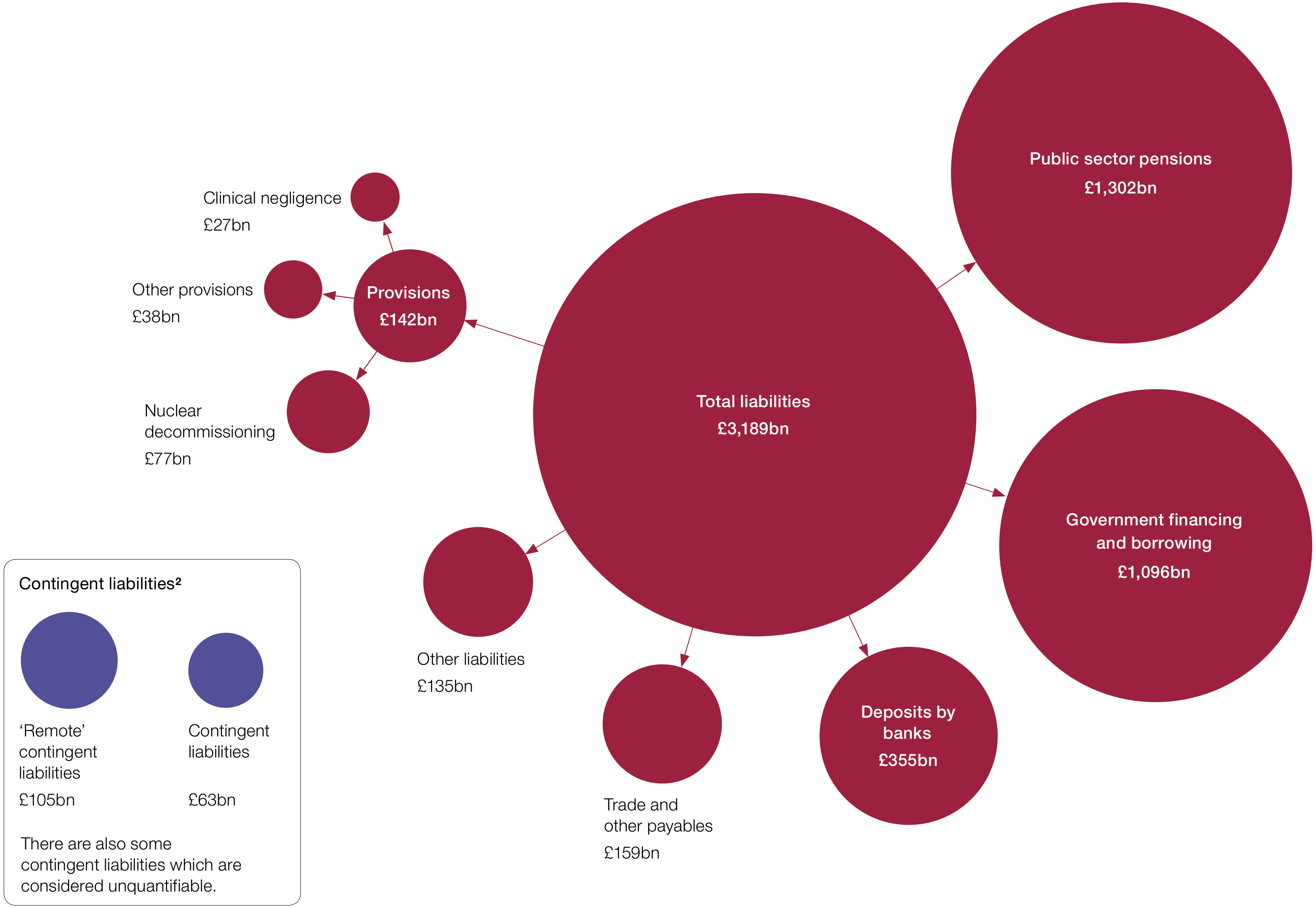
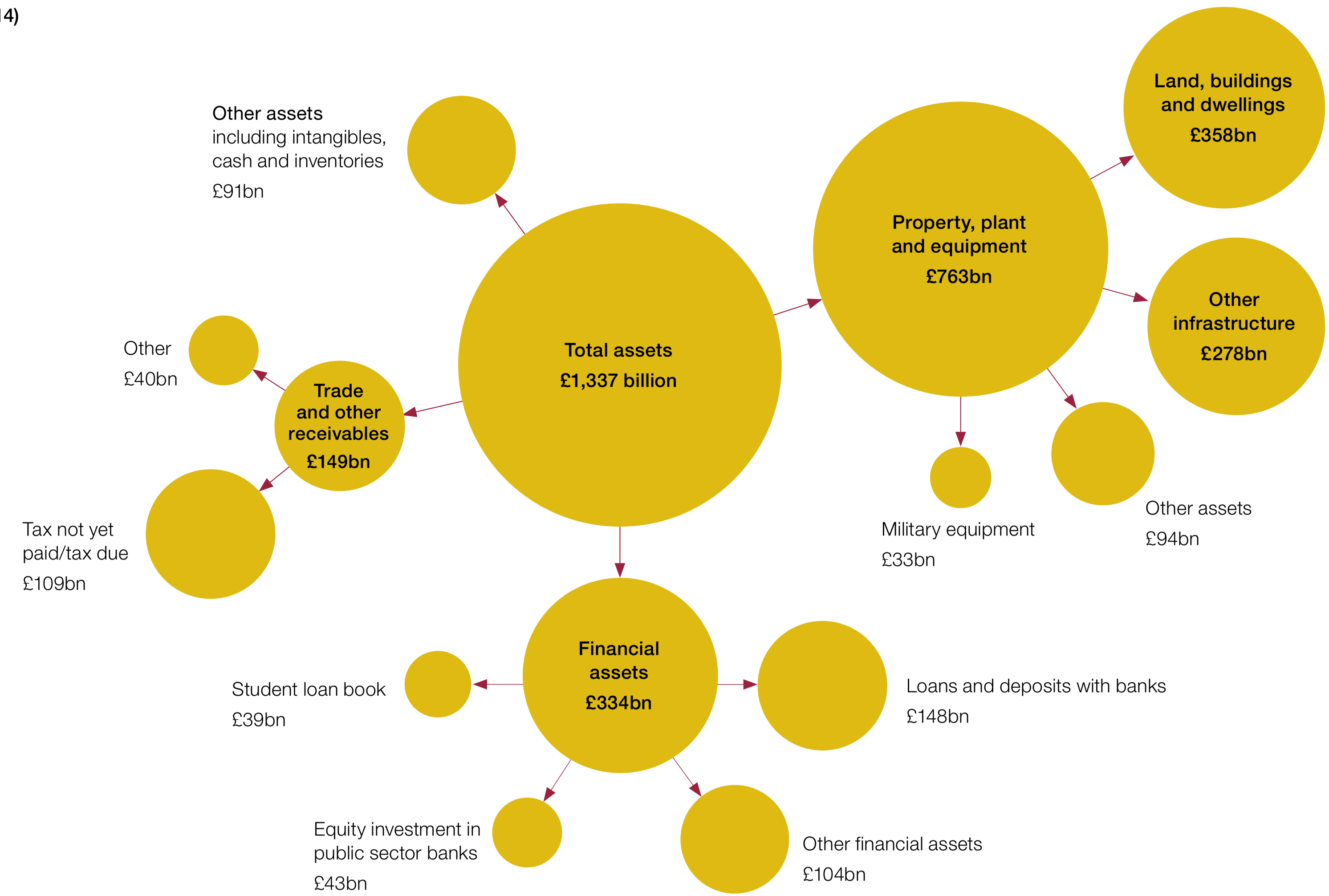


Figure 6 *continued*

Government assets and liabilities[1]

Assets (2013-14)



Notes

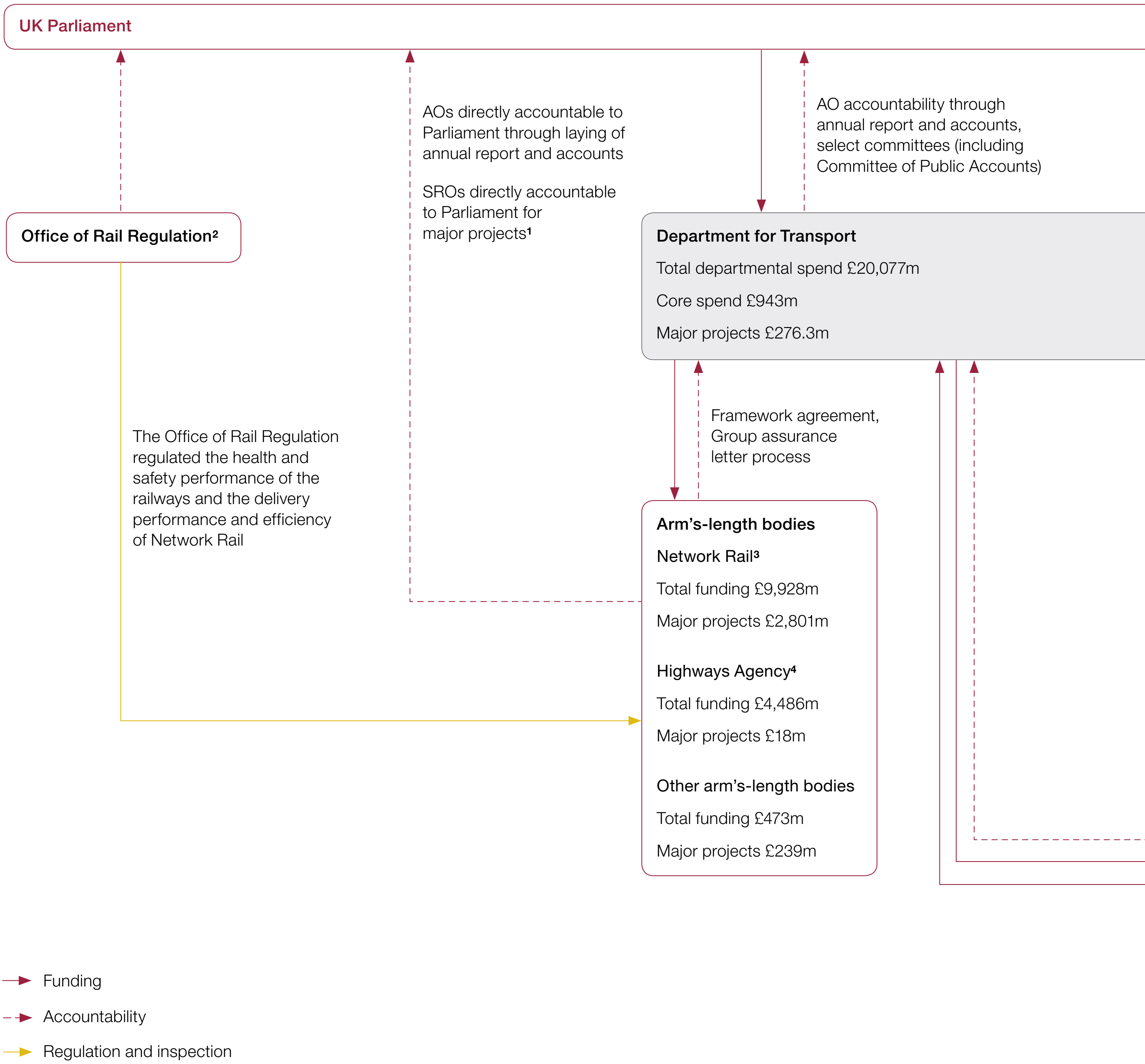
1 Figures are the latest available for the same year (2013-14) at the time of publication. Network Rail assets (£58 billion) and liabilities (£46 billion) appear in the Whole of Government Accounts from 2014-15.

2 Contingent liabilities are recorded in notes to accounts, not financial statements, to reflect uncertainty.

Source: National Audit Office analysis of Whole of Government Accounts data, 2013-14: HM Treasury, *Whole of Government Accounts: year ended 31 March 2014*, HC 1091, March 2015

Figure 7

Department for Transport: expenditure and accountability flows, 2014-15



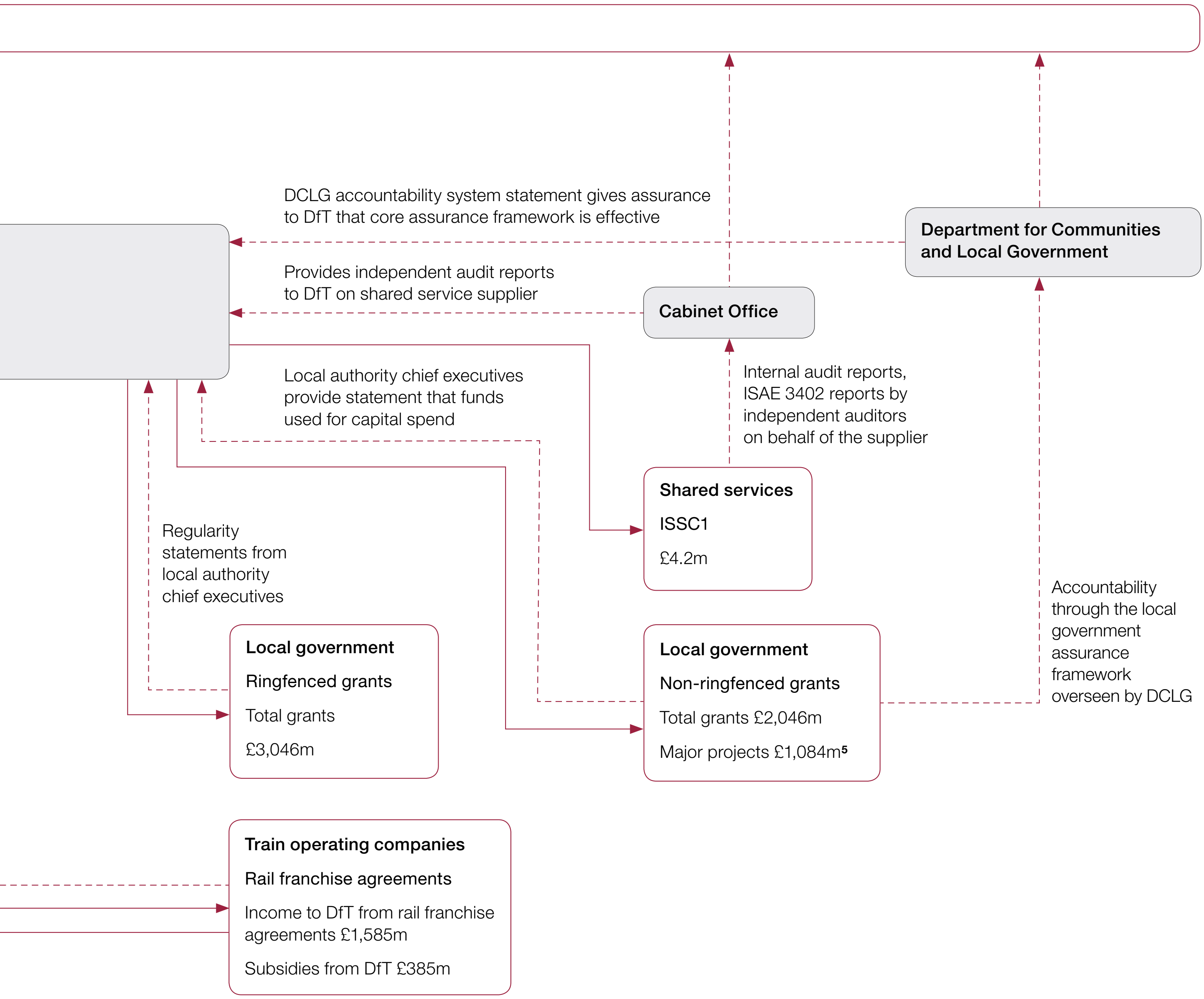

DCLG accountability system statement gives assurance to DfT that core assurance framework is effective
Department for Communities and Local Government
Provides independent audit reports to DfT on shared service supplier
Cabinet Office
Internal audit reports, ISAE 3402 reports by independent auditors on behalf of the supplier
Local authority chief executives provide statement that funds used for capital spend
Shared services
ISSC1
£4.2m
Regularity statements from local authority chief executives
Accountability through the local government assurance framework overseen by DCLG
Local government
Ringfenced grants
Total grants
£3,046m
Local government
Non-ringfenced grants
Total grants £2,046m
Major projects £1,084m5
Train operating companies
Rail franchise agreements
Income to DfT from rail franchise agreements £1,585m
Subsidies from DfT £385m

Figure 7 *continued*

Department for Transport: expenditure and accountability flows, 2014-15

Notes

1 'Major projects' are defined as those overseen by the Major Projects Authority (now the Infrastructure and Projects Authority), with senior responsible owners directly accountable to Parliament. The lifetime spend of major projects identified in this diagram is forecast to be £84.1 billion, with £42.6 billion on High Speed 2.

2 On 1 April 2015, the Office of Rail Regulation became the Office of Rail and Road and took additional responsibility for monitoring Highways England's management of the strategic road network.

3 On 1 September 2014, Network Rail was reclassified from the private to the public sector.

4 Highways Agency (with spend of £4,486 million) became Highways England on 1 April 2015, a government-owned company.

5 Major projects spending at local government level is all attributable to Crossrail.

Source: National Audit Office analysis of Department for Transport, *Annual Report and Accounts 2014-15*, HC 24, June 2015; HM Treasury, *Central Government Supply Estimates 2014-15: Supplementary Estimates*, HC 1019, February 2015; Department for Transport, *DfT Government Major Project Portfolio data*, September 2014, available at: www.gov.uk/government/publications/dft-government-major-projects-portfolio-data-2015

How robust is AO accountability to Parliament?

Is the AO role operating effectively?

1.14 The departmental AO's personal accountability to Parliament is a key system control over the value for money of public spending, and permanent secretaries accept this role on appointment. To be effective, this control requires robustly testing that projects and programmes are feasible and provide value for money at the start and throughout their life.

1.15 The departmental AO is also the permanent secretary (equivalent to the chief executive of the department) and therefore his or her main day-to-day responsibility is to oversee delivery of the policy aims of the minister of the day. These dual roles will usually be compatible, as both ministers and Parliament want to be assured of the value for money of departmental spending. However, where there is evidence that a minister's favoured policy approach would not be an appropriate use of public money, the AO needs to balance the twin roles of driving forward implementation and challenging on the grounds of value for money, feasibility, propriety or regularity. From Parliament's point of view this crucial system control is at risk of failure if AOs do not act strongly enough to safeguard the interests of taxpayers.

1.16 There is relatively little transparency over how the crucial AO control operates. Except at the initiation of major projects and policy initiatives, AOs are not required to give positive assurance about feasibility or affordability.[14] Advice to ministers is given in private, and it is generally accepted that ministers and civil servants need this 'safe space' to conduct their deliberations in the interests of good policy-making. However, it does mean that decisions by ministers to accept an AO's advice *not* to proceed with policy ideas are not recorded. What we do have is evidence of cases where conflicts between ministers' wishes and risks to value for money have arisen and *not* been resolved, and where the AO has publicly expressed the conflict, by requesting a formal 'ministerial direction' to proceed.

Ministerial directions

1.17 A ministerial direction (a direction) is a formal instruction from a minister to an accounting officer to proceed with the implementation of a policy, where the AO has expressed concerns that the spending involved does not meet the tests of regularity, propriety, value for money and/or feasibility (see Figure 3).[15] Once a direction is issued, the minister, rather than the AO, becomes responsible for the spending. Directions allow permanent secretaries to discharge their AO responsibilities for stewardship of public funds, while not undermining their duty to carry out the instructions of ministers. Since April 2011, HM Treasury guidance has required ministerial directions to be published; normally this will be no later than the publication of the next annual report and accounts, and earlier if appropriate.[16]

1.18 It is difficult to know the 'right' number of directions that would indicate the AO control was working effectively. Directions might be expected for major new policy programmes with significant risk, large-scale costly projects, or major shifts in the way resources are allocated. Few directions could be an indicator of harmonious AO–minister relations and good decision-making. Alternatively, it could indicate unwillingness on the part of AOs to challenge ministers because of pressure to deliver policy; optimism bias among AOs and civil servants;[17] poor information about the feasibility and value for money of ministerial decisions; or a combination of all three. One of the most high-profile recent directions concerned government funding to Kids Company (**Figure 8** overleaf).

14 Government defines major projects as those which: "require spending over and above departmental expenditure limits; require primary legislation; are innovative or contentious". See: www.gov.uk/government/groups/major-projects-authority
15 HM Treasury, *Managing Public Money*, July 2013, box 3.2.
16 HM Treasury, 'Accountability', Dear Accounting Officer letter, DAO(GEN) 01/11, 12 April 2011, available at: http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/dao01_11.pdf
17 National Audit Office, *Over-optimism in government projects*, December 2013.

Figure 8
Kids Company ministerial direction

From 2000, Kids Company received government funding for its work supporting young people. In June 2015, the then-Cabinet Office AO sought a ministerial direction on a proposed £3 million government grant to the charity. The relevant minister directed the AO to award the grant, despite the AO's advice that the grant was not likely to be value for money. Shortly after the grant was paid, Kids Company closed and filed for insolvency. In total, it had received £42 million of central government grants from 7 departments over a period of 15 years.

Taxpayers' money was paid to the charity even though officials had expressed concerns about Kids Company for well over a decade. These concerns included Kids Company's poor financial management, doubts about its viability, and questions over whether money would be more effectively spent on other organisations.

Despite these concerns, no AO sought a formal direction on Kids Company funding until June 2015. There were some 'near misses': in 2013, the Department for Education's AO commissioned a 'public interest case' which outlined the reasons for continuing to fund Kids Company. The former Cabinet Office AO told the Committee of Public Accounts that he had considered asking for a direction on a £4.3 million payment made to the charity in April 2015, but decided it was not necessary.

The Committee concluded that on Kids Company:

> "Accounting Officers across government failed to stand up to ministers. Although in some circumstances ministers can decide which charities they wish to support and how to fund them, it is always the job of Accounting Officers to determine whether the support provided represents value for money for the taxpayer. Yet for many years Accounting Officers did not challenge whether decisions to fund Kids Company represented good value for money, and therefore did not seek a direction from ministers."

Source: Comptroller and Auditor General, *Investigation: the government's funding of Kids Company*, Session 2015-16, HC 556, National Audit Office, October 2015; HC Committee of Public Accounts, *The Government's funding of Kids Company*, Eighth Report of Session 2015-16, HC 504, November 2015

1.19 Figure 9a and b on pages 26 and 27 sets out the number and value of directions from 1990 to 2015. There were 62 directions over this period, 77% of which were requested on value-for-money grounds. No directions have been sought on the grounds of feasibility.[18] The scatterplot of directions by value indicates that around half of the directions have been used for matters involving values of less than £20 million. To provide a relevant contrast, the average value of projects in the Government Major Projects Portfolio is £2.6 billion. Only two directions since 1990 had values exceeding the average value of a major project: the directions concerning financial guarantees to UK depositors in the Icelandic bank Landsbanki (£3.4 billion), and the Asset Protection Scheme, which protected participating banks against losses on their assets (£37.2 billion).[19]

18 'Feasibility' was added to the other criteria for seeking directions in 2011, partly in response to the Committee's criticism that directions had not been sought on defence procurement decisions affecting the affordability of the overall defence budget; see HM Treasury, *Treasury Minutes: Government responses on the Third to the Thirteenth Reports from the Committee of Public Accounts*, Session 2010-11, Cm 8014, February 2011, page 47.

19 The Asset Protection Scheme made no pay-outs and was wound up in 2012. The Landsbanki guarantee scheme made £4.5 billion of payments to UK depositors, but had recouped £4.6 billion from the Landsbanki estate and litigation cases by January 2016.

1.20 Over the period covered by Figure 9, there were, conversely, major reforms or projects which raised serious value-for-money or feasibility concerns, but where no directions were requested. **Figure 10** on pages 28 and 29 sets out three instances where there were clear warnings from the then-Major Projects Authority, the Committee, other select committees, and/or the National Audit Office about risks to value for money. On several occasions, the Committee has specifically said that AOs should have sought directions; for example, on alternative higher education providers,[20] the FiReControl project,[21] the affordability of defence procurement,[22] and the Single Payment Scheme for farm payments.[23]

1.21 HM Treasury told us it did not record when AOs raised concerns but stopped short of seeking a direction; hence there were no data on 'near misses' in these or other cases. In the view of Margaret Hodge, then-Chair of the Committee of Public Accounts, these cases indicated that the ministerial direction mechanism was not working effectively. She cited the particular case of a decision to enter into a contract for aircraft carrier procurement when the Committee had expressed concerns over the affordability of the defence budget:

> "... Somebody should have stopped it at that point, but the Permanent Secretary did not request a letter of direction. We went ahead and, because the money was not there, we delayed the building of those aircraft carriers and probably incurred £2 billion of extra cost. The system [for seeking ministerial directions] that is there at present is not working."[24]

20 HC Committee of Public Accounts, *Financial support for students at alternative higher education providers*, Forty-first Report of Session 2014-15, HC 811, February 2015, page 4.

21 HC Committee of Public Accounts, *The failure of the FiReControl project*, Fiftieth Report of Session 2010–2012, HC 1397, September 2011, page 5.

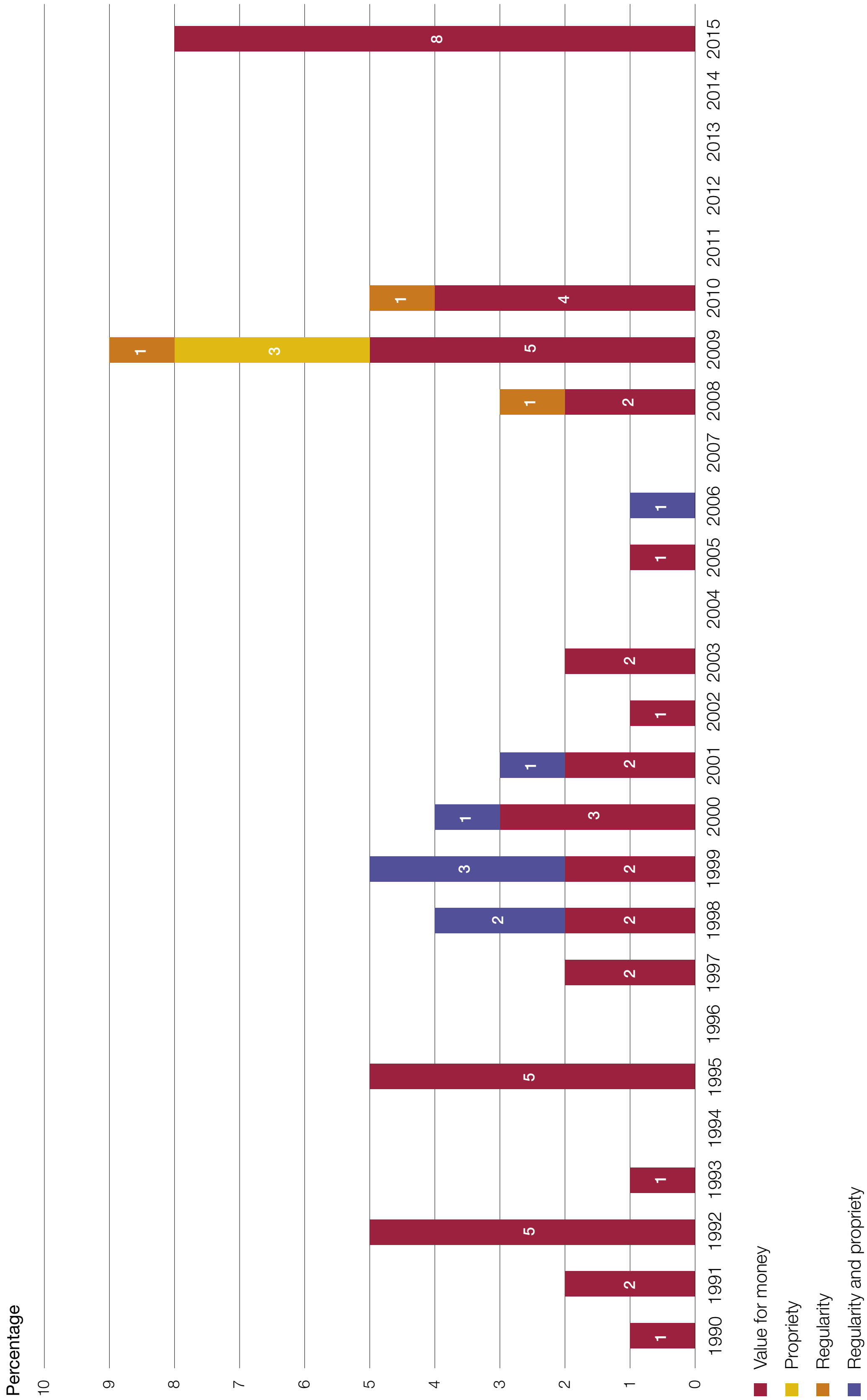
22 HC Committee of Public Accounts, *Managing the defence budget and estate*, Tenth Report of Session 2010-11, HC 503, December 2010, page 5.

23 HC Committee of Public Accounts, *The Delays in Administering the 2005 Single Payment Scheme in England*, Fifty-fifth Report of Session 2006-07, HC 893, September 2007, page 7.

24 Margaret Hodge evidence to HL Constitution Committee, *The accountability of civil servants: Oral and written evidence,* 23 May 2012, Q 2. Available at: www.parliament.uk/documents/lords-committees/constitution/CivilServ/ACSEvidenceFINAL.pdf

Figure 9a

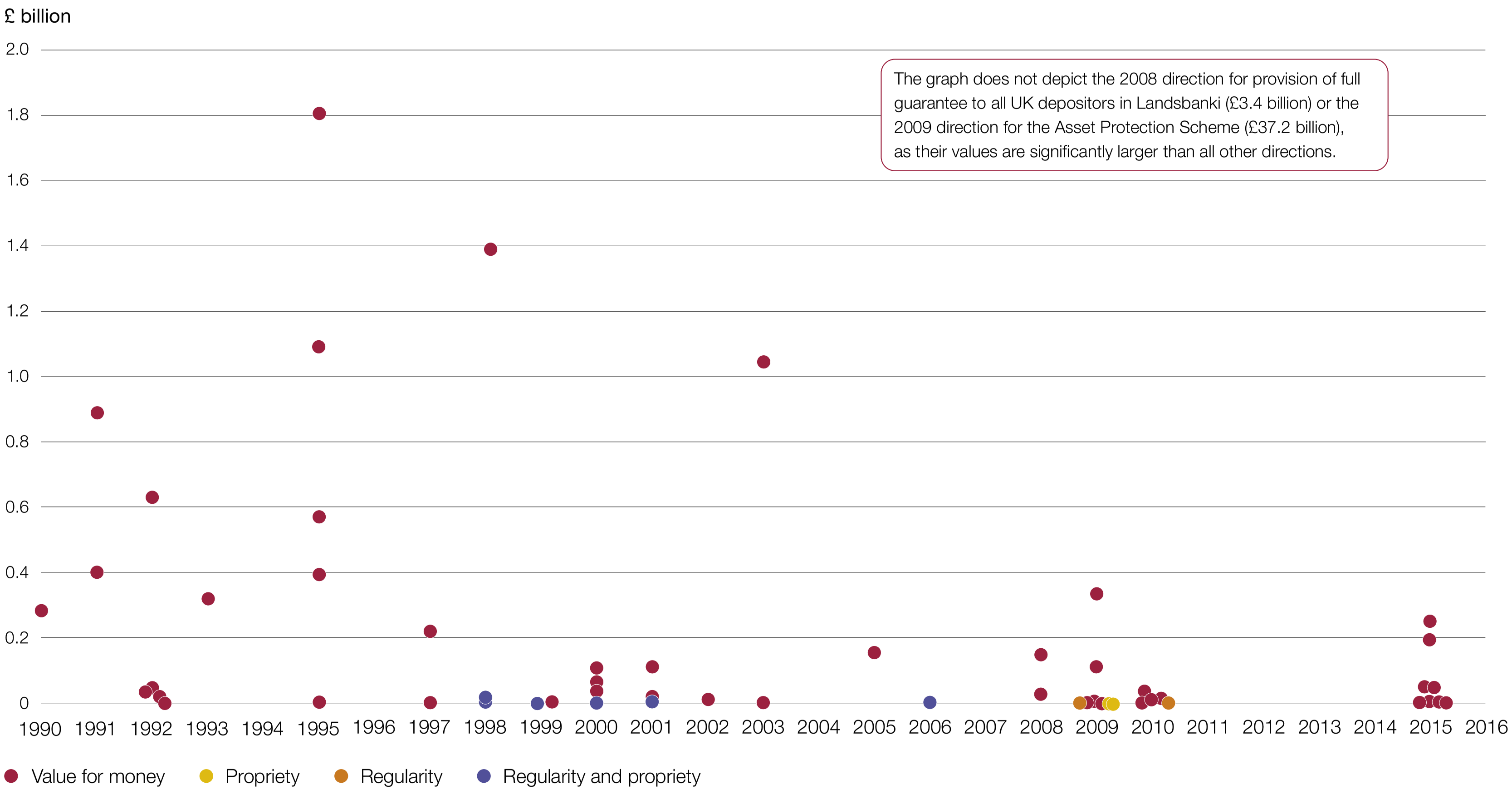
Ministerial directions by criteria, 1990 to 2015



Source: National Audit Office analysis of departmental data on ministerial directions

Figure 9b

Ministerial directions by value, 1990 to 2015



Notes

1 Before 2005, directions could be sought on the grounds of 'economy, efficiency and effectiveness'. These have been classed as 'value for money' directions.

2 The values used for directions are the expected expenditure or net present value at the time the directions were sought, adjusted for inflation. Values of all individual directions prior to 2015 have been adjusted to 2014 GDP real-terms prices.

3 Two directions involved income foregone rather than expenditure (both concerned Royal Mail employee share gifts in 2015). Eight directions involved potential expenditure, such as the Asset Protection Scheme (2009; the scheme was created to protect banks against exceptional losses on loans and other financial assets). The value of one direction was expressed in expected cost per annum, but no indication given of how many years the spending was to apply (concerning the location of divisional offices for the then-Ministry of Agriculture, Fisheries and Food, 1992). The value of one direction is not known (this concerned guarantees for cashmere, pork and candle exports to the US, 1999). On two occasions, a direction was issued followed by additional directions which merely extended the time period that the original direction applied (Benefit Payment Card project, 1998; Disability Living Allowance overpayments, 1999); the value of these directions has been counted once only.

Source: National Audit Office analysis of departmental data on ministerial directions

Figure 10

Examples of major projects where value-for-money concerns were raised but ministerial directions not sought

Project	Project scope and expenditure	Key government decisions/value-for-money concerns raised	
Single Payment Scheme	Replacement of 11 separate subsidies to farmers with a single payment based on land area, as part of EU Common Agricultural Policy (CAP) reforms. Cost: Around £1.6 billion of payments distributed each year.	2005	Department for Environment, Food & Rural Affairs (Defra) chose to implement the new Single Payment Scheme in its first year of existence, using the most complex delivery model.
		2006	National Audit Office (NAO) concluded that implementation had not provided value for money because the project cost more than anticipated, was not fully implemented and planned efficiency savings were unlikely to be achieved. The Rural Payments Agency (RPA) failed to meet its target to pay 96% of the money due to farmers by March 2006; instead, it made only 15% of payments due.
		2007	Committee of Public Accounts (PAC) concluded Defra and the RPA had failed to implement the scheme effectively, and that the AOs should have sought a direction to proceed in light of the risks to successful project delivery.
		2007	The RPA decided to upgrade existing IT systems rather than procure new ones, in order to transform scheme administrative performance by 2010.
		2009	NAO estimated that IT expenditure had reached £350 million by 2009, and further noted the scheme had incurred total unforeseen additional costs of £680 million between 2005 and 2009.
		2009	PAC described the scheme as a "debacle" and a "singular example of comprehensively poor administration on a grand scale".
FiReControl	Replacement of Fire and Rescue Service local control rooms with purpose-built regional control centres. Cost: £635 million forecast total project cost at cancellation of project.	2004	Department for Communities and Local Government (DCLG) started FiReControl project, with expected roll-out between late 2007 and late 2009.
		2008	Office of Government Commerce review found the project had unclear lines of decision-making, accountability and responsibility, and lacked sufficient assurance and internal challenge.
		2009	Office of Government Commerce further review found that false starts and promises on resource requirements had undermined confidence.
		2008/2009	DCLG considered contingency options and termination of contract in November 2008 and July 2009, but decided to proceed with project.
		2010	Communities and Local Government Select Committee inquiry criticised FiReControl's project management, cost escalation, severe delays and rapid turnover of crucial staff.
		2010	DCLG cancelled project in December 2010 after concluding it could not be delivered to an acceptable timeframe.
		2011	NAO concluded that FiReControl was an example of bad value for money. It estimated that a minimum of £469 million will be wasted as a result of failure to deliver the project.
		2011	PAC concluded that FiReControl was one of the worst cases of project failure it had seen in many years. It further noted that despite the scale of failure and waste, no one in DCLG had been held accountable; and that ministerial directions should be sought if officials believed proposed projects are not value for money.

Figure 10 *continued*

Examples of major projects where value-for-money concerns were raised but ministerial directions not sought

Project	Project scope and expenditure	Key government decisions/value-for-money concerns raised	
National Programme for IT in the NHS (NPfIT)	Project to reform NHS information systems to improve services and quality of patient care, including fully integrated electronic care records systems. Cost: £11.4 billion investment for entire programme.	2002	Department of Health (DH) launched NPfIT, with delivery of detailed care record systems to NHS trusts and GP practices planned by end of 2007.
		2006	NAO reported that care records systems would be delivered later than planned and recommended some adjustment of suppliers' milestones.
		2007	PAC reported that delivery of care records systems was two years behind schedule and suppliers were struggling to deliver.
		2008	NAO reported that it would be 2014-15 before every NHS trust had a fully delivered care records system.
		2009	PAC concluded NPfIT was not providing value for money as so few care records systems had been successfully deployed in acute trusts.
		2011	NAO concluded that spending so far on care records systems was not value for money, with no grounds for confidence that remaining planned spending would be different.
		2011	Major Projects Authority programme assessment review of NPfIT led to the government deciding to dismantle the programme into its separate component parts.
		2012	PAC concluded NPfIT was beyond the capacity of DH to deliver. There was weak accountability for project performance, as well as extensive delays and poor value for money.

Sources: Comptroller and Auditor General, *The Delays in Administering the 2005 Single Payment Scheme in England*, Session 2005-06, HC 1631, National Audit Office, October 2006; HC Committee of Public Accounts, *The Delays in Administering the 2005 Single Payment Scheme in England*, Fifty-fifth Report of Session 2006-07, HC 893, September 2007; Comptroller and Auditor General, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, Session 2007-08, HC 10, National Audit Office, December 2007; HC Committee of Public Accounts, *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, Twenty-ninth Report of Session 2007-08, HC 285, July 2008; Comptroller and Auditor General, *A Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency*, Session 2008-09, HC 880, National Audit Office, October 2009; HC Committee of Public Accounts, *A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency*, First Report of Session 2009-10, HC 98, December 2009; Comptroller and Auditor General, *The failure of the FiReControl project*, Session 2010–2012, HC 1272, National Audit Office, July 2011; HC Committee of Public Accounts, *The failure of the FiReControl project*, Fiftieth Report of Session 2010–2012, HC 1397, September 2011; HC Communities and Local Government Committee, *FiReControl*, Fifth Report of Session 2009-10, HC 352, April 2010; Comptroller and Auditor General, *The National Programme for IT in the NHS*, Session 2005-06, HC 1173, National Audit Office, June 2006; Comptroller and Auditor General, *The National Programme for IT in the NHS: an update on the delivery of detailed care records systems*, Session 2010–2012, HC 888, National Audit Office, May 2011; HC Committee of Public Accounts, *The National Programme for IT in the NHS: an update on the delivery of detailed care records systems*, Forty-fifth Report of Session 2010–2012, HC 1070, August 2011; HC Committee of Public Accounts, *The dismantled National Programme for IT in the NHS*, Nineteenth Report of Session 2013-14, HC 294, September 2014

1.22 If the departmental AO role is to be effective as a key system control over value for money, permanent secretaries/AOs need to have:

- the right balance of incentives to ensure they fulfil their AO duty when conflicting priorities arise;
- support and guidance from the centre of government to encourage a focus on AO responsibilities; and
- a strong supporting system of accountability that enables the AO to identify risks to value for money.

The balance of incentives for AOs

1.23 As both the Public Administration and Constitutional Affairs Committee[25] and the House of Lords Constitution Committee[26] have noted, an AO needs to build a close working relationship with his or her minister if the complex business of the department is to be effectively delivered. For this reason, AOs can be reluctant to flag value-for-money concerns by requesting a direction – as it is seen as a sign that the relationship has broken down. Lord Butler, Cabinet Secretary from 1988 to 1998, observed that "... in my time, such ministerial directions were very rare; for a permanent secretary to ask for it was almost like the nuclear weapon."[27]

1.24 While these most senior civil servants undoubtedly take their duties as AOs very seriously, there is no clear reward or statutory duty associated with raising concerns about the use of public money with Parliament. Permanent secretaries' appointment letters do set out their AO responsibilities, and their performance objectives (which have been published since 2012) include a mention of the AO duties. However, the performance objectives currently give greater emphasis to the implementation of ministers' political priorities and contain only a standard general statement on the AO role.[28] By contrast, local government chief finance officers appointed under section 151 of the Local Government Act 1972 have clear statutory duties to publicly report concerns about irregular or unaffordable expenditure.[29] Government sees this as one of the main local checks on regularity and propriety, and a powerful mechanism for holding councils to account.[30]

25 HC Public Administration Select Committee, *Truth to Power: how Civil Service reform can succeed*, Eighth Report of Session 2013-14, HC 74, September 2013, paragraph 74.

26 HL Select Committee on the Constitution, *The accountability of civil servants*, Sixth Report of Session 2012-13, HL Paper 61, November 2012, paragraph 51.

27 Lord Butler of Brockwell evidence to HL Constitution Committee, *The accountability of civil servants: Oral and written evidence*, 18 July 2012, Q 303. Available at: www.parliament.uk/documents/lords-committees/constitution/CivilServ/ACSEvidenceFINAL.pdf

28 HM Government, *Permanent Secretaries' objectives 2014 to 2015*, 10 July 2014, available at: www.gov.uk/government/publications/permanent-secretaries-objectives-2014-to-2015

29 The relevant parts of the legislation are: section 151 of the Local Government Act 1972, which requires an authority to appoint an officer who has responsibility for the conduct of financial affairs; section 114 of the Local Government Finance Act 1988, which requires the section 151 officer to submit a report to full council if they believe either that unlawful expenditure has or will be incurred, or if future expenditure in any year is likely to exceed future resources; section 25 of the Local Government Act 2003, which requires the section 151 officer to report on the reasonableness of assumptions and the adequacy of reserves supporting each annual budget.

30 Department for Communities and Local Government, *Accounting Officer Accountability System Statement for Local Government and for Fire and Rescue Authorities*, April 2015, paragraph 24.

1.25 The evidence suggests the crucial relationship between ministers and civil servants is under strain from a combination of factors, which affects the balance of incentives on AOs. In 2011, the Committee noted that the demarcation between ministerial responsibility for policy and accounting officer responsibility for implementation has blurred, as ministers in successive administrations have taken a closer interest in how their policies are delivered.[31] Ministers may express firm preferences about the detail or timing of policy implementation, which can mean officials are held responsible for implementation decisions not directly under their control. Recent examples of close ministerial involvement in policy implementation include central efficiency measures imposed on all departments, and payment by results schemes in welfare and justice.[32] Ministers have also sought greater influence over appointments to permanent secretary posts, as proposed in the *Civil Service Reform Plan*,[33] despite concerns about safeguarding the independence and political neutrality of civil service appointments. Since October 2014, the Prime Minister has been able to choose whom to appoint to a permanent secretary job, from a list of appointable candidates.[34]

1.26 Increased ministerial control over policy implementation, and over top civil service appointments, risks creating a climate where AOs lack the confidence or incentive to challenge ministers on the feasibility and value for money of their policies. Bernard Jenkin, Chair of the Public Administration and Constitutional Affairs Committee, said in 2012 that: "There is the sense that the civil service no longer has the confidence to tell the truth to power in the way that it did."[35] The former government adviser Matthew Taylor also observed this during his time at Number 10: he noted that officials chose to go along with ministers rather than "look career-threateningly unhelpful", and added that this tendency was still evident in Whitehall today.[36]

1.27 There is a related view among some ministers that the relationship is not working, although their perception is that civil servants sometimes obstruct implementation of government policies. Former Minister for the Cabinet Office Francis Maude asserted in October 2012 that: "There are cases where permanent secretaries have blocked decisions from going ahead, or instructed others to not implement ministerial decisions."[37] Similarly, Cabinet Office Minister Oliver Letwin commented: "Either through torpor or through positive reluctance, administrative civil servants can, at their worst, defeat Ministerial objectives, just by ensuring that when the Minister has decided to act nothing actually happens."[38] Lord Adonis said that in his ministerial experience, there were "not brakes in the sense of providing ideological objection ... but plenty of brakes in the sense of just inadequate energy and drive".[39]

31 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eight Report of Session 2010-11, HC 740, April 2011, page 4.
32 For example, on the Work Programme, we found that: "Ministers had a clear idea of the programme they wanted to introduce and required the Department to implement the Work Programme by June 2011." Comptroller and Auditor General, *The introduction of the Work Programme*, Session 2010–2012, HC 1701, National Audit Office, January 2012, paragraph 12.
33 HM Government, *The Civil Service Reform Plan*, June 2012, page 21.
34 Civil Service Commission, 'Prime Minister to be given choice of appointable candidates in Head of Department competitions', press notice, 15 October 2014.
35 Bernard Jenkin evidence to HL Constitution Committee, *The accountability of civil servants: Oral and written evidence*, 23 May 2012, Q 12. Available at: www.parliament.uk/documents/lords-committees/constitution/CivilServ/ACSEvidenceFINAL.pdf
36 M Taylor, 'The critical fault line damaging departmental effectiveness? The relationship between politicians and senior officials', *Civil Service World*, 4 November 2015.
37 Quoted in A Paun, J Harris and I Magee, *Permanent secretary appointments and the role of ministers,* Institute for Government, June 2013, page 12.
38 Oliver Letwin speech to the Institute for Government, 'Why mandarins matter', 17 September 2012.
39 HC Public Administration Select Committee, *Future of the Civil Service: Oral Evidence*, Session 2012-13, HC 664-iii, 29 January 2013, Q 205.

1.28 Another development which has undermined the AO–ministerial relationship is the growth in the use of special advisers over several decades. Former Cabinet Secretary Lord Turnbull noted in 2008 that: "More [civil service work] goes through the minister's special adviser channel than used to be the case. I think Ministers still respect the political neutrality of the Civil Service but they do not use it to the extent that they used to or should do."[40] In 2013 the government further allowed ministers to create 'extended ministerial offices' comprising appointed teams of advisers from inside and outside Whitehall.[41] Francis Maude observed that special advisers' usefulness to ministers came from their ability to "totally understand what you are trying to achieve … and [be] explicitly wedded to the Government's agenda".[42]

1.29 However, the Public Administration and Constitutional Affairs Committee noted concerns about special advisers displacing civil servants as the primary source of advice to ministers – especially where there is a lack of transparency over their activities and appointment. Its report on special advisers recognised their usefulness, but warned: "A special adviser to a Minister must be just that: an adviser, and not an interposed layer of authority between the Minister and his or her civil servants."[43] More recently, the same Committee reiterated the problems it saw in the relationship between ministers and civil servants:

> "There is no question that any blocking of ministerial decisions by civil servants would be unacceptable. The perception that ministerial decisions are being deliberately blocked or frustrated points to deeper failures in our system of government. ... We have found that both ministers and senior civil servants are still somewhat in denial about their respective accountabilities in respect of the problems of the Civil Service."[44]

Support and guidance from the centre

1.30 HM Treasury provides the overall framework of support and guidance for AOs. The primary guidance is the non-statutory *Managing Public Money*, supplemented by other sources such as 'Dear Accounting Officer' (DAO) letters. Guidance on the AO role is periodically updated, with the most recent revisions published in December 2015.[45]

40 Joint Committee on the Draft Constitutional Renewal Bill, *Draft Constitutional Renewal Bill. Volume II: Evidence*, Session 2007-08, HL 166-II/HC 551-II, 12 August 2008, Q 421.
41 Cabinet Office, *Extended ministerial offices: guidance for departments*, November 2013, available at: www.gov.uk/government/publications/extended-ministerial-offices-guidance-for-departments
42 HC Public Administration Select Committee, *Special advisers in the thick of it*, Sixth Report of Session 2012-13, HC 134, October 2012, paragraph 19.
43 HC Public Administration Select Committee, *Special advisers in the thick of it*, Sixth Report of Session 2012-13, HC 134, October 2012, paragraph 22.
44 HC Public Administration Select Committee, *Truth to power: how Civil Service reform can succeed*, Eighth Report of Session 2013-14, HC 74, September 2013, paragraph 65.
45 Available at: www.gov.uk/government/publications/parliamentary-scrutiny-of-public-spending

1.31 HM Treasury also provides advice to AOs when asked, for example to those contemplating ministerial directions. However, there is no requirement to consult HM Treasury before a direction is requested or issued. In Ireland, by contrast, when an AO seeks a direction, he or she must suggest the minister consults with the Department of Public Expenditure and Reform before issuing the direction.[46]

1.32 HM Treasury has developed a template to help departments prepare an internal 'AO assessment', systematically evaluating the regularity, propriety, value for money and/or feasibility concerns in particular cases. It is not clear how widely this approach is known or used across Whitehall, as AO assessments are not published or made available to Parliament. In December 2015, HM Treasury sought to raise awareness of good practice by writing to all AOs to draw attention to its new guidance, *Making an accounting officer assessment*.[47] The example in **Figure 11** illustrates how an AO assessment helped provide the relevant AO with the necessary assurance on the sale of the government's shareholding in Eurostar.

Figure 11

AO assurance on the sale of Eurostar

In 2015, the government agreed to sell its 40% stake in Eurostar for £585.1 million to a consortium comprising a Canadian investment fund and a UK-based fund. A key objective of the sale was to achieve value for money for the UK taxpayer. HM Treasury, which oversaw the sale, indicated that the most significant value-for-money issues during the sale process were: the likely proceeds from the sale, which depended on the value of bids received; the ability to complete the sale (including financing capability and regulatory clearance); and residual risks borne by the government.

As the sale progressed, the Treasury AO sought assurance from his officials about its value for money. In particular, following the first round of bids received for the shareholding, he said he was not convinced there was a strong value-for-money case, and that he had to determine whether he would need a ministerial direction to proceed with the sale.

HM Treasury officials responded by seeking to provide the assurance required. They set up an internal challenge panel on the sale and prepared more comprehensive value-for-money assessments. They also drafted an 'accounting officer evaluation' in line with the requirements of *Managing Public Money*.

This AO evaluation assessed the proposed sale against the criteria of regularity, propriety, value for money and feasibility. It identified several risks to the successful execution of the sale, including whether it would achieve value for money and the narrow timeframe for completion. Like other AO assessments of this kind, the AO evaluation was not published or made available to Parliament (by contrast, if there *had* been a direction, it would have been made public as a matter of course).

Based on the additional assurance provided, the Treasury AO confirmed he was content from an AO perspective for the sale to proceed. The sale was agreed in March 2015, before that year's general election. Our November 2015 report on the Eurostar sale concluded it had been value for money but noted there had been several risks to value for money, including the tight timetable.

Source: National Audit Office analysis of internal HM Treasury documents; Comptroller and Auditor General, *The sale of Eurostar*, Session 2015-16, HC 490, National Audit Office, November 2015

46 Ireland Department of Public Expenditure and Reform, *A Memorandum for Accounting Officers*, September 2011, Appendix 5, paragraph 11.

47 HM Treasury, 'New guidance for accounting officers on the parliamentary scrutiny of public spending', Dear Accounting Officer letter, DAO 04/15, 18 December 2015, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/487599/DAO_04-15_-_New_guidance_for_AOs_on_Parliamentary_Scrutiny_of_Public_Spending.pdf; HM Treasury, *Making an accounting officer assessment*, December 2015.

AOs' supporting systems of accountability

1.33 AOs are responsible for complex systems of delivery and accountability, as Lord Sharman's 2001 report on audit and accountability in central government recognised. His report acknowledged questions about "whether a single person at the top of an organisation can reasonably be held responsible for every activity of that organisation, except through the responsibility for setting a risk strategy".[48] Margaret Hodge, when Chair of the Committee, similarly observed in 2012 that the greater reach of government meant accountability arrangements needed to adapt:

> "The old doctrine of accountability isn't fit for the 21st century. When Haldane created the modern civil service in 1918 the Home Office employed just 28 civil servants. Today, even after the headcount cuts demanded by the deficit reduction programme there are 34,000 civil servants in the Home Office and its agencies."[49]

1.34 The last Parliament saw fundamental changes to the way government carries out its business and delivers public services. The Committee in 2011 explained how it expected AOs to put in place an effective assurance and controls regime to support their personal accountability to Parliament for increasingly complex systems of delivery.[50] In our work, we see how these changes require the AO role itself (and supporting assurance and controls regimes) to evolve if AOs are to provide effective accountability to Parliament (**Figure 12**).

1.35 Partly in response to these concerns, in 2012 government introduced accountability system statements.[51] These documents are intended to clarify accountability arrangements for departments with locally devolved spending, and explain how AOs get assurance that resources allocated to them by Parliament are being spent appropriately and are securing value for money. So far, seven of 17 departments have published accountability system statements alongside their annual reports and accounts.[52] They outline the accountability mechanisms that exist to ensure the regularity, propriety, feasibility and value for money of the spending, as well as external scrutiny arrangements such as inspectorates, external audit and requirements to publish data.

48 Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001, paragraph 3.18.

49 Margaret Hodge speech to Policy Exchange, 'Accountability in today's Public Services', 15 March 2012, available at: www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/policy-exchange-speech/

50 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, page 5.

51 HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010–2012, HC 1503, April 2012; Department for Communities and Local Government, *Accountability: Adapting to decentralisation* (Kerslake report), September 2011.

52 Department for Communities and Local Government (DCLG); Department for Education (DfE); Department for Environment, Food & Rural Affairs (Defra); Department of Health (DH); Home Office (HO); Department for Transport (DfT); and Department for Work & Pensions (DWP).

Figure 12

The scale and pace of changes to government departments bring challenges for the traditional AO accountability model

Localism (1): Delivery through autonomous bodies

Government has expanded the delivery of public services through semi-autonomous local bodies (eg academies, foundation trusts), each of which has its own accounting officer.

Localism (2): Greater devolution to local areas

Government has given greater powers to local authorities, including a general power of competence under the Localism Act. More extensive devolved powers and funding have been agreed for some areas, notably Greater Manchester.

Further devolution to Scotland

Further devolution of powers to Scotland (and possibly Wales) could raise issues of accountability to different parliaments.

Cross-cutting initiatives

Cross-cutting initiatives involve several departments or other bodies in delivering policies or services (eg criminal justice issues, disposal of government property).

Central initiatives

Central efficiency initiatives aim to make departments' operations cheaper and more effective, for example where the centre of government procures goods and services on behalf of departments.

Outsourced service delivery

Government contracts with private and voluntary sector bodies to deliver frontline public services and back-office services.

Creation of government companies

Government is increasingly setting up arm's-length bodies as limited companies (eg Student Loans Company Ltd, Green Investment Bank), with an estimated 66 new companies since 2010.

Complex financing

Government regularly undertakes complex financing decisions, such as asset sales or financing arrangements with long-term implications.

Source: National Audit Office

1.36 System statements were created specifically to explain arrangements for oversight and accountability of locally devolved spending. Therefore, they do not cover all accountability relationships across government, as most departments do not publish them; or all accountability relationships within a department. In 2012 HM Treasury told the Committee that it would "take the lead in arranging for departments to shoulder their responsibilities for localised services", and since then it has continued to provide good practice guidance on preparing accountability system statements.[53] However, system statements are not centrally coordinated or assessed to ensure that the accountability mechanisms they describe actually provide effective assurance.

1.37 Although the accountability system statements were intended partly to respond to Parliament's requests for more clarity, select committees have highlighted problems with using the statements to hold AOs to account. For example:

- The Committee found the Home Office's policing accountability system statement did not specify what information police forces should provide to demonstrate value for money, or the central interventions the Home Office would make to address poor value for money.[54]
- In 2012, the Committee concluded that the Department for Education's draft accountability system statement did not provide it with sufficient assurance that value for money would be achieved across the sector, and was particularly concerned that responsibilities for ensuring the value for money of academies were blurred.[55] The system statement was subsequently revised. However, the Committee concluded again in 2015 that there was confusion about the roles and responsibilities of DfE, the Education Funding Agency, local authorities and academy sponsors, which was "allowing schools to fall through gaps in the system."[56]
- The Committee recommended that the Department of Health and Department for Communities and Local Government create a joint accountability system statement for the £5.3 billion Better Care Fund, which aims to stimulate closer joint working between health and social care services. The Committee found that confused accountability at national and local levels had hindered the development of the Fund, and that delivery responsibilities had been devolved to the local level without resolving accountabilities.[57] The Departments agreed with the Committee and subsequently provided clarification on the accountability arrangements and flow of funding.

53 HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010–2012, HC 1503, April 2012, page 5; HM Treasury, *Treasury Minutes: Government responses on the Seventy-fifth, the Seventy-seventh, the Seventy-ninth to the Eighty-first and the Eighty-third to the Eighty-eighth Reports from the Committee of Public Accounts*, Session 2010–2012, Cm 8416, July 2012, paragraph 1.4, page 17.

54 HC Committee of Public Accounts, *Mobile Technology in Policing*, Second Report of Session 2012-13, HC 129, 30 May 2012, page 5.

55 HC Committee of Public Accounts, *Department for Education: accountability and oversight of education and children's services*, Eighty-second Report of Session 2010–2012, HC 1957, May 2012, page 3.

56 HC Committee of Public Accounts, *School oversight and intervention*, Thirty-second Report of Session 2014-15, HC 735, January 2015, page 4.

57 HC Committee of Public Accounts, *Planning for the Better Care Fund*, Thirty-seventh Report of Session 2014-15, HC 807, February 2015, page 6.

1.38 **Figure 13** overleaf summarises our analysis of the existing system statements. They vary considerably in scope and level of detail. Typically, they do not cover arm's-length bodies, private or third sector contractors, or SROs for major projects, with the exception of Defra's statement, which covers private and third sector contractors.[58] In general, they do not cover cross-cutting initiatives, though in March 2015 DCLG produced a separate system statement on local growth, which describes accountabilities for cross-cutting working by local enterprise partnerships (LEPs).[59] Most of the statements are weak on explaining the departmental AOs' responsibilities for overseeing the entire system, including overall value for money.

1.39 While the statements were a helpful development, overall they currently provide weak evidence of the quality of the underlying accountability systems. Moreover, there is little clear evidence of how departments are actively using their system statements in practice - they appear to be largely a compliance exercise. One example of good practice is the local government system statement, which explains how DCLG exercised responsibilities to deal with failures at local authorities in Doncaster, Tower Hamlets and Rotherham.[60] Building on this and the pressure from the Committee described above, there is scope for system statements to become much more central to the way AOs express, exercise and review accountabilities within the systems they oversee.

Are the essentials of accountability in place across government?

1.40 To be effective, we consider any system of accountability needs certain essential features (**Figure 14** on page 39). These are applicable to the accountability between AOs and Parliament, but also throughout the system for spending taxpayers' money.

1.41 These accountability essentials are not conceptually new, and have clear antecedents in the Committee's 2011 "fundamentals of accountability", as well as Lord Sharman's 2001 report on audit and accountability in central government.[61] We restate them in this basic form, to:

- provide a framework for this report to examine the health of accountability to Parliament (Parts Two to Five);
- help HM Treasury and AOs ensure adequate accountability systems are in place wherever they oversee the spending of taxpayers' money; and
- assist Parliament, the Committee and other scrutiny bodies at all levels of government, in assessing the quality of accountability arrangements.

58 Department for Environment, Food and Rural Affairs, *Accounting Officer's Accountability Systems Statement*, July 2013.
59 Department for Communities and Local Government, *Accounting Officer: Accountability System Statement for the Local Growth Fund,* March 2015. The local growth accountability system statement is supported by local assurance frameworks for individual LEPs.
60 Department for Communities and Local Government, *Accounting Officer Accountability System Statement for Local Government and for Fire and Rescue Authorities*, April 2015, paragraph 66.
61 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, page 5; Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001.

Figure 13

Analysis of accountability system statements

We analysed the existing accountability system statements against the expected content outlined in the 2011 Kerslake report (*Accountability: Adapting to decentralisation*), the report which originally proposed creating accountability system statements

Kerslake report expectations for content of statements	Summary of our findings
What is the scope of the system for which the departmental AO is responsible?	All statements mention the bodies which are provided funding to deliver services locally, such as local authorities and semi-autonomous local delivery bodies (eg foundation trusts, academies). Most statements focus only on local services, but Defra's statement also covers other accountability relationships or processes, such as private and third sector contractors or board governance arrangements. Some statements, eg local government and policing, specify local funding totals out of their departmental expenditure limits. However, other statements do not explicitly state how much funding is distributed locally or explain where this can be found (eg annual accounts).
What are the responsibilities within the delivery chain?	Statements vary in the amount of detail they provide on responsibilities of the organisations in their delivery chains. For example, the education statement provides detailed information on responsibilities of academy trusts and maintained schools, but others (eg Defra) provide only a general account of accountability relationships between organisations in its delivery chain. Statements put less emphasis on explaining how departmental AOs discharge their responsibility for overseeing the entire system of delivery, which is especially relevant where AOs of local delivery bodies are accountable for the performance of their institutions (eg in health and education).
What is the system for distributing central funding?	All statements contain information on how funding is distributed. For example, the policing statement explains the police allocation formula for funding allocations to local policing bodies. Departments which provide specific grants to local authorities, eg for welfare or transport, typically explain the different funding streams in detail.
What is the framework at the local level to secure propriety and regularity?	Some statements include dedicated sections on local checks on regularity and propriety, eg local government and policing. Many departments rely on DCLG's local authority accountability system to provide assurance over the propriety and regularity of funding directed through local authorities, eg for transport or children's services.
What is the framework for securing value for money?	Statements vary in the detail of their explanations of how value for money is secured or safeguarded. Some statements describe how local bodies secure value for money, but no statement adequately explains the departmental AO's responsibility for ensuring value for money across the whole system of delivery.
How does the AO know the system is working?	Some statements feature a dedicated section on AO assurance (eg policing, local government), while others describe assurance requirements in detail for specific delivery bodies (eg education). Statements often contain detail of assurance mechanisms, such as internal and external audit arrangements and section 151 officers in local government. As noted above, statements are less clear about how departmental AOs discharge their responsibility for overseeing the entire delivery system, including whether value for money is achieved overall.
What is the process for dealing with failure or underperformance?	Statements usually have provisions for dealing with service failure, including powers of intervention (eg local government, health, education, policing). Measures to tackle underperformance are less frequently specified. One example is the education statement, which explains arrangements to identify and address poor performance in academies and maintained schools (eg by issuing notices to improve).

Source: National Audit Office analysis of accountability system statements, using criteria from Department for Communities and Local Government, *Accountability: Adapting to decentralisation* (Kerslake report), September 2011

Figure 14

Accountability essentials

1 A clear expression of spending commitments and objectives

Clear information about government's spending and financial commitments, and what objectives it expects to achieve, provides the basis for Parliament to track how taxpayers' money has been spent.

Parliament needs to know what it is holding AOs accountable for. For example, for a specific project, AOs need to identify expected spending over its lifetime, as well as the aims or outcomes it is intended to achieve.

2 A mechanism or forum to hold to account

Accountability mechanisms provide the means through which Parliament can exercise its ability to hold to account those responsible for public spending. This includes challenging how money was spent.

- Examples include requirements for AOs to report to Parliament on spending, or local bodies' duty to appear before local scrutiny committees.
- Accountability mechanisms are informed by the checks on spending provided by both internal and external audit.

3 Clear roles and someone to hold to account

Clear roles and responsibilities enable Parliament to know who it should hold to account for specific spending, projects or programmes.

- Accounting officers are responsible for all spending incurred by their department, agency or non-departmental public body.
- Other individuals bear specific responsibilities to account for their actions: for example, SROs of major projects are directly accountable to Parliament for project implementation.

4 Robust performance and cost data

Accurate, trusted, comparable and up-to-date data on performance and costs allows Parliament to judge what value for money has been delivered for the taxpayer.

This enables Parliament to hold those responsible to account for poor performance, especially for the objectives identified as part of (1).

Relevant data include: business reporting and management information; programme monitoring data; central reporting requirements for expenditure or major projects; performance metrics in departmental plans.

Source: National Audit Office

Part Two

A clear expression of financial commitments and objectives

2.1 This part examines the first of our accountability essentials: a clear expression of financial commitments and objectives. Clear information about government's spending and its financial position is vital to understanding what government is accountable *for*. This in turn enables Parliament to track how effectively taxpayers' money has been used.

2.2 This part considers:

- progress on improving the transparency of government spending and objectives; and
- accountability for the government's financial position.

Transparency of government spending and objectives

2.3 Government has made good progress on the transparency of its accounts. The full adoption of resource accounting and budgeting in 2001-02 moved all main government departments from cash accounting to accruals accounting. This increased the sophistication of financial management across government. The Clear Line of Sight initiative in 2011-12 brought consistency and transparency to government spend by aligning and simplifying government's budgeting, estimates (parliamentary approval), and annual reporting and accounting processes. Annual reports by the Major Projects Authority (now the Infrastructure and Projects Authority) have improved the visibility of costs and progress on large, expensive and strategically significant projects, and transparency over procurement spending has also gradually improved.[62] Transparency of public finances has also increased through extensions to the NAO's audit access in recent years, such as to the Royal Household and financial services regulators.

62 However, on major projects reporting, there are issues with data consistency and some data being exempt from publication: Comptroller and Auditor General, *Delivering major projects in government: a briefing for the Committee of Public Accounts*, Session 2015-16, HC 713, January 2016, paragraphs 2.4–2.6. On transparency of procurement spending, departments and their bodies are required to publish details of spending over £25,000 and can also publish details of spending over £500 (which is the threshold applied to local authorities): available at: www.gov.uk/government/publications/guidance-for-publishing-spend-over-25000

2.4 While the clarity of government spending has improved, government objectives and priorities are often less easy to identify. They can be found in departmental plans and reports, or may be set out in reporting on specific projects or programmes. Government has accepted that there is no clear link between the current budgeting system and achievement of results and outcomes, and is working on a new framework of single departmental plans to help move towards a greater alignment. In New Zealand, for example, budget appropriations for government programmes are reported under the specific outcomes they are designed to achieve.[63]

Accountability for the government's financial position

2.5 Introducing the Whole of Government Accounts (WGA) from 2009-10 has given a more comprehensive picture of the public expenditure and financial position across the whole of the UK public sector (Figure 5 on page 17 and Figure 6 on pages 18 and 19). WGA is the largest consolidation of public sector accounts in the world and is an important step forward in enabling government (and Parliament) to take a long-term, whole-system view: it provides insights into the impact of government policies that are not available from other data. However, while resource accounting and budgeting was intended to help government move away from a focus on the annual expenditure cycle towards longer-term strategic planning and focus on the balance sheet, in fact much of the accountability for government's financial performance still focuses on a retrospective view of annual expenditure, rather than the financial position and management of assets and liabilities.

2.6 There is no parliamentary accountability mechanism in place for some significant financial commitments, and their visibility to Parliament varies (**Figure 15** overleaf). For example, *Managing Public Money* states there is no need to notify Parliament of private finance initiative (PFI) commitments if they use standard terms (Box B of the figure).[64] Further, Parliament does not need to explicitly approve or be informed of asset sales (Box A).

2.7 Government has some types of liabilities, known as provisions and contingent liabilities, where the obligation to pay or the amount or timing of the liability are not certain and will depend on the outcome of future events.[65] Many contingent liabilities are currently judged to be unquantifiable, meaning that government's financial exposure is not fully described in financial terms and could be significantly higher than reported. While Parliament has to be informed of large, unquantifiable contingent liabilities, such as insurance arrangements relating to acts of terrorism, there is no formal requirement to seek parliamentary approval for these commitments – although MPs do have the opportunity to object (Box C). Formal parliamentary approval is sought once the commitment crystallises at a later date, through the annual estimates process (Box D).

63 New Zealand Treasury, *Putting It Together: An Explanatory Guide to New Zealand's State Sector Financial Management System*, Version 1.1, September 2011, page 22.
64 HM Treasury, *Managing Public Money*, July 2013, paragraph A5.4.10.
65 We will examine issues relating to contingent liabilities in a forthcoming National Audit Office report.

Figure 15

Parliamentary visibility and approval of government financial decisions

A No requirement for Parliament to explicitly approve or be notified of activity, eg disposal of public land and other asset sales.

B Expenditure not approved when initially committed. Information is in the public domain, but Parliament is not explicitly notified of decision to enter commitments, eg some PFIs.

C Government gives Parliament prompt and timely notice of significant new commitments incurred, eg large and unquantifiable contingent liabilities. MPs have the opportunity to object.

D Formal procedures are in place for Parliament to approve funding, and government is required to notify Parliament of expenditure incurred, eg estimates procedure.

Not visible
No approval required

Highly visible
Formal approval required

Source: National Audit Office

2.8 Departments regularly undertake complex financing decisions, such as asset sales or financing arrangements with long-term implications. However, there is often no central coordination or oversight and usually these arrangements are not visible to Parliament until after they have been carried out. It is important that parliamentary accountability arrangements keep pace and that Parliament can challenge government to take a well thought-through portfolio approach. We found:

- The number of financial institutions in government (including financial institutions acquired in part or in full during the financial crisis) has doubled to 54 since 2007, with an overall asset value of £222 billion. However, no single area of government is taking a portfolio view of the assets and liabilities involved.[66]

- Several departments participated in a programme to sell surplus public land for housebuilding, but a lack of centrally collated data and the complexity of the programme made it difficult to assess if government got value for money from the programme as a whole.[67]

66 Comptroller and Auditor General, *Financial institutions landscape*, Session 2015-16, HC 418, National Audit Office, September 2015, paragraphs 1 and 2.

67 Comptroller and Auditor General, *Disposal of public land for new homes*, Session 2015-16, HC 87, National Audit Office, June 2015, paragraph 10.

Part Three

A mechanism or forum to hold to account

3.1 This part examines the second of our four essentials. A formal mechanism or forum, preferably public, allows individuals personally responsible for spending taxpayers' money to be held to account, including challenge on how money was spent and recommended improvements. For example, AOs must submit published financial reports and accounts and appear in person before parliamentary select committees, including the Committee of Public Accounts.

3.2 Where AOs delegate or devolve accountability for a portion of spending, a suitable accountability mechanism or forum needs to be in place at a lower level to cover that spending. The Committee, while recognising the devolution of direct accountability, has emphasised that departmental AOs are accountable to Parliament for the overall system and have a "personal responsibility to gain assurance on the way funds voted to their departments are spent … Our interest is in the financial management and value for money secured from all departmental spending and we expect Accounting Officers to put in place arrangements to provide us with the assurances we need."[68]

3.3 The Committee has raised concerns about the adequacy of mechanisms to hold government to account where funding and powers are devolved to:

- local semi-autonomous bodies, such as academies and foundation trusts; and
- local areas or cities, such as Greater Manchester and Sheffield.

Semi-autonomous local delivery bodies

3.4 Over the past decade, government has expanded service delivery through local bodies such as academies and foundation trusts. These bodies are typically granted greater powers and control over funding than their counterparts: for example, academies have more financial freedoms than local authority-maintained schools (for example, to set staff pay and conditions) and are not subject to local authority oversight, which in the local authority-maintained sector provides an accountability mechanism. Each of these newer delivery bodies has its own accounting officer, directly accountable to Parliament for the performance of their individual institution.[69]

68 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, page 7.
69 Education Funding Agency, *Academies Financial Handbook 2015,* July 2015; Monitor, *NHS foundation trust accounting officer memorandum*, IRG 24/15, August 2015.

3.5 Our analysis of accountability system statements suggests the accountability mechanisms are still unclear – many of the statements do not explain important processes, such as how departments deal with underperformance among providers or secure value for money.[70] Moreover, in practice:

- **Government and Parliament may not have the ability to hold numerous delivery bodies to account, especially if there is weak oversight.** In its NHS landscape review, the Committee expressed concerns about its capacity to hold to account individual foundation trusts, of which there were some 150 in 2014-15.[71] On academies, the Department for Education failed to detect some cases of governance failure and financial impropriety, such as at Durand Academy and the Priory Federation of Academies Trust, prompting the Committee to observe that it did not spot important failures until too late and was over-reliant on whistleblowers.[72]

- **Intervention regimes for bodies facing severe service or financial failure have needed clarification.** In 2012, the Committee noted the Department of Health could not demonstrate a strategy for dealing with financial failure in individual trusts, or explain how it would apply its failure regime to hospital trusts.[73] Since then, statutory guidance has been updated on the NHS failure regime at NHS trusts and foundation trusts, and trust special administrators were used at South London Healthcare NHS Trust in 2012 and Mid Staffordshire NHS Foundation Trust in 2013. Trusts can also be placed in 'special measures'. The Committee also noted that oversight bodies have not intervened in some underperforming schools: in September 2013, 179 academies were officially defined as failing and therefore subject to formal intervention, but only 15 were sent a warning notice.[74]

70 See Figure 13: Analysis of accountability system statements.

71 HC Committee of Public Accounts, *National Health Service Landscape Review*, Thirty-third Report of Session 2010–2012, HC 764, April 2011, page 5.

72 HC Committee of Public Accounts, *School oversight and intervention*, Thirty-second Report of Session 2014-15, HC 735, January 2015, page 3; HC Committee of Public Accounts, Letter from the Chair of the Committee of Public Accounts to Chris Wormald, Permanent Secretary at the Department for Education, 'Education Funding Agency and Department for Education Financial Statements – recall', 12 February 2015; HC Committee of Public Accounts, *Department for Education: Managing the expansion of the Academies Programme*, Forty-first Report of Session 2012-13, HC 787, April 2013, page 10; HC Committee of Public Accounts, *Establishing free schools*, Fifty-sixth Report of Session 2013-14, HC 941, May 2014, page 6.

73 HC Committee of Public Accounts, *Department of Health: Securing the future financial sustainability of the NHS*, Sixteenth Report of Session 2012-13, HC 389, October 2012, pages 4–5.

74 HC Committee of Public Accounts, *School oversight and intervention*, Thirty-second Report of Session 2014-15, HC 735, January 2015, page 5.

Devolution

3.6 In England, government is increasingly giving all local authorities greater freedoms and flexibilities. This includes the Localism Act's provision for a "general power of competence", which states: "A local authority has power to do anything that individuals generally may do."[75] Government has removed ring-fencing and reporting mechanisms for most local services' funding, as well as national mechanisms for scrutinising local authority spending and performance (for example, the Audit Commission).[76]

3.7 In parallel, devolution deals and the creation of combined authorities now give some local areas even more powers over their funding. The Greater Manchester Combined Authority was established in 2011, with four others following in 2014, enabling local authorities in these areas to pool together to promote improved transport and economic development. Since 2012, City Deals and Growth Deals have been set up to promote local growth, with the first wave of City Deals worth £2.3 billion over 30 years. These have been followed by more extensive devolution deals, such as those for Greater Manchester and Sheffield. Greater Manchester has devolved powers over health and social care, with local authorities and clinical commissioning groups taking control of £6 billion of annual funding from April 2016.

3.8 Departments now increasingly rely on local accountability systems to provide assurance on value for money and financial and service sustainability. Established accountability mechanisms at the local level include accountability to democratically-elected representatives, external audit, and section 151 officers with statutory duties to raise concerns about irregular or unaffordable expenditure.[77] However, central oversight of local funding is also important to ensure overall value for money is achieved. Our work shows that accountability mechanisms at the departmental level have yet to catch up:

- **The Department for Communities and Local Government (DCLG) does not know whether its accountability system ensures local authorities provide value for money.** Our 2014 report on local government funding found DCLG's monitoring focused more on financial and service sustainability than value for money.[78] Similarly, our 2015 report on fire and rescue services noted that DCLG had not tested the effectiveness of the local systems to which it has delegated accountability.[79]

75 Localism Act 2011, section 1.

76 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014, paragraphs 3-4; Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014, paragraph 20.

77 See paragraph 1.24.

78 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014, paragraph 21.

79 Comptroller and Auditor General, *Financial sustainability of fire and rescue services*, Session 2015-16, HC 491, National Audit Office, November 2015, paragraph 21.

- **Departments in general have poor oversight of many of their grants to local authorities.** Departments made £7.8 billion of non-ringfenced grants to local authorities for specific purposes in 2013-14 (for example, for improvements to local transport). However, for £2.8 billion of this funding, departments received no direct information on how local authorities used the grants, and could not therefore be confident of the impact of these grants.[80] Our report on housing benefit fraud and error found that the Department for Work & Pensions (DWP) had not established sufficiently clear responsibilities between itself and local authorities, in an area where it ultimately bears the financial costs. DWP's oversight of local authorities had reduced, in part because it no longer sets performance standards for local authorities to tackle fraud and error.[81]

- **DCLG has not made clear who is accountable for public funds devolved through City Deals.** The Committee concluded DCLG's AO was accountable for City Deals overall, but that DCLG could not explain "clearly and simply" whether responsibility for the outcomes of individual City Deal programmes rested with local or central government.[82] More recent devolution deals have yet to clarify central oversight or scrutiny responsibilities for devolved funding and services, as the Cities and Local Government Devolution Act 2016 provides for local accountability arrangements only (such as the requirement to establish overview and scrutiny committees).[83]

3.9 The Scotland Bill 2015-16 is being examined in the UK Parliament. It stipulates further powers should be devolved to Scotland, as outlined in *Scotland in the United Kingdom: An enduring settlement*.[84] Further devolution of spending decisions, and potentially tax-raising powers to Scotland and Wales, means that the accountability arrangements for public bodies with delivery responsibilities to more than one parliament will need to be clarified.

80 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014, paragraphs 17 and 2.22–2.25.

81 Comptroller and Auditor General, *Housing Benefit fraud and error*, Session 2014-15, HC 720, National Audit Office, October 2014, paragraphs 13, 2.5 and Figure 10.

82 HC Committee of Public Accounts, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Seventh Report of Session 2015-16, HC 395, November 2015, page 5.

83 Cities and Local Government Devolution Act 2016, section 8 and Schedule 3. We will examine issues relating to English devolution in a forthcoming National Audit Office report.

84 HM Government, *Scotland in the United Kingdom: An enduring settlement,* Cm 8990, January 2015.

Part Four

Clear roles and someone to hold to account

4.1 This part considers the third of our accountability essentials: someone to hold to account. It looks at the clarity of accountability roles and relationships within the systems led by AOs, and whether they enable Parliament to know who it should hold to account for specific spending or programmes.

4.2 Departmental AOs are responsible for all financial commitments incurred by their department or arm's-length body (paragraph 1.6). However, within a system of accountability there may be:

- accountability delegated to those responsible for implementation, such as senior responsible owners of major projects;
- shared accountability for cross-cutting initiatives; and
- central efficiency initiatives delivered on behalf of departments.

Delegated accountability

4.3 Government has for years used a range of bodies, including executive agencies, non-departmental public bodies (NDPBs), public corporations and private and third sector organisations, to deliver public services and programmes. When implementation is delegated to another entity, the departmental AO retains overall responsibility and needs to ensure that appropriate assurance measures are in place over public resources used by those bodies.[85] The accountability relationship between departmental AOs and other entities may be governed by framework agreements, memoranda of understanding, contractual conditions or arrangements contained in accountability system statements.

4.4 For AOs of arm's-length bodies such as agencies and NDPBs, accountability to Parliament is clear – like departmental AOs, they have to directly account to Parliament for their organisation's use of public funds. Framework documents are agreed between arm's-length bodies and their sponsor departments, so that the sponsor department can exercise meaningful oversight of the arm's-length body's strategy and performance, pay arrangements and major financial transactions.[86]

85 HM Treasury, *Managing Public Money*, July 2013, Annex 7.1.
86 HM Treasury, *Managing Public Money*, July 2013, paragraphs 3.8.1–3.8.2.

4.5 The last Parliament saw improved parliamentary accountability arrangements for major projects: senior responsible owners (SROs) for major projects are now directly accountable to Parliament for project implementation (with departmental AOs retaining ultimate responsibility for projects).[87] However, we also found that effective accountability for major projects is frequently undermined by high SRO turnover. Our analysis showed that only 4 of 73 major projects had a single SRO over a 4-year period; 56% of projects had at least 2 changes of SRO.[88] For example, the programme implementing Common Agricultural Policy payments to farmers had four SROs between May 2014 and May 2015, which we found had set back programme implementation.[89]

4.6 In the case of contracted-out services, which represented some £190 billion of total public sector spending in 2013-14, accountability arrangements are not clear-cut. The Committee expects senior managers of private contractors to be personally accountable for performance, alongside departmental AOs, and in 2013 called the contractors Atos, Capita, G4S and Serco to give evidence on their public sector work. The Committee noted that: "The four Government contractors we met all accepted they needed to be more open and held to public account"; for example, through the use of open-book contracts. It further observed that: "Since the contractors confirmed that they would agree to these changes it appears that the barriers lie instead with government itself."[90]

4.7 Another area raising complex accountability issues relates to government companies. Government's ownership (whole or partial) of different types of company for different policy reasons appears to be increasing (we have identified 66 new companies since 2010), but the accountability model designed for traditional arm's-length bodies is not always straightforwardly transferable to them. A government company is led by an AO and also a chairman or chief executive, who may be one and the same (and may also be a company director). The AO has personal accountability for the use of public money, but legally, company directors have a collective responsibility to the company's owners to manage it on their behalf. We noted that *Managing Public Money* recognises there are 'sensitivities' about the role of an AO in a company, and that conflicts may arise.[91] In January 2016, the Cabinet Office published guidance for directors of companies fully or partially owned by government. This also acknowledged the potential tensions which might arise, and provides practical guidance on managing conflicts of interest.[92]

87 Cabinet Office, *Giving Evidence to Select Committees: Guidance for Civil Servants (Osmotherly Rules)*, October 2014, paragraphs 7, 28–30.
88 Comptroller and Auditor General, *Delivering major projects in government: a briefing for the Committee of Public Accounts*, Session 2015-16, HC 713, National Audit Office, January 2016, paragraph 3.17.
89 Comptroller and Auditor General, *Early review of the Common Agricultural Policy Delivery Programme*, Session 2015-16, HC 606, National Audit Office, December 2015, page 4 and paragraph 16.
90 HC Committee of Public Accounts, *Contracting out public services to the private sector*, Forty-seventh Report of Session 2013-14, HC 777, March 2014, page 4.
91 National Audit Office, *Companies in government*, December 2015, paragraphs 4.6 and 4.7.
92 Cabinet Office, *Guidance for Directors of companies fully or partly owned by the public sector*, January 2016.

Cross-cutting programmes

4.8 Where several departments or bodies are involved in developing, funding or delivering the same initiative, more than one AO may be accountable for the joint enterprise. Government is increasingly seeking to coordinate and join up services around the user, for example through integrated health and social care, or local enterprise partnerships (LEPs). However, the Committee has expressed concerns that directing funding through multi-agency organisations may blur lines of accountability: where more than one local authority is involved, such as with LEPs, democratic accountability is complicated if one local authority makes decisions on behalf of others.[93]

4.9 The Committee's *Integration across government* report highlighted that collaborative working requires clear accountabilities; for example, by having a lead department and clarifying which AO is accountable to Parliament.[94] We and the Committee found lack of clarity often leads to weak performance going unchecked:

- The Committee's 2015 report on arrangements to support young people leaving care found that central accountability for improving the system was not clear. Eight departments developed the care leavers' strategy, but no single person or department was in charge of leading improvement and ensuring government worked in an integrated way.[95]
- The Committee in 2014 concluded that the number of bodies involved in identifying and confiscating criminal assets resulted in a lack of clarity over who was responsible, with no clear direction and weak accountability.[96]
- Our 2013 retirement incomes report found there was no overarching programme or single accountability for saving for retirement, since a variety of departments, public bodies and local authorities were involved in implementing or developing policy on pension schemes.[97]

4.10 In 2015 government created 11 Implementation Taskforces with cross-cutting outcomes (such as tackling extremism or troubled families), with responsibility split among several departments and objectives to be set out in single departmental plans.[98] There is a designated lead department for each taskforce, but it is not yet clear how these taskforces will operate with shared accountability, or whether accountability for cross-cutting outcomes will be tied to departmental budgets.

93 HC Committee of Public Accounts, *Financial sustainability of local authorities 2014*, Thirty–fourth Report of Session 2014-15, HC 833, January 2015, page 7. We will examine issues relating to LEPs in a forthcoming National Audit Office report.
94 HC Committee of Public Accounts, *Integration across government and Whole–Place Community Budgets*, Fourteenth Report of Session 2013-14, HC 472, September 2013, page 6.
95 HC Committee of Public Accounts, *Care leavers' transition to adulthood*, Fifth Report of Session 2015-16, HC 411, October 2015, page 5.
96 HC Committee of Public Accounts, *Confiscation Orders*, Forty-ninth Report of Session 2013-14, HC 942, March 2014, page 3.
97 Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2013-14, HC 536, National Audit Office, July 2013, paragraphs 10 and 11.
98 HM Government, *Cabinet Committees and Implementation Taskforces*. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/433440/150608_Committee_list_for_publication.pdf

Central initiatives

4.11 Government has since 2010 introduced central efficiency initiatives to make departments' operations cheaper and more effective. Most are run by the Cabinet Office, including:

- direct spending controls (for example, over advertising or consultancy);
- harnessing government's collaborative or collective buying power (for example, centralised procurement through the Crown Commercial Service); and
- shared expert or processing services (for example, Civil Service Human Resources or Government Digital Service).

4.12 In 2011, the Committee warned that departments might attempt to use Cabinet Office-run central initiatives as a "shield to avoid responsibility and accountability for their spending decisions".[99] There remains some uncertainty about who is accountable for what in cases where the Cabinet Office provides services to departments, such as shared service centres or specialist IT advice. On central procurement of goods and services, we found that both departments and suppliers were unclear about where accountability lay, including the Cabinet Office's accountability for its performance.[100] Subsequently, John Manzoni, Permanent Secretary of the Cabinet Office, clarified that departmental AOs retain ultimate accountability for their spending on centrally driven initiatives – but left open the separate question of how officials leading central initiatives are held to account:

> "The accounting officers have the final accountability. That will always be the case. However … I will convene them to demonstrate the efficacy of having a joint solution. The same is true on technology; a joint solution on the payments platform. We will convene the permanent secretaries to align around a collaborative solution. I do believe the future is more collaborative than the past, which does not necessarily have to get in the way of the ultimate accountability should somebody choose to do something different in the end."[101]

4.13 One way of securing parliamentary accountability for central initiatives is to require the senior civil servants leading them to appear before select committees, alongside the departmental AOs who have used those central initiatives to carry out their departments' business. For example, the Committee's December 2015 hearing on Common Agricultural Policy payments to farmers had a Government Digital Service (GDS) witness as well as the responsible Defra AO, the former Defra AO and the programme SRO. This enabled the Committee to examine the programme's implementation, including Defra and GDS's relationship and whether there was sufficient clarity about who was accountable for decisions on the IT system adopted by the programme.[102]

99 HC Committee of Public Accounts, *The Efficiency and Reform Group's role in improving public sector value for money*, Forty-ninth Report of Session 2010–2012, HC 1352, October 2011, page 5.

100 Comptroller and Auditor General, *Managing government suppliers*, Session 2013-14, HC 811, National Audit Office, November 2013, paragraph 7.

101 HC Public Administration and Constitutional Affairs Committee, *Oral evidence: Introductory session on the work of the Cabinet Office*, HC 527, 30 November 2015, Qq 37–39.

102 HC Committee of Public Accounts, *Oral evidence: Early review of Defra's Common Agricultural Policy Delivery Programme*, HC 642, 9 December 2015, Qq 85–92.

Part Five

Robust performance and cost data

5.1 This part examines the fourth of our accountability essentials: robust performance and cost data. Accurate, comparable and up-to-date data enable Parliament to hold to account those responsible for performance, provide the basis for good management, and allow service users to make informed choices among providers or services.[103]

5.2 In 2001, Lord Sharman concluded that regular departmental performance reporting was crucial to improving accountability, and emphasised the importance of data validation.[104] Yet government has failed to embed a culture of performance based on robust data – the Committee concluded in 2011 that performance information was an area of "systemic weakness" for government.[105] When combined with pressure to deliver, the risk is that such weakness in performance data systems results in a culture where only good news is reported and problems are denied.[106] The remainder of this part considers weaknesses in current performance and cost reporting, and what improvements are planned.

103 Comptroller and Auditor General, *Implementing transparency*, Session 2010–2012, HC 1833, National Audit Office, April 2012; HC Committee of Public Accounts, *Implementing the transparency agenda*, Tenth Report of Session 2012-13, HC 102, August 2012.

104 Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001, page 39.

105 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, page 7.

106 HC Committee of Public Accounts, *Universal Credit: Early progress*, Thirtieth Report of Session 2013-14, HC 619, November 2013.

Performance measurement design

5.3 Despite advances in data collection and sharing, departments often fail to specify robust performance or cost measures, and select indicators that are easy to measure rather than appropriate.[107] For example:

- The Committee concluded that the metrics government used to assess the performance of Kids Company were "severely ill-judged". There were no proper means for assessing Kids Company's impact over the 13 years it was funded by government.[108]
- We found it was unclear how local commissioners were monitoring the performance of maternity service providers and holding them to account. Furthermore, the Department of Health had not monitored progress against its service strategy and had limited assurance about value for money.[109]
- The Committee found the lack of monitoring and evaluation for City Deals made it difficult to assess their overall effectiveness. DCLG did not include a consistent definition for common outcome measures with cities, and therefore claims about job and apprenticeship creation were of limited use when trying to understand what was actually delivered.[110]
- The initial phase of the Troubled Families programme used a small number of tightly defined performance indicators, which did not adequately assess whether families had been 'turned around'. However, the second phase rectified this so that progress is now assessed against broader, locally defined plans.[111]
- On children in care, the Committee concluded that the Department for Education does not use the rich data it collects from local authorities about patterns of care for children to improve local accountability and drive improvement across the system.[112]

107 Comptroller and Auditor General, *Data Assurance Summary Reports, HM Treasury*, National Audit Office, August 2013, paragraph 6; Comptroller and Auditor General, *Data Assurance Summary Reports, Home Office*, National Audit Office, August 2013, paragraph 7.

108 HC Committee of Public Accounts, *The Government's funding of Kids Company*, Eighth Report of Session 2015-16, HC 504, November 2015, page 5.

109 Comptroller and Auditor General, *Maternity services in England*, Session 2013-14, HC 704, National Audit Office, November 2013, paragraphs 23 and 28.

110 HC Committee of Public Accounts, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Seventh Report of Session 2015-16, HC 395, November 2015, pages 5 and 6.

111 Comptroller and Auditor General, *Outcome-based payment schemes: government's use of payment by results*, Session 2015-16, HC 86, National Audit Office, June 2015, paragraph 3.4.

112 HC Committee of Public Accounts, *Children in Care*, Forty-fourth Report of Session 2014-15, HC 809, March 2015, page 7.

Data quality

5.4 Poor data quality is an endemic problem across government. Flagship government programmes such as the transparency initiative have suffered from incomplete or poor-quality data, for example to support user choice and accountability in public services.[113] Central attempts to collect data across departments (for example, through the Quarterly Data Summaries) have also struggled to gather consistent and complete data.[114]

5.5 Our and the Committee's reports show how poor data quality hinders accountability:

- On police procurement, the Committee found a lack of good data undermined the public's ability to hold police forces and commissioners to account for their procurement spending.[115]
- We found persistent limitations in data for assessing and comparing value for money in academies. Financial data are not yet fully comparable between academies and maintained schools, nor always reported at individual academy level.[116]
- The Committee found the Home Office's data on foreign national offenders were incomplete – it could not answer basic questions on, for example, reoffending rates. It did not know the costs of managing and removing foreign national offenders, and so did not know which interventions were most cost-effective.[117]
- We found the e-borders programme relied on high-quality data collection and manipulation, but the culture of data management was critically weak.[118]
- On the government's public land disposal programme (to make land available for housebuilding), government did not collect basic data on the sale proceeds or number of homes built that we and the Committee considered necessary to monitor the programme and assess its value for money.[119]

113 Comptroller and Auditor General, *Implementing transparency*, Session 2010–2012, HC 1833, National Audit Office, April 2012, paragraph 8.
114 Comptroller and Auditor General, *Managing debt owed to central government*, Session 2013-14, HC 967, National Audit Office, February 2014, paragraph 1.13.
115 HC Committee of Public Accounts, *Police Procurement*, Twenty-first Report of Session 2013-14, HC 115, September 2013, page 5.
116 Comptroller and Auditor General, *Managing the expansion of the Academies Programme*, Session 2012-13, HC 682, National Audit Office, November 2012, paragraph 20. Due to the increasing number of academies, the Department for Education has had difficulties producing consolidated accounts and has proposed a new sectoral account for academy spending. The Department's AO will remain accountable for all academy spending included in the new academy sector report and accounts. See letter from Chris Wormald, Permanent Secretary of the Department for Education, to Neil Carmichael, Chair of the House of Commons Education Select Committee, 11 December 2015, available at: www.parliament.uk/documents/commons-committees/Education/Letter-from-the-Permanent-Secretary-to-the-Chair-on-DfE-accounts.pdf
117 HC Committee of Public Accounts, *Managing and removing foreign national offenders*, Twenty-ninth Report of Session 2014-15, HC 708, January 2015, pages 5, 6 and 10.
118 Comptroller and Auditor General, *E-borders and successor programmes*, Session 2015-16, HC 608, National Audit Office, December 2015, paragraph 19.
119 Comptroller and Auditor General, *Disposal of public land for new homes*, Session 2015-16, HC 87, National Audit Office, June 2015, paragraphs 2.18 and 2.21; HC Committee of Public Accounts, *Disposal of public land for new homes*, Second Report of Session 2015-16, HC 289, September 2015, page 6.

Improving government performance data

5.6 The Committee's fundamentals of accountability are clear on the importance of government performance data. There should be:

> "... a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services."[120]

5.7 In 2001 the NAO and HM Treasury jointly set out criteria for good performance metrics (**Figure 16**).

Figure 16
Good practice in developing performance metrics

Criteria	Explanation
Focused	Focused on the organisation's aims and objectives.
Appropriate	Appropriate to, and useful for, the stakeholders who are likely to use it.
Balanced	Giving a picture of what the organisation is doing, covering all significant areas of work.
Robust	In order to withstand organisational changes or individuals leaving.
Integrated	Integrated into the organisation, being part of the business planning and management processes.
Cost-effective	Balancing the benefits of the information against the costs.

Source: HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics, *Choosing the right FABRIC: A Framework for Performance Information*, 2001

5.8 Government has made some progress in recent years, through specific measures such as major projects reporting and its overall transparency agenda.[121] Having dropped the business plans with "input and impact indicators" that it required of departments between 2011-12 and 2014-15, the centre of government now intends to improve the design and quality of performance data through new single departmental plans, which will articulate departments' objectives and performance measures. We will report on progress with this new performance framework for government in summer 2016.

120 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011, page 5.
121 HC Committee of Public Accounts, *Implementing the transparency agenda*, Tenth Report of Session 2012-13, HC 102, August 2012, page 3.

Appendix One

Our audit approach

1 This report considers accountability to Parliament for taxpayers' money. To develop our findings, we examined:

- what is meant by accountability to Parliament and the key role and responsibilities of accounting officers (AO);
- the robustness of the AO role as a key control over value for taxpayers' money;
- the 'health' of current accountability to Parliament based on four essentials of accountability; and
- challenges to existing accountability systems presented by developments in government.

2 We used four evaluative criteria to analyse the effectiveness of current accountability arrangements, based on the requirements we identified as essential to robust and clear accountability:

- A clear expression of financial commitments and objectives.
- A mechanism or forum to hold to account.
- Clear roles and someone to hold to account.
- Robust performance and cost data.

3 Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach

The objective of government

Accountability to Parliament for taxpayers' money is an inextricable part of good public management and democratic government. It can provide assurance over government's activities, highlight improvement actions, improve policy-making, and engage stakeholders and service users in decision-making. Effective accountability can also identify who is responsible if something goes wrong, and enable redress.

Our study

The study examined what accountability to Parliament means, and the role and responsibilities of accounting officers; the robustness of the AO role as a control over value for taxpayers' money; the 'health' of current accountability to Parliament; and challenges to existing accountability systems.

Our evaluative criteria

A clear expression of financial commitments and objectives.	A mechanism or forum to hold to account.	Clear roles and someone to hold to account.	Robust performance and cost data.

Our evidence

(see Appendix Two for details)

We analysed **financial accounts and supply estimates data** to map government's expenditure and financial position.

Our **back catalogue review** of NAO and PAC reports identified issues relating to financial reporting and accountability for the balance sheet.

We reviewed **official documents** including financial reporting guidance.

We drew on **expert literature and international comparisons** to highlight further improvements that could be made to transparency of government finances.

We reviewed **accountability system statements** to assess how well they explained existing accountability arrangements.

We analysed **ministerial directions** to determine their effectiveness as an AO control mechanism.

Our **back catalogue review** of NAO and PAC reports identified accountability issues arising from locally devolved funding and service delivery.

We conducted **interviews** with officials and experts to determine the adequacy of existing accountability mechanisms.

We reviewed **official documents** including guidance for AOs to determine the clarity of accountability roles and responsibilities.

Our **back catalogue review** of NAO and PAC reports highlighted accountability issues arising from delegated powers, cross-cutting working and central efficiency initiatives.

We conducted **interviews** with officials and experts to discuss the AO role and other accountability relationships.

We drew on **expert literature and international comparisons** to inform our understanding of accountability roles.

Our **back catalogue review** of NAO and PAC reports highlighted accountability issues relating to data quality and the design of performance measures.

We reviewed **official documents** on performance frameworks to identify improvements that could be made to performance data.

We conducted **interviews** with officials and experts to understand how performance data contribute to accountability.

Our findings

- The incentives on an AO to prioritise value for money are weak compared with those associated with the day-to-day job of satisfying ministers.
- The AO's power to request a formal 'ministerial direction' is not being used effectively as an accountability control to safeguard value for money.
- Accountability arrangements have evolved, but need to keep pace with transformational changes to government, including greater local devolution.
- The creation of accountability system statements was a positive development, but they are not comprehensive and often are little more than a compliance exercise.
- HM Treasury has not asserted its own key role in setting the overall framework for AO accountability and providing clarity about expectations on AOs.

Appendix Two

Our evidence base

1 Our findings and recommendations on the state of accountability to Parliament for taxpayers' money were reached following analysis of evidence collected between July and October 2015.

2 Our **evaluative criteria** were based on the requirements we identified as essential to robust and clear accountability (see Figure 17 in Appendix One).

3 We reviewed in detail 171 published **National Audit Office (NAO) and Committee of Public Accounts reports** which raised accountability issues, to understand common themes and recurring issues in government accountability. We also drew on the expertise of relevant **NAO client area teams** undertaking current work on issues relating to accountability.

4 We examined **official documents**, including accountability system statements, guidance for accounting officers issued by HM Treasury, and financial reporting guidance, to understand existing accountability arrangements.

5 We analysed **financial accounts and supply estimates data** to map accountability for government's expenditure and financial position.

6 We undertook analysis of all **ministerial directions** since 1990 to determine their number and value.

7 We conducted **interviews** with HM Treasury and Cabinet Office officials, and expert commentators on government accountability and public finance.

8 We reviewed selected **expert literature and sources** on accountability, including international comparisons from New Zealand and Ireland.

Appendix Three

Accountability issues raised by the Committee of Public Accounts and Lord Sharman's review of audit and accountability for central government

1 The following table (**Figure 18** on pages 59, 60 and 61) outlines accountability issues raised by Lord Sharman's government-commissioned review of audit and accountability for central government (2001);[122] and by the Committee of Public Accounts (the Committee) in its 2011 and 2012 reports on accountability for public money.[123]

2 The table also sets out the government's responses to the issues raised by these examinations. These are contained in the government response to the Sharman report (2002);[124] the Treasury Minute responses to the 2011 and 2012 Committee reports;[125] and the 2011 report on accountability and decentralisation by Sir Bob (now Lord) Kerslake.[126]

122 Lord Sharman of Redlynch, *Holding to Account: The Review of Audit and Accountability for Central Government* (Sharman report), February 2001.

123 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011; HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010–2012, HC 1503, April 2012.

124 HM Treasury, *Audit and Accountability in Central Government: The Government's response to Lord Sharman's report 'Holding to Account'*, Cm 5456, March 2002.

125 HM Treasury, *Treasury Minutes: Government responses on the Twenty-eighth and the Forty-second to the Forty-fifth Reports from the Committee of Public Accounts*, Session 2010–2012, Cm 8212, October 2011; HM Treasury, *Treasury Minutes: Government responses on the Seventy-fifth, the Seventy-seventh, the Seventy-ninth to the Eighty-first and the Eighty-third to the Eighty-eighth Reports from the Committee of Public Accounts*, Session 2010–2012, Cm 8416, July 2012.

126 Department for Communities and Local Government, *Accountability: Adapting to decentralisation* (Kerslake report), September 2011.

Figure 18
Accountability issues raised by the Committee and the Sharman review

Overall issue	Specific issues raised by the Committee and the Sharman review	Government response
1 Role of the accounting officer	Greater devolution and the diversity of public service providers challenge the extent to which a single individual is accountable for an organisation's activities (Sharman 2001, paragraph 3.18; PAC 2011, page 9). One of the Committee's fundamentals of accountability is that the accounting officer (AO) is "personally and ultimately responsible to Parliament for the spending of taxpayers' money and must be unfettered in the discharge of these responsibilities" (PAC 2011, page 5). Government should set up arrangements for Parliament to be assured of value for money. Accounting officers' accountability for system-wide issues differs from that to the local community or users for the performance of local bodies (PAC 2011, page 7). The Committee noted there was confusion as to the role of the accounting officer in intervening to deal with poor performance in individual bodies (PAC 2012, page 12).	Government assured the Committee of the following: • AOs' responsibility for ensuring that robust accountability systems operate at the national and local level will not change (Treasury Minute 2011, paragraph 1.2). • Despite decentralisation, central government will not stop taking an interest in what happens locally (Treasury Minute 2011, paragraph 1.2). • Government remains committed to the principle that accountability for public funds ultimately rests with the AO (Treasury Minute 2012, paragraph 4.4).
2 Central role of HM Treasury in supporting and overseeing AOs	HM Treasury should take the lead in preparing guidance on accountability system statements and, for cross-cutting programmes, monitoring how they work in practice (PAC 2012, page 5). HM Treasury guidance on accountability system statements should require departments to set out funding and accountability flows for each spending stream; data to support the system; failure and intervention regimes; whistleblowing arrangements; and audit arrangements (PAC 2012, page 5).	HM Treasury agreed it should take a lead in arranging for departments to shoulder their responsibilities for localised services, and pointed out that it had updated *Managing Public Money* to include a section on how system statements should be put together. It undertook to review this from time to time and keep it up to date (Treasury Minute 2012, paragraph 1.4). HM Treasury also amended *Managing Public Money* to introduce 'feasibility' as a ground on which AOs could seek a ministerial direction.
3 Clarity of financial commitments and objectives	As far back as 2001, the Sharman report noted that: • Public money could be defined for accountability purposes as: "All money that comes into the possession of, or is distributed by, a public body, and money raised by a private body where it is doing so under statutory authority" (Sharman 2001, paragraph 2.22). • Greater private and third sector involvement in government (eg through grants and contracts) had made the definition of public money more complex (Sharman 2001, paragraph 2.20). • There had been improvements to available information on financial commitments and objectives, eg through public service agreements, resource accounting and budgeting, and Whole of Government Accounts (Sharman 2001, paragraph 3.9).	Government acknowledged that the need for public accountability applies to a wide range of bodies, although the form of accountability required can vary depending on the status and relationships of the bodies concerned (Government response to Sharman 2002, paragraph 3). Government welcomed the recognition of financial management improvements which it said provided better information for both government managers and Parliament (Government response to Sharman 2002, paragraph 1.19).

Figure 18 *continued*

Accountability issues raised by the Committee and the Sharman review

Overall issue	Specific issues raised by the Committee and the Sharman review	Government response
4 Accountability mechanisms	One of the Committee's fundamentals of accountability is that "where a department provides funding to other bodies, the Accounting Officer is responsible for ensuring that there is an appropriate framework in place to provide him/her with the necessary assurances and controls" (PAC 2011, page 5). The Committee concluded that local accountability and reformed structures do not absolve departmental AOs of their personal responsibility to gain assurance on the way funds voted to their departments are spent (PAC 2011, page 7). The Committee expressed concerns over the lack of clarity on how local accountability mechanisms would work in practice, particularly whether they would have appropriate regard for value for money (PAC 2011, page 7; PAC 2012, page 5). The first accountability system statements developed by departments were long and unwieldy, and accountability arrangements not always clearly set out (eg what information was needed to monitor overall performance and when a department would intervene) (PAC 2012, page 7).	Government confirmed that AOs' focus will be on ensuring a robust local accountability system is in place for decentralised service delivery, and asserted that effective local accountability systems should be based on a "web of different checks and balances rather than one single lever, reflecting different accountability relationships" (Treasury Minute 2011, paragraphs 1.3–1.5; see also Treasury Minute 2012, paragraphs 3.2–3.4). Government proposed that AOs would draw up and publish accountability system statements to outline how accountability is secured for decentralised funding streams (Kerslake 2011, paragraph 51). This requirement was included in *Managing Public Money*, and seven departments have published accountability system statements. The Kerslake report reiterated that for decentralised services, departmental AOs should be responsible for ensuring there is a robust local accountability system in place covering the resources that they distribute; but that departmental AOs should not be seen as directly responsible for individual local institutions (Kerslake 2011, paragraph 5).
5 Accountability roles	In 2001, the Sharman report noted that AOs need assurance from senior officials that proper systems and controls are in place, and the responsibilities of other senior officials must be clear (Sharman 2001, page 22). One of the Committee's fundamentals of accountability is that: "Responsibilities and authority for policy and operational decisions are clear throughout the delivery chain", including for designated AOs of arm's-length bodies and senior responsible owners (SROs) of major projects (PAC 2011, page 5). The Committee recommended that an SRO should be nominated for every major project or programme, who would be accountable to Parliament alongside the departmental AO (PAC 2011, page 8). The Committee also noted concerns about SRO turnover, which undermined efficiency, effectiveness, personal responsibility and accountability (PAC 2011, page 8).	Government noted that AOs obtain assurances from other senior staff in order to sign the statements of internal control; and that HM Treasury risk management guidance encouraged the clear allocation of responsibility to senior staff for managing risks facing a department (Government response to Sharman 2002, paragraph 2.3). Government emphasised that AOs are already responsible for nominating an SRO for all major projects, accountable to ministers and AOs (Treasury Minute 2011, paragraph 6.2). In a change to the Osmotherly Rules in 2014, SROs were made directly accountable to Parliament for project implementation, with departmental AOs retaining ultimate responsibility for projects.

Figure 18 *continued*

Accountability issues raised by the Committee and the Sharman review

Overall issue	Specific issues raised by the Committee and the Sharman review	Government response
6 Data for accountability	The Sharman report noted the importance of performance measurement and reporting, notably for accountability (Sharman 2001, page 39). One of the Committee's fundamentals of accountability is that: "There should be a clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services" (PAC 2011, page 5). The Committee's view was that data to evaluate performance and support accountability are often not fit for purpose and not consistent or comparable, hampering its ability to hold departments to account (PAC 2011, page 13; PAC 2012, page 10). The Committee recommended departments should develop specific data strategies to support their accountability system statements, and explain how data will be used to monitor the overall performance of the system (PAC 2012, page 5).	Government agreed that regular performance reporting was key to improving accountability (Government response to Sharman 2002, paragraph 2.34). In response to the Committee's concerns, government highlighted performance data generated for other purposes that could support accountability and local scrutiny (Kerslake 2011, paragraph 47). Government acknowledged that accountability system statements need to be clear about the core data and information flows that the systems they describe will rely upon, and that AOs should consider whether separate data strategies are needed to support system statements (Treasury Minute 2012, paragraph 2.3). Government noted that AOs should ensure they have the necessary information to identify poor performance or failure, which may require departmental intervention (Treasury Minute 2012, paragraph 2.5).

Source: National Audit Office

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