

• PO-CH/NC/0447

PART A



Part A.

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MANAGEMENT - IN - CONFIDENCE.

Begins : ~~10~~<sup>26</sup>/~~8~~<sup>6</sup> / 87.  
Ends : 4 / 7 / 88.

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Chancellor's (Lawson) Papers:  
Value For Money Targets ~~for~~ In  
The Treasury.

DD's: 25 Years

*D. H. ...*

7/2/76.

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PT.A.



VFM SEMINARS

*BF Rem Inland*



10 DOWNING STREET  
LONDON SW1A 2AA

Chief Sec  
Sir P. Middleton  
Mr FER Butler  
Mr Scholer  
Mr. Bathshill  
Mr. Rogers  
Mr. Crowley } IR

From the Principal Private Secretary

*BF Rem Inland on Friday*  
*Jeremy*

26 June 1987

*pur*

As you know, the Prime Minister holds seminars on value for money at which the Minister in charge of a Department and the Permanent Secretary describe the most important improvements in value for money in the past year and look forward to planned improvements for the coming year.

The Prime Minister will be continuing these seminars in the Autumn, and would be grateful if your Minister could attend a session to discuss the Inland Revenue. I will be getting in touch with you shortly to arrange a meeting, probably early next year.

The Prime Minister is anxious to keep the sessions small but your Minister may want to be accompanied by the Chairman. These discussions are not to be seen as part of the public expenditure negotiations and, apart from the Prime Minister, the only others present will be Sir Robin Ibbes, Sir Robert Armstrong and myself.

The Prime Minister hopes that your Secretary of State will speak for about 20 minutes, and will cover both the main improvements that have been achieved in the past year and what is going to be achieved in the next year. This would be followed by about 40 minutes of discussion. !!

I am sending a copy of this letter to Sir Robin Ibbes and to Sir Robert Armstrong.

*Nigel Wicks*

N L WICKS

Jeremy Haywood, Esq.  
Financial Secretary's Office  
H.M. Treasury





**EFFICIENCY UNIT**

70 WHITEHALL, LONDON SW1A 2AS  
Enquiries: 01-270 0273  
Direct line: 01-270

<b>CH/EXCHEQUER</b>	
REC.	14 JUL 1987 ✓ 14/7
ACTION	MR CD BUTLER
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ANNEX A

IBBS

TO  
CH/EX  
10/7

ANNEX  
A

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

10 July 1987

*Dear Nigel,*

**VALUE FOR MONEY TARGETS**

The Prime Minister has asked me to arrange to see you to discuss the main targets you have set for improving value for money in your department. Our meeting will now have to take place after the summer break. This will enable us to discuss performance so far against the targets set earlier in the year and any mid year modifications which have proved necessary. As our meeting will be later than normal, you may want to press ahead with scrutinies beforehand; the Efficiency Unit is always ready to discuss potential subjects.

It is important that our discussions should focus on the major areas of Departmental business. Your Department will already have furnished the Treasury with a large number of detailed targets for many of its activities. I should like to suggest that we concentrate on the five or six key improvements which you are expecting the Department to deliver during the current year. The Prime Minister is concerned that targets should include programme and policy areas with large inputs and substantial scope for improvement.

The other main quality which I shall be looking for in the targets is that they put the emphasis on outputs and performance and not simply on inputs. With quantified targets for outputs and performance you will be able to measure the progress you make in achieving better value for money more effectively.

So that we can concentrate at the meeting on the key targets for 1987/88 and beyond it would be helpful if your office could provide the Unit in advance with information on performance against the agreed targets for 1986/87. It would also be useful to have a list of the targets for the current year and an assessment of performance against them.

I would also like to discuss your current scrutiny programme and to discuss new scrutinies to support your value for money targets.

My office will be in touch shortly to arrange a meeting.

*yours ever,*

ROBIN IBBS



## CENTRAL TREASURY

## 1. Consolidate and build on savings arising from re-organisation in 1985-86

The re-organisation of Home and Overseas Finance has produced a more effective organisation with an increasing capability to give coherent, knowledgeable and authoritative advice across a range of Government responsibilities and interests, especially in relation to the City; a more forceful policy output; and improved decision-making.

The transfer of equipment and staff from the Central Statistical Office, and the merger of separate support units into a centralised IT support group resulted in immediate savings in capital (some £200,000) and running costs (£30,000 pa) expenditure; clearer lines of responsibility and budgeting; and the prospect of faster implementation of IT strategy, offering increased efficiency and quality improvements. In addition, the integration of IT staff in one group offers more opportunity to improve their efficiency and effectiveness, improved job and career prospects, a reduced number of expensive specialist IT staff compared with what otherwise would have been needed and a smaller turnover resulting in lower recruitment, training and agency costs.

## 2. Achieve further savings by contracting-out of non-furniture portering services (6 posts) - by 1 January 1987

Achieved. 6 in-house posts abolished; the saving in 1986-87 was £14,000 and the projected saving for 1987-88 is £42,000.

## 3. Achieve savings of 3% on Library's HMSO publications budget

Achieved. Savings in excess of 10%.

## CISCO

## 4. Roll forward 1985-86 targets; extend all targets to cover both direct and managed service units

## Direct Unit Targets

i. Increase daily sales per full-time staff equivalent by a further 3% in real terms. Achieved - improvement of 3.6%.

ii. Reduce net exchequer cost per £ of sales by a further 3% in real terms. (Cost per £ of sales replaces the previously used but less quantifiable measurement, cost per transaction). Achieved - reduction of 6.0%.



iii. Reduce HQ cost per £ of sales by a further 3%. Achieved (3.1%).

#### Managed Service Units Targets

i. Increase daily sales per full-time staff equivalent by 3% in real terms. Improvement of 4.6% achieved.

ii. Reduce net exchequer cost per £ of sales by 3%. Achieved (3.4%).

iii. Reduce HQ cost per £ of sales by 3%. Achieved (3.2%).

#### CHESSINGTON COMPUTER CENTRE

5. Further increase productivity by achieving an additional 3% improvement in the payee/pay clerk ratio (1550 payees per clerk by 1 April 1987).

Achieved - at that date average payees per pay clerk stood at 1563.

#### CCTA

6. Continue to meet the programme of work set out in the Corporate Plan.

CCTA's main aims are intended to add value to the development and application of Information Technology in Government. Thus, like central Treasury, the Agency's objectives are primarily to improve efficiency, economy and effectiveness in departmental programmes. Corporate planning is used to sharpen the focus of CCTA's work with departments and to refine what CCTA is achieving and how it should be achieved. The Corporate Plan is in turn broken down into more detailed plans to allow divisions, branches and individuals to target their work more clearly and produce a higher quality of output.

Examples of 1986-87 achievements with value for money implications include:

i. Improved guidance to departments about suppliers and the quality of their products has reduced the need for systems trials, saving of the order of £100,000 for a typical major procurement;

ii. The computerised project management tool, ADEPT, was developed by the Agency and is now marketed by a private sector company. Use of ADEPT in departments is expected to save £500,000 a year and Government will also receive a royalty of £300 a copy from sales of the product in the private sector.



iii. Refinement of CCTA targets led to phasing out or reduction in activities which could no longer be justified, including winding up the Small Systems Unit and the Software Information Service at an annual saving of some £175,000 and reduction of direct support to departmental projects with a saving of 10 posts.



**TARGETS FOR 1987-88 AND PROGRESS TO DATE****CENTRAL TREASURY:****Examples from divisions with administrative responsibilities:****Superannuation Division**

The divisional plan and annual performance report include many targets and measures of performance. The intention is to measure performance itself and in relation to resources used so as to ensure value for money. Main value for money targets include:

1. **Unit cost of awards:** (Average 5 per cent reduction in real terms in recent years.) Aim for 1987 is to limit the increase in costs that will result from changes in scheme provisions and enhancement of computerised awarding process.
2. **Computerised awarding:** Enhance process to further improve the efficiency and cost-effectiveness of system, leading to further significant reductions in costs for future years.
3. **Common output measures:** (Recently introduced for all awarding departments. Treasury monitor performance in terms of relative unit costs and progress in cost reduction.) Aim is to improve further the efficiency with which the PCSPS is administered; (departments will be expected to adopt the enhanced awarding system).
4. **Communications:** To improve all forms of communications with employing departments and scheme members, thus reducing the volume of casework and enquiries and consequently improving the operational efficiency of administering the PCSPS.

**Progress to date:**

1. Unit costs being maintained at existing levels.
2. Development work progressing well.
3. Encouraging progress in cost reductions has been made.



4. An extended review into communications, as a whole, requiring extra resources, is underway. Issuing a new series of explanatory leaflets has helped in reducing resource demands in employing departments.

### Office Services

5. To save £120,000 (net) by reducing dependence on agency typists by greater effort on recruiting, training and managing in-house typing staff. (The cost of an agency typist is approximately double that of an in-house typist.)

#### Progress to date:

In 1986-87 the Treasury spent £190,000 on agency typists. Spend in first quarter of 1987-88 was only £8,000. A typewriting teacher has been recruited in place of one of our typing managers to provide in-house training and testing tailor-made to Treasury requirements. This will also save against the £15,000 budget for external typewriting training.

### TREASURY BUSINESS

#### CISCO

6. Increase daily sales per full-time staff equivalent in direct units by a further 4 per cent in real terms.

7. Reduce exchequer cost per £ of sales in direct units by a further 6%.

8. Reduce HQ cost per £ of sales by a further 5½ per cent.

(No specific targets have been set for managed service units as the changes in the number of units - notably the contractorisation of Rosyth and Devonport dockyards - have been too great to facilitate year-on-year comparisons. Value for money performance will, however, be assessed during the year using the developing common data base and it should be possible to compare performance in 1988-89 with that of 1987-88.)

**Progress to date:** In the quarter ending 30 June daily sales increased by 5.7 per cent, exchequer cost per £ of sales decreased by 3.6 per cent and



HQ cost per £ of sales decreased by 7.2%.

### **CHESSINGTON COMPUTER CENTRE**

9. To further increase the average number of payees per pay clerk to 1600 by 1 April 1988.

**Progress to date:** Between the quarter ending 31 March and 30 June, the average number of payees per clerk increased from 1563 to 1595.

### **CCTA**

10. Increase the number of standing arrangements with suppliers and thus achieve savings through discounts of up to £37m in departmental programmes. (£37m represents the value of savings considered possible on increased standing arrangements business sought during 1987/88. This figure equates to savings discounts of up to 28 per cent; an increase of some 2 per cent on the discount percentage achieved during 1986/87).

11. Advance the modernisation of the Whitehall Central Branch Exchange by some 12 months and thus save £170,000 in rental costs of accommodation for equipment. (This represents an absolute cash saving arising from giving up accommodation).

12. Negotiate reduced prices for consultancy and development contracts and thus save £100,000 by 31 March 1988. (This saving represents a cash target set on overall expenditure to be achieved through post-tender negotiations and is scored in accordance with Central Unit on purchasing guidelines. NB: Only a varying proportion of overall expenditure/number of contracts, are negotiable during any one year.)

#### **Progress to date:**

10. From 1 April to 14 October 1987 the number of standing arrangements increased from 53 to 83. It is not possible to quantify the savings until the end of the year.

11. In the quarter ending 30 June, some £45,000 had been saved.

12. Negotiated savings to 30 June were £36,000; representing some 5 per



cent of the value of contracts negotiated at that time.

## CENTRAL TREASURY

### PROGRAMME EXPENDITURE

13. **UK Coinage** The Treasury's payments to the Royal Mint are for the supply of coinage. The main focus of Treasury policy relates to the Mint's performance as a trading fund raising most of its revenue from overseas sales and sales of UK collectors coin, in highly competitive markets; it is set a financial target, expressed as an average current cost rate of return for a three year period based on a detailed corporate plan. A new target has just been set of 10 per cent current cost return on net assets over the period 1987-88 to 1989-90.

**Progress to date:** Profits in the first quarter of 1987-88 were above profile, but some of that may be due to timing differences. It is too early to make any judgement about the likely final outturn for the 3 year period.



MANAGEMENT IN CONFIDENCE

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ANNEX D

Reviews that might be mentioned for 1987 include:

- annual evaluation of public expenditure policy;
- the effect of the introduction of control of running costs;
- Treasury Security Regulations;
- performance of the Treasury in administering the Principal Civil Service Pension Scheme;
- Staff Inspection guidelines.

Other possible review subjects for 1988:

- evaluation of savings from 1987 transfer of MPO functions bearing on financial management and manpower, pay and financial conditions of service to the Treasury;
- organisation of Treasury and Cabinet Office support services;
- central CIR forces.

ANNEX

D





EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries: 01-270 0273

Direct line: 01-270

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REC.	13 JUL 1987 ✓
ACTION	SIR P. MIDDLETON
COPIES TO	CST
	MR FORBUTLER
	MR ANSON
	MR CDBUTLER.

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

10 July 1987

Dear Nigel,

VALUE FOR MONEY TARGETS

good!

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yours ever,

ROBIN IBBS

To be aware

CR 13/7

1. Julia

To be aware

2 PUP



1 Alex  
2 Puf

FROM: R B SAUNDERS  
DATE: 16 July 1987

PRINCIPAL PRIVATE SECRETARY

cc Mr FER Butler  
Mr CD Butler

**VALUE FOR MONEY TARGETS**

Sir Peter Middleton has seen Sir Robin Ibbs' letter of 10 July. Mr CD Butler will be providing you with briefing in due course. Sir Peter Middleton thinks that, this time round, we should ask him which is the more important: meeting the output target, or sticking to the inputs provided.



R B SAUNDERS



*Cathy* *RS*

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# Central Government: Financial and Accounting Framework

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## FOREWORD

This Statement was prepared by the Treasury. It is aimed at all users of the financial documents which are published by Government, and is intended to increase understanding of the role and purpose of those documents, and the principles which underlie them.

Comments on the paper will be welcome and should be addressed to Mr R Hancock, MA Division, Room 9A/3, H.M. Treasury, Parliament Street, London, SW1P 3AG.

ANTHONY WILSON  
Accountancy Adviser  
to the Treasury



**CENTRAL GOVERNMENT: FINANCIAL AND ACCOUNTING FRAMEWORK**

(Items or abbreviations which are explained in the glossary (Annex M) are indicated by an asterisk)

**INTRODUCTION**

This Statement of the United Kingdom central Government financial and accounting framework describes:

- (a) the principles\* underlying the financial and accounting documents published by central Government and their supporting systems;
- (b) the principal financial documents and accounts currently published by central Government, their objectives, and how they inter-relate;
- (c) how these documents are prepared and the systems and sources from which the data in them is compiled.

As far as item (b) is concerned, the Statement does not separately identify all the financial documents and accounts published by central Government, but concentrates on the main documents published by central Government and referred to in Annex K. There are, of course, a number of other Funds and Accounts maintained by Departments which reflect transactions between the citizen and the State. These accounts are maintained outside the Vote system and are published separately from Appropriation Accounts.

**PRINCIPLES, CHARACTERISTICS AND STANDARDS**

2. A **principle** defines the requirements underlying the preparation of financial and accounting documents and the operation of their supporting systems. A **characteristic** describes the properties which documents and systems may possess depending upon their purposes. A **standard** specifies the procedures and forms of presentation to be used in applying the principles.



3. Accounting principles and characteristics provide an orderly and consistent framework for Government financial plans and the periodic reporting of results and the financial position in a fair, unbiased and objective way. The principles apply to all financial documents and financial and accounting systems except that auditability relates only to accounts and the systems from which they are produced. The characteristics, on the other hand, differ in emphasis depending upon the nature and purpose of the document or the system and their application will depend on the materiality of the information concerned to the purpose for which it is intended. The characteristics thus adopted then become the accounting policies of the department or organisation concerned.

4. The main principles underlying central Government financial documents and the systems from which they are derived are propriety, prudence, accountability, materiality, and auditability. These are defined and described in Annexes A to E. The characteristics are matching, consistency, timeliness, completeness and cost-effectiveness as defined and described in Annexes F to J.

5. Standards are the means by which principles are translated into practical working methodology for processing data and presenting specific types of information in financial and accounting documents. Such standards exist in a detailed form for most cash planning and accounting documents in all central Government organisations and for the trading accounts of services for which charges and fees are levied.

6. Guidelines governing various aspects of management accounting have been issued to departments by the Treasury and the Cabinet Office (MPO). These have been supplemented in some departments by their own manuals. Management accounting is still developing in departments and the preparation of central guidelines must therefore be an evolutionary process, taking account of best practice as it emerges and achieves an overall consensus and of the complexity and diverse nature of central Government activities.



## **PUBLISHED DOCUMENTS AND THEIR PREPARATION**

7. The Statement is intended to help Members of Parliament and other users to understand: the range of published financial and accounting information that is available; the documents in which it may be found and how they fit into the cycle of planning control and accountability; and the principles that govern the form and content of published documents and the systems and procedures for preparing them. The Statement also provides a useful point of reference to those involved in central Government and guidelines\* for those introducing new accounting systems or developing existing ones.

8. The Government's published financial documents consist of a linked series designed to:

(a) describe its medium-term strategy for the economy and, in particular, explain how revenue projections, forecasts of borrowing intentions and expenditure plans fit together within that strategy;

(b) set out the Government's proposed changes in taxation and its public expenditure plans in a form suitable for Parliamentary scrutiny and in a way which enhances both Parliamentary and public understanding of what is expected to be achieved;

(c) provide an analysis of expenditure incurred, and what has been achieved as a result; of revenue received and of sources of borrowing;

(d) set out the income and expenditure of central Government, local authorities, and the rest of the public sector and show the relationship between these and the public expenditure planning total;

(e) describe economic activity in the economy as a whole.



9. The purposes and coverage of the separate published documents are summarised in tabular format in Annex K. Together, the series covers four separate but linked and overlapping phases: formation of the economic strategy, planning, monitoring and control, and accountability. Within these phases individual documents play more than one reporting role.

10. As can be seen from Annex K, with the exception of the Appropriation Accounts, all the documents relate to more than one phase and are therefore multi-purpose. The Financial Statement and Budget Report (FSBR), Autumn Statement and Public Expenditure White Paper (PEWP) are primarily planning documents but they do also record summary figures showing forecast outturn\* for the year in which they are published and/or actual outturn for earlier years. The documents that fulfil a purely accounting purpose are the Appropriation Accounts, Consolidated Fund, National Loans Fund and National Insurance Fund accounts. The National Accounts are not formal accountability documents but rather an analysis, in the form of an account, which is designed to serve the wider economic and international purposes of analysts of the whole UK economy. They are not therefore formally rendered to Parliament in the same sense as the other documents.

### **Economic Strategy**

11. The Financial Statement and Budget Report (FSBR), published on Budget Day, describes the strategy which underpins the Government's monetary and fiscal policy and sets the framework for the public expenditure plans and other macro-economic decisions. It sets out the monetary policy, taxation measures, borrowing and revenue for the coming year, and projects borrowing, revenue and public expenditure over the next three years. The FSBR also reviews the past performance of the economy and sets out the prospects for the year ahead; it publishes information to provide the basis of planning and control and shows summarised revenue and expenditure for the last completed year and the latest estimate for the current year.



## **Planning**

12. The Public Expenditure Survey (PES)\* is conducted against the background for the medium-term described in the FSBR, published previously in the Spring. Its outcome is first announced, in outline form, in the Autumn Statement, which is published in November. The Autumn Statement gives overall planning totals for the three forward years covered by the Survey and a departmental breakdown of those totals, describing changes in priorities where these have led to changes in expenditure plans since the previous year's Survey. It also updates the Government's revenue and borrowing forecasts for the current year and gives a forecast of economic prospects for the coming year.

13. Between November and January individual programmes within the departmental totals are decided. These detailed figures are then set out in the Public Expenditure White Paper (PEWP) which is published in January. Most large departments are the subject of separate chapters in the PEWP describing their specific expenditure plans in the context of overall departmental policies. There is, in addition, a series of analyses of public expenditure, showing trends in cash and real terms, and providing breakdowns, for example by spending authority (eg central Government, local government and public corporations) and by economic category (eg current and capital expenditure on goods and services, or current or capital transfers).

14. The PEWP summarises the overall aims and main objectives of departmental expenditure programmes and in its departmental chapters gives more details of plans and some specific targets together with quantified measures of output expected to be achieved. Particular priority areas within the general ambit of a programme are also spelt out where appropriate. Some departments may provide further commentaries during the Spring for their Select Committees, expanding on the statement of aims and priorities and giving more detail about objectives and plans for the year to come.

## **Monitoring and Control**

15. The process of setting cash control totals for a financial year develops from the Public Expenditure Survey during the preceding financial year. The financial regime for local authority



current expenditure - ie the levels of planned expenditure and grant - are set out provisionally in July and finalised in December. External Financing Limits (EFLs) for the nationalised industries are announced in the Autumn Statement. For the appropriate expenditure of Government departments, Supply Estimates for the financial year ahead are normally published on Budget Day. These set out, in a form which is designed specifically to meet their constitutional purpose of seeking Parliamentary authority for issues of cash from the Consolidated Fund, the details of departments' planned expenditure which is to be financed in that way. Estimates are prepared by each department in consultation with the Treasury and submitted to Parliament by the Chief Secretary to the Treasury; each one explains the relationship of the Estimate with the planning figures contained in the relevant chapter of the Public Expenditure White Paper. About 60 per cent of Supply expenditure is subject to cash limits. In addition, there are limits for each department's running costs agreed by the Treasury. Cash limits for non-voted expenditure are also normally announced on Budget Day.

16. Also published on Budget Day is a Summary and Guide which describes the relationship between the planning total in the White Paper and the Estimates and also brings together the cash limits and running costs limits on which control will be based in the coming year. The FSBR, as well as providing a summary of the public expenditure plans, sets out the Government's tax proposals and revenue and borrowing forecasts for the year ahead.

17. Each department has its own arrangements for the allocation and re-allocation of cash resources to parts of its organisation and functions. Departmental management accounting systems enable the full cost of the resources used to be planned and controlled in relation to the level and standard of service required and the resulting level of efficiency to be assessed. Alternatively, they enable the service to be tailored to the resources that can be made available.



18. Throughout the year, expenditure is monitored on a monthly and quarterly basis through the Analysis of Public Expenditure system (APEX) operated by the Paymaster General's Office (PGO) and the Treasury's Financial Information System (FIS). Where the expenditure is forecast to exceed plans, action is taken to bring expenditure back to plan, or to find off-setting savings. If this is not possible, bids are made for the excesses to be charged against the public expenditure Reserve. This is an unallocated amount within the planning total designed to absorb unforeseen and unavoidable public expenditure which cannot be contained within the initial departmental control totals. The state of the Reserve is monitored throughout the year. Revenue receipts and borrowing are also monitored on a monthly and quarterly basis.

19. The monthly and quarterly information on revenue receipts, borrowing and expenditure is published in various documents - in particular, in the Central Statistical Office publications "Financial Statistics" and "Economic Trends" and in the joint CSO\*/Treasury monthly Press Notice on the PSBR. If additional Supply expenditure is proposed, or if the voted purposes are changed, Supplementary Estimates are submitted for approval, conventionally, in June, November and February. The November Supplementary Estimates booklet also shows the provisional outturn for voted expenditure, by vote, for the first six months of the financial year.

20. "Financial Statistics" shows inter alia Supply expenditure on a monthly basis, and information on the broader public expenditure aggregates, particularly the planning total, every quarter. In the Autumn Statement the first forecast of outturn for the current financial year is published, showing a departmental breakdown; and an updated forecast is published in January in the Public Expenditure White Paper. The White Paper also gives an estimate of the outturn of the running costs of departments within total public expenditure.



21. The FSBR, published on Budget Day, gives a further estimate of the outturn of the year just coming to a close, together with an analysis of revenue and expenditure by economic category, and summarised estimated accounts of the Consolidated Fund and National Loans Fund.

22. Most Government expenditure is financed out of revenue. The rest is financed by borrowing. Central Government finances its borrowing by issuing a variety of debt instruments. Raising finance is a continuous process. Decisions on composition and terms are taken by the Treasury in consultation with the Bank of England and the Department for National Savings.

23. Both monthly and quarterly analyses of Government financing operations are published, as are annual estimates of the total outstanding stock of Government debt.

#### **Accountability**

24. Accountability is defined in Annex C. Once the financial year is complete on 31 March, provisional and unaudited final figures for the Consolidated Fund and the National Loans Fund are published in "Financial Statistics". By October, departments' detailed accounts of expenditure and receipts (authorised in Supply Estimates eighteen months earlier), have been audited by the National Audit Office and published in the Appropriation Accounts for each department. The Appropriation Accounts are accountability documents designed to demonstrate to Parliament that expenditure was actually incurred for the purposes approved by Parliament in the Supply Estimates and only for those purposes. Audit reports are submitted by the Comptroller and Auditor General to the Public Accounts Committee of the House of Commons which takes evidence from departmental officials and issues its own findings in reports to Parliament. This is not often necessary, however, and most PAC inquiries are based on the Controller and Auditor General's value for money reports under the National Audit Act 1983, which are not related to particular accounts or particular years.

25. The Cash Limits Outturn White Paper, published in July, gives details, as its name implies, of actual expenditure against each of the cash limits which were finally agreed for the previous financial year.



26. In December the audited Accounts of the Consolidated Fund, National Loans Fund and the National Insurance Fund are published showing the receipts, payments and balances relating to these Funds for the financial year ended in the previous March. In the same month Supplementary Statements are published showing further details of the transactions on the Consolidated Fund; the assets and liabilities of the Consolidated Fund and of the National Loans Fund at the beginning and the end of the financial year; and the contingent liabilities arising under various statutes attaching to the Consolidated Fund. At about the same time the National Audit Office publishes detailed accounts relating to issues from and payments to the National Loans Fund in respect of loans to Nationalised Industries, Public Corporations, local authorities and certain other bodies.

27. The PEWP is not a formal accountability document but, as well as setting out the Government's expenditure plans, it is the main document for communicating the achievements of Government expenditure. The PEWP also gives the outturn for public expenditure over a run of years and provides a number of analyses of public expenditure trends. Departmental programmes are illustrated with indicators of output and performance in recent years, insofar as the current development of financial information systems allows. Where targets for the last complete year have been stated in previous PEWPs, actual achievements against these targets may be shown, mainly in the departmental chapters.

28. In some cases departments also produce separate retrospective reports, normally in the Autumn, setting out in detail the outputs and performance achieved and how these compare with the original plans. The great diversity of activities and departmental structures leads to variety in the content and format of such departmental reports.

29. The accounts of the more commercially oriented Government bodies, such as Trading Funds are normally published in White Papers. These match income to the cost of sales through accruals-based accounting systems and include information on levels and standards of service. For individual services within



departments for which charges are made or fees levied, the full resource costs are calculated in a similar way and matched with the level of output produced in internal working documents called Memorandum Trading Accounts (MTA) as the basis for calculating and accounting for the fees and charges and the income they generate. These are not published but a report on them is made annually to the PAC.\*

30. The Public Expenditure White Paper and the departmental reports provide information on value for money and efficiency, and include some quantitative measures such as unit costs of output. Accounts published in White Papers provide a number of performance measures.

#### **THE NATIONAL ACCOUNTS**

31. The Central Statistical Office publishes the National Accounts, of which the main publication is the annual "National Income Blue Book". This aims to bring together, within a comprehensive and detailed framework, information on the economic activity on UK domestic territory and of UK residents at home and abroad. The National Accounts, therefore, have a much wider scope than the accounts for revenue, expenditure, and borrowing by the Government, but the latter are broadly consistent with national accounts definitions. The National Accounts follow, as far as possible, recommended international reporting principles. Annex L, gives the information which appears in the National Accounts' summary account for central Government (Table 7.1 of the Blue Book), together with an indication of the main sources from which it is drawn.

32. The accounts provide a basis for analysing the inter-relationships between different aspects of economic activity, such as profits and capital expenditure, or personal disposable income and consumers' expenditure. When used with other major economic variables, they provide the cornerstone of macro-economic forecasting. One important feature of the framework of the National Accounts is the compilation of accounts for broad institutional sectors of the economy - for example, Central Government or Financial Institutions, and for industrial groups such as manufacturing, distribution and public administration. The National



Accounts thus provide information on the transactions or transfers taking place between sectors of the economy and between industries. The primary source of information about the Central Government sector within the National Accounts is the Analysis of Public Expenditure system (APEX).

#### **SYSTEMS INTER-RELATIONSHIPS**

##### **Economic, financial and operational**

33. There are close inter-relationships between the planning and outturn aspects of economic planning, financial and operational systems. The financial information systems of central Government, like those of any other organisation, must be appropriate to the environment in which they operate. Both the systems themselves and the documentation produced from them must be flexible enough to accept the fact that the general state of the economy, forecasts of future trends, and economic policies will affect the amount of public expenditure that can be afforded, the level of revenue that can be collected and the amount of necessary borrowing. Actual financial performance will affect perceptions of the economy and, in turn, influence economic activity which may require adjustments to the means of achieving the aims of economic policy. The systems and documents therefore need to feed back data that informs decisions about such adjustments.

##### **Output, resource use, and cash spend**

34. Government accounting systems are predominantly cash based although certain transactions particularly on the receipts side are accounted for both on a cash and on an accruals basis. In trading organisations which publish their accounts, accruals accounting systems provide for sales, output, resources used, the stocks of resources held and other balances, cash expenditure and liabilities to be accounted for in an integrated and commercially orthodox fashion. Elsewhere, those management accounting systems that exist are run in parallel with cash accounting systems, but efforts are being made to integrate the two types of system. This will improve the quality of information on precisely what central Government has achieved and at what cost.



**PROPRIETY: Statement of Principle****Definition**

The principle of propriety in relation to central Government income and expenditure is that public funds should be applied strictly to the extent and for the purposes authorised by Parliament and be financed by methods of raising revenue approved by Parliament.

**Purpose**

2. The purpose is to preserve Parliament's constitutional right to control the amount and purposes of all expenditure from public funds and the ways in which revenue is raised.

**Description**

3. In the case of expenditure voted annually, all payments must fall within the ambit and amount of the Vote for which Parliamentary approval has been given (and which acquire statutory authority via an Appropriation Act). In other cases, financial transactions must be proper to the purposes set out in the relevant statutory authority (including subordinate legislation) for making them.

4. Where payments are made without Parliamentary authority, or in cases of impropriety, Parliament's attention must be drawn to them by suitable notation of the appropriate accounts. Such matters may then be followed up by Parliament (normally through the Public Accounts Committee of the House of Commons) if it wishes to do so.

**Requirements for Securing Propriety**

5. Securing the propriety of income and expenditure requires:

(a) the existence of statutory authorities, financial memoranda, or accounts directions which cover the intended purposes and nature of the expenditure and, where appropriate, related income;

(b) an understanding of the scope of the authorities;



(c) the means to establish new authorities and review them as necessary;

(d) the setting up and maintenance of effective systems of internal control and their periodic review;

(e) adequate machinery for the processing and bringing to account in due form of all income and expenditure and, where appropriate, assets and liabilities;

(f) subsequent audit of accounts and the processes leading to their production, publication and submission to Parliament.



**PRUDENCE: Statement of Principle****Definition**

Prudence in the recording of revenue and expenditure of public money is exercising care and caution at all stages. Thus, in planning documents, it is the reasonable assessment of prospective income, what can be achieved and at what cost. In accounts it is, on the one hand, not anticipating revenue, income or, where appropriate, profits, but including them only when they are identified and the value of cash and assets can be assessed with reasonable certainty; and, on the other hand, taking account of or disclosing all known liabilities (expenses and losses), whether the amount of these is known with certainty or is a best estimate in the light of the information available.

**Purpose**

2. The purpose of adopting the principle of prudence in the presentation of planning and accounting documents is to ensure that they do not mislead.

**Requirements of the Concept of Prudence**

3. The concept requires:

- (a) adequate forecasting data and methodology;
- (b) an appreciation by those who prepare and use accounts of likely degrees of risk and uncertainty;
- (c) accounting systems that record income and expenditure when it is identified and can be valued with reasonable certainty;
- (d) means of assessing the timing and amount to be expected from the realisation of non-cash assets;
- (e) the identification, recording and appropriate reporting of liabilities;
- (f) disclosure of the quality of the assessment of values and likelihood of realisation;
- (g) the provision of adequate reserves.



**ACCOUNTABILITY: Statement of Principle****Definition**

Accountability is the duty of those responsible for the development and implementation of policy and/or managing affairs and resources to demonstrate not only propriety but also how economic, efficient and effective their policies and/or management have been over a period of time.

**Purpose of Accountability**

2. Accountability enables the individual or body of people who hold overall responsibility for a policy, operation, set of procedures or area of public expenditure to satisfy themselves that those to whom they have delegated authority are exercising that authority in a proper manner and in the most economical, efficient and effective way possible.

3. Accountability therefore follows from the receipt of delegated authority. Such authority may encompass the development and delivery of policies and their objectives, the stewardship of funds, the management of specified operations, activities, projects or tasks, the management of programmes of expenditure, decisions about methods of working and alternative uses of resources and the associated spending of money, acquisition, maintenance and disposal of assets, and setting of charges and fees.

**Levels of Accountability**

4. Accountability operates at a number of different levels in different ways:

(a) Ministers to Parliament and the electorate at large for their policies, their effectiveness and cost and for effective control of public expenditure;

(b) Accounting Officers to their Ministers and Parliament for the effective, efficient and economic implementation of Government policy, and the proper expenditure of public funds;



(c) senior line managers within departments to the top management of the department for the delivery of departmental policies, operational management and conformity with departmental systems of management and control;

(d) subordinate line managers to senior line managers as at (c) above;

(e) moreover, in exercising its responsibility to promote value for money, the Treasury must be able to look to departments to demonstrate the economic, efficient and effective exercise of powers of spending delegated to them, justifying new and continuing levels of expenditure, monitoring expenditure against plans, and developing and maintaining effective systems of public expenditure control and financial management.

#### **Requirements of Accountability**

5. The effective exercise of accountability requires:

(a) a clear definition of responsibilities and their associated authorities;

(b) clear lines of accountability so that both those ultimately responsible and those to whom authority is delegated know who is accountable to whom for what and in what circumstances;

(c) agreed and clearly stated objectives and agreement about the appropriate level of resources to achieve them;

(d) a regular flow of information from the organisation or person exercising a delegated authority to the organisation or person with overall responsibility which will enable the latter to assess:

(i) the cost effectiveness of new and continuing policies and operations;



(ii) to what extent objectives are being achieved;

(iii) the level and nature of the resources used;

(iv) the economy, efficiency and effectiveness with which policies and operations are being carried out;

(v) the effectiveness of departmental controls, particularly those relating to expenditure outturn; the level and quality of activity or service; the acquisition, maintenance, utilisation and disposal of fixed assets; stocks and work-in-progress; consumption of resources; commitments and liabilities; cash flow and debtors.



**MATERIALITY: Statement of Principle****Definition**

An item is material if its omission, non-disclosure or misstatement in financial statements could lead to a distortion of the information given to users such that their judgement would be likely to be influenced if that item were disclosed or more accurately stated.

**Purpose**

2. The purpose of the concept of materiality is to aid the preparers of accounts in forming a judgement as to what should be disclosed in financial statements, and the degree of accuracy which should be achieved in disclosing financial data.

**Description**

3. Materiality is a concept which derives from the premise that financial statements cannot always be precisely accurate but that this need not detract from the view shown. A degree of tolerance is permitted in the measurement or disclosure of information, which must be judged in relation to the other information given in the statements, and the needs of users of that information.

4. Materiality thus has both quantitative and qualitative aspects. An item may be material if its more accurate calculation would affect the view of the user; it may also be material if its disclosure or more detailed explanation would affect that view.

5. Both preparers and users are interested in materiality, although preparers of information are normally concerned that information is prepared to the greatest degree of accuracy which is reasonably achievable. Materiality should be related to cost-effectiveness: is the item sufficiently important to devote extra resources to obtaining the information or improving its accuracy? Materiality should also be related to clarity. The message given by information may be obscured by too much detail or rendered clearer by simplification.



### Requirements to meet the principle

6. Materiality cannot be determined on the basis of absolute measures. Quantitative appraisal must be based on relating any given amount to a base figure. Suggested bases might include:

Total expenditure or receipts

Items within total expenditure, where sub items are involved

Balance sheet totals such as total reserves or net assets

Balance sheet subtotals such as current assets, total lending or net book amount of fixed assets

In some circumstances it may be appropriate to determine the base by calculating an average figure covering, say, the last three to five years.

7. Because of the wide range in size of figures for public expenditure, revenue and borrowing, and the purposes for which they are used, it is not possible to lay down in specific percentage terms what may be material in relation to the base figures. This would have to be applied to each item in relation to its particular use. In assessing individual items, an assessment of all known errors would need to be made in arriving at a cumulative total figure which might be considered for adjustment in relation to any base figure.

8. Factors taken into account in assessing the materiality of particular items of information include:

(a) the needs of users of the information;

(b) the environment, including the economy, business practice and customs and the law;

(c) the entity, its characteristics and size and the nature of its operations;



(d) the accounting policies;

(e) the circumstances and nature of the information itself and its relationship with normal operations;

(f) its magnitude in relation to government as a whole, the entity, its cumulative effect and relevant trends.



**AUDITABILITY: Statement of Principle****Definition**

Auditability means that information has attributes which enable an auditor to assemble sufficient relevant reliable evidence to establish that the item reported has been properly and accurately dealt with and presented.

**Purpose**

2. The purpose of the auditability of information is to enable accounting data to be audited as required by the Exchequer and Audit Departments Act of 1866, and subsequent Acts.

**Description**

3. Auditability means providing evidence to demonstrate that transactions relating to expenditure and income are recorded, have occurred (ie are valid), are authorised, correctly valued and properly disclosed; and that systems ensure that records of assets and liabilities are adequate.

Different types of evidence may be required to back up the transactions recorded in the accounts.

**Requirements**

4. The requirement for auditability may be met if evidence can be provided after the transaction has occurred to demonstrate the attributes described above.



**MATCHING: Characteristic****Definition**

Matching is the process by which, where appropriate, outputs and income are related in the same time period to the cost of the resources used in producing or generating them insofar as these are material and identifiable. In the absence of quantified outputs or income, the cost of the resources is related to the time period which benefits from their use.

**The Purpose of Matching**

## 2. Matching enables:

- (a) the full cost of an activity or service to be determined;
- (b) the relative effects of using different mixes of resources particularly those involving capital and current expenditure to be compared;
- (c) efficiency to be measured - eg by calculating unit costs;
- (d) fees and charges to be set;
- (e) value for money to be judged.

**Requirements of Matching**

## 3. Matching requires:

- (a) the collection of the full cost of resources in relation to each time period which benefits from their use;
- (b) as far as possible the measurement of output whether fully or partially completed in the time period;
- (c) the allocation and apportionment of full cost to output partially completed as well as that completed during the time period;



(d) the knowledge, understanding and use of techniques for the allocation and apportionment of costs to parts of a department, the activities they undertake, and the outputs they produce.



**CONSISTENCY: Characteristic****Definition**

Consistency is the adoption of common definitions, classifications, methodologies, processes and forms of presentation in accordance with clearly stated and accepted principles applied in relation to different reporting entities or to different years for a particular entity.

**Purpose of Consistency**

2. Consistency of information and its presentation is essential for:

- (a) decision taking, control and accountability;
- (b) synthesising data, for making comparisons and explaining contrasts, identifying trends and aggregating data;
- (c) clarity and understanding of plans, budgets, reports and accounts.

**Decisions Control and Accountability**

3. Information used for decision taking, control and accountability will be unreliable if there are no clearly understood rules for ensuring that the data is consistent within itself and processed and manipulated in a consistent manner from year to year.

**Coverage**

4. To meet the above needs data must be consistent between

- (a) past, current and future periods;
- (b) different levels of management and parts of the same business;
- (c) different businesses within one department;
- (d) different departments;



(e) departments or their businesses and comparable outside organisations;

(f) PES, Supply Estimates, top management, operational, management and Vote accounting, programme and administrative expenditure systems.

## **REQUIREMENTS OF CONSISTENCY**

### **Consistency of Data**

5. Data itself needs to be consistent. To achieve this it is necessary to:

(a) agree common data sets and to define their coverage and the individual data items within them;

(b) ensure that data is collected at an agreed time for identical periods;

(c) use common conventions and techniques for manipulating and processing data such as in the choices between current and historic costs, expressing manpower costs in average or actual terms, or methods of allocation and apportionment;

(d) base data on common assumptions and take account of the same relevant factors;

(e) change prior periods' reported results to accord with any change in principle or convention.

### **Consistency of Presentation**

6. To aid clarity and understandability plans, reports, budgets and accounts should wherever possible:

(a) retain the same format between one period and another;

(b) follow the same format between different parts of a business, between businesses in departments and between departments;



(c) contain common information in the same order under identical headings;

(d) be supported by notes using common terminology and covering a minimum set of previously agreed aspects;

(e) explain in notes any changes in the definition of data, its collection and preparation, or in its presentation and change prior periods' figures to accord with the new definitions.

**Disclosure**

7. The supporting notes to any plan, budget, report or account should always draw attention to any departures from previous practice or similar presentations.



**TIMELINESS: Characteristic****Definition**

Timeliness is the production of information when its recipient can make effective use of it, taking account of the purpose for which it is to be used, the cost of producing it at that time, and the degree of accuracy required for the relevant purpose.

**Purpose**

2. The purposes of timely presentation of information are:

- (a) **Plans and projections:** to enable
  - (i) the authorities responsible for delivering the plans to set in hand the necessary preparatory work; and
  - (ii) Parliament and the public to examine the plans and supporting information and comment on them at the earliest opportunity;
- (b) **Monitoring progress against plan:** to allow corrective action to be taken where that is considered necessary;
- (c) **Accounting for performance:** to give
  - (i) Parliament and the public the opportunity to comment on performance; and
  - (ii) the authorities time, where appropriate, to take account of past events or performance and the observations of Parliament and the public, when setting future plans, objectives or projections.

**Description**

3. Timeliness is not just a matter of speed of presentation. If information is presented too early it may not be accurate enough for the use that is to be made of it or it may be incomplete. If it is not seen as immediately relevant, information may be disregarded by the recipient.



On the other hand, if information is delayed pending confirmation of its total accuracy and completeness, it may be presented too late to affect decisions or control.

**Requirements to meet timeliness**

4. Timeliness requires:

(a) a clear understanding of the purposes of the information and the needs of the recipient;

(b) a judgement of the appropriate balance between speed of presentation and the degree of accuracy and completeness which is required and can be achieved;

(c) an appreciation of the environment in which the information will be used and of the speed with which circumstances might change;

(d) an assessment of the extent to which the information is crucial to the success of a policy or operation.

5. Thus:

(a) for plans and projections sufficient time must be allowed for recipients to comment and prepare for implementing action, provided it is not so early that the information may be overtaken by events;

(b) for monitoring progress speed is essential and must be balanced against the need for accuracy;

(c) for accounting for past events and performance, information should be presented as quickly as possible, bearing in mind the need for accuracy which may be more important, particularly if the document is to be audited.



**COMPLETENESS: Characteristic****Definition**

Completeness is a characteristic of information signifying that the range of documents and the information they contain are sufficient and reliable for the purposes for which they are provided.

**Purpose of completeness**

2. Completeness enables the user of information to rely on the fact that the requirements of the purpose for which it has been provided are met.

**Description of completeness**

3. Completeness does not imply comprehensiveness. Since unfettered completeness would often require too much information, reports must be limited by defining the requirements for information and the degree of reliability required to meet a given purpose. Complete reports will thus sometimes imply a summarisation of and selection from available data.

**Requirements for operation**

4. The definition of need may not be entirely clear. The provider of information may thus have to interpret subjectively and extend the defined framework in the light of the presumed purposes for which information is provided in order for it to be complete. In such cases the user should always be informed by the provider about any significant changes made.

5. In order for information to be complete, there must be:

- an assessment of the purposes for which it is required and a definition of the consequent requirements, made by the user and interpreted by the provider of information;
- a judgement as to what is material to the requirement;
- a selection from the data available so as to fulfil the requirements.



**COST-EFFECTIVENESS: Characteristic****Definition**

The cost-effectiveness of providing information is the extent to which its expected benefits to the user outweigh the cost of its preparation and presentation.

**Purpose of cost-effectiveness**

2. The purpose of a criterion of cost-effectiveness is to encourage those requesting or producing information to consider whether the benefits in terms of improved decision-making, scrutiny and control justify the cost of making it available.

**Description**

3. The effectiveness of information depends upon the value that is placed upon its use and this, in turn, depends upon an assessment of its impact and of the degree of its acceptable reliability, accuracy, and timeliness. The level of effectiveness may be measurable if the use of the information results in actions which themselves produce quantifiable benefits. Otherwise, the degree of effectiveness is likely to be based on a qualitative judgement about which the provider and prospective recipient may differ and which may change as circumstances change.

4. The costs to be considered include not only those of gathering, processing and publishing information, but also the compliance costs of those from whom information is gathered. Additional costs may be incurred by accelerating the release of information, improving its intrinsic quality, improving its presentation or changing the way it is published. On the other hand, costs may be reduced in the longer term if these improvements result from the use of modern technology.

5. Cost-effectiveness is not itself a necessary or sufficient condition for justifying the production of information.



### Requirements of cost-effectiveness

6. The proper assessment of the cost-effectiveness of presenting information requires:

(a) a judgement about the value of the purpose for which the information is to be used;

(b) the ability to assess the effect on that value of changes in the speed, form, means and accuracy of the presented information;

(c) knowledge of the costs of presenting the information and the effect on them of changes as in (b) above;

(d) the provision of data to support the above.



## CENTRAL GOVERNMENT

## Financial and Accounting Framework

## Summary of Publications

Purposes	Title	Month	Prepared by	Providing	Coverage
<u>Macro-Economic Strategy</u> (Phase 1) Framework of Macro-economic decisions	FSBR	March	HMT*	Summary figures relating to Medium-term financial strategy Recent economic indicators Economic forecasts	Output; Monetary targets and borrowing objectives; Revenue projections; Public expenditure totals; Revenue and expenditure accounts for a cycle of years; Inflation; Balance of payments.
<u>Planning</u> (Phase 2) Public expenditure plans and objectives	<b>Autumn Statement</b>	November	HMT	Overall public expenditure figures	Overall expenditure planning totals; Departmental analysis; Economic prospects; National Insurance rates.
	PEWP	January	HMT	Detailed public expenditure figures and main objectives	Departments' specific expenditure plans; Overall aims and main objectives; Specific targets; Analyses by spending authority and economic category.
<u>Monitoring and control</u> (Phase 3) Detailed expenditure limits requiring Parliamentary approval	<b>Main Supply Estimates and Summary and Guide</b>	March	HMT	Detailed analysis of expenditure to be voted for departments	Purpose of expenditure; Detailed figures; Links with PEWP; Cash and running cost limits.
	<b>Supplementary Estimates</b>	June/November and February	HMT	Detailed analysis of additional(in-year) departmental requirements	Purpose of expenditure; Detailed figures; Cash limit; running cost limit



Purposes	Title	Month	Prepared by	Providing	Coverage
Control of public expenditure, cash flows and borrowing	<b>Economic Trends</b>	monthly	CSO	Monthly/quarterly outturn estimates	Broad estimates of general Government receipts and expenditure; Borrowing requirement;
	<b>Financial Statistics</b>	monthly	CSO	Monthly/quarterly outturn estimates	Central government current, capital and financial accounts; Borrowing requirement; Supply expenditure; Public expenditure planning total. (Using National Accounts data).
	<b>Autumn Statement</b>	November	HMT	Forecast of outturn of current year's revenue and expenditure	Departmental analysis;
	<b>PEMP</b>	January	HMT	Updated forecast of current year's outturn	Overall and departmental figures; Estimate of outturn of running costs.
	<b>FSBR</b>	March	HMT	Estimate of outturn for current year	Overall public expenditure figures; Analysis of revenue and expenditure by economic category; Summary of estimated accounts of Consolidated and National Loans Funds.
<u>Accountability</u> (Phase 4) Reporting of achievements, payments and receipts	<b>Financial Statistics</b>	Monthly	CSO	Monthly outturns	Consolidated Fund; National Loans Fund.
	<b>Appropriation Accounts</b>	October	Departments	Audited Supply expenditure	Expenditure voted and appropriated by Parliament.
	<b>Cash Limits Outturn White Paper</b>	July	HMT	Cash limit outturn to 31 March	Comparison of outturn with final limits;
	<b>PEMP</b>	January	HMT	Analysis of achievements against objectives and targets Expenditure outturn	Overall and by departments;



Purposes	Title	Month	Prepared by	Providing	Coverage
	Departmental reports		Departments	Report of performance	Departmental results & expenditure.
	National Income Blue Book	September	CSO	National outturn estimates(annual)	Central Government current, capital & financial accounts.
	Consolidated Fund and National Loans Fund Accounts	December	HMT	Payments into and out of the Consolidated Fund and National Loans Fund	Consolidated Fund; National Loans Fund
	Accounts relating to Issues from the National Loans Fund	December	HMT	Sums received by Ministers and others and disposal of those sums	Loans from the National Loans Fund.
	National Insurance Fund Account	December	DHSS	Receipts, payments and balances	National Insurance Fund.



## NATIONAL ACCOUNTS:

## CENTRAL GOVERNMENT SUMMARY ACCOUNT \*\*\*

COMPONENT	SOURCE
<b>Current Receipts</b>	
Taxes on income	Inland Revenue
Taxes on expenditure	Customs and Excise, Inland Revenue, Departmental returns
Social security contributions	Government Actuary's Department
Gross trading surplus	Apex*
Rent, dividends and interest, etc	Apex, National Loans Fund, Departmental returns
Miscellaneous current transfers	Apex
Imputed charge for consumption of non-trading capital	CSO estimate
<b>Total:</b>	
<b>Current Expenditure</b>	
Final consumption	Departmental returns, Apex
Subsidies	Apex, Departmental and Public Corporation returns
Current grants to personal sector	Apex, Government Actuary's Department
Current grants to local authorities	Apex
Current grants paid abroad (net)	Departmental returns
Debt interest	Apex, National Loans Fund, Departmental returns
Total current expenditure	
Balance: current surplus/deficit	
<b>Total:</b>	
<b>Capital Receipts</b>	
Current surplus	
Taxes on capital and other capital receipts	Inland Revenue
<b>Total:</b>	
<b>Capital Expenditure</b>	
Gross domestic fixed capital formation	Apex, Departmental returns
Value of physical increase in stocks	Apex
Grants and transfers to other sectors	Apex
Total capital expenditure	
Balance: financial surplus or deficit	
<b>Total:</b>	
<b>Financial Account</b>	
Transactions in financial liabilities	Bank of England and other sources
Transactions in financial assets	Apex, National Loans Fund
Net total financial transactions	
<b>Balancing Item</b>	

(\*\*\* Table 7.1 - National Accounts Blue Book)

(\* Government accounting information from the Paymaster General's Office)



### Other National Accounts Statistics

Other principal statistics are:

- (a) aggregate information on total final consumption and capital expenditure at constant 1980 prices (Blue Book Table 9.3);
- (b) a functional analysis of general Government - (ie both central and local government) expenditure (Blue Book Table 9.4);
- (c) the financial year analysis of general Government expenditure on social services and housing (Annual Abstract of Statistics Tables 3.1 to 3.6);
- (d) estimates of central Government capital consumption and capital stock (Blue Book Tables 11.5 and 11.7);
- (e) the quarterly derivation of the public expenditure planning total using national accounts data (Financial Statistics Table 2.4).



### Glossary of Terms and Abbreviations

Aim	The purposes for which an organisation exists
APEX	Analysis of Public Expenditure, produced by Paymaster General's Office
Control totals	Public expenditure totals used for planning purposes as published in the Public Expenditure White Paper
CSO	Central Statistical Office
DHSS	Department of Health and Social Security
Efficiency	The ratio of the output of an activity to the resources used to produce that output
FSBR	Financial Statement and Budget Report
Guideline	Document or statement providing advice on appropriate procedures
HMT	Her Majesty's Treasury
IMF	International Monetary Fund
Objective	Statement of what is planned to be achieved and by when
OECD	Organisation for Economic Co-operation and Development
Outcome, Outturn	What actually happened
Outputs	Goods, services or conditions produced by an organisation
Performance	Output, generally measured against criteria such as economy, effectiveness and efficiency
PEWP	Public Expenditure White Paper
Plan	A projected course of action designed to lead to desired results
Planning total	Aggregate of planned public expenditure used by Government for control purposes
Principle	Central rule underlying the preparation and presentation of financial documents
PAC	Public Accounts Committee



PES                    The Public Expenditure Survey - The annual process by which Government reviews its public expenditure plans for the forthcoming three years

PSBR                   Public Sector Borrowing Requirement

Running Costs  
(Departmental)       Total current expenditure on services directly managed by a department, including pay and other staff costs, accommodation and office services

Standard              A recommended method to be followed by practitioners

Trading Fund          Public trading body as defined under the Trading Funds Act 1974 (currently HMSO, Royal Mint, Crown Suppliers)

White Paper  
Organisation          Non-departmental Public Body, or other public body, whose accounts are published in Government White Paper



Hession/13/c

GOVERNMENT ECONOMIC SERVICE  
WORKING PAPERS

DATE OF  
PUBLICATION

(TREASURY WORKING PAPER NUMBER IN BRACKETS)

No 1 (1)	The Standard Budget Balance Nicholas Hartley and Charles Bean Treasury	February 1978
No 2 (2)	Some Effects of Exchange Rate Changes John Odling-Smee and Nicholas Hartley Treasury	March 1978
No 3 (3)	The Italian Public Expenditure Systems Mrs Stephanie K Holmans Treasury	May 1978
No 4 (4)	Determination of Consumer Expenditure in the UK Charlie Bean Treasury	July 1978
No 5 (5)	Balance of Payments Flows and Monetary Aggregates in the United Kingdom Rachel Lomax and Colin Mowl Treasury	August 1978
No 6 (6)	A study of UK imports of Manufacturers Jim Hibbard and Simon Wren-Lewis Treasury	August 1978
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No 8	Secondary Workers in the Cycle Ms H Joshi Department of Health and Social Security	September 1978
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No 12	Evolution and Basic Concepts of the Green Currency System H Fearn Ministry of Agriculture, Fisheries & Food	October 1978



No 13	Wives as sole and joint breadwinners Lynne Hamill Department of Health and Social Security	November 1978
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No 17 (8)	Financial Sector for the Treasury model: Part 1: The model of the domestic Monetary System Peter Spencer Colin Mowl HM Treasury Part 2: The model of external capital flows Rachel Lomax Michael Denham HM Treasury	December 1978
No 18	The Newly Industrialising Countries and the Adjustment Problem J P Hayes Foreign and Commonwealth Office	December 1978
No 19	The Post-War Revival of Competition and Industrial Policy J D Gribbin Price Commission	March 1979
No 20	Some Experiments with the Sing Nagar method of estimating equivalence sales Dr L D McClements Departments of Health and Social Security	December 1978
No 21	The Role of Competition in the 1977 Price Commission Act J D Gribbin Price Commission	January 1979
No 22 (9)	The Test Discount Rate and the Required Rate of Return on Investment I C R Byatt et al HM Treasury	January 1979
No 23	A Framework for Assessing the Economic Effects of a Green Pound Devaluation Sheila Dickinson James Wildgoose Ministry of Agriculture, Fisheries and Food	February 1979



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Permanent Secretary  
H M TREASURY

Chancellor, <sup>56</sup>50

I suggest that we  
spend the smallest possible  
amount of time on this ✓  
and ask David Butler ✓  
to join us. It is absurd  
for you to spend time  
talking to Robin Ibbot  
about CISO etc and  
even more absurd for him  
to start questioning you  
about your judgement  
in relation to the government's  
macro-economic objectives

Bob

Julie  
↓

Ch/ 24/11

Shall we invite  
Mr Butler?

mpw 24/11



Ch/ further brief from David Butler behind.

MPW 26/11

MANAGEMENT IN CONFIDENCE

*mpw*

FROM: C D BUTLER, EOG  
DATE: 23 November 1987

MAIN BRIEF

BUTLER  
TO  
CH/CC  
23/11

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR

**VALUE FOR MONEY TARGETS IN THE TREASURY**

Sir Robin Ibbs is calling on you at 10am on 27 November to discuss the Treasury's value for money targets.

2. Sir Robin's letter of 10 July (enclosed at Annex A) sets out the background. You are meeting Sir Robin in your capacity as Minister in charge of the domestic Treasury and this brief concentrates on that. If it follows past form, however, the discussion could range over value for money in the public sector as a whole.

3. Sir Robin's letter says he wishes to cover particularly:

- i. performance against the 1986-87 targets;
- ii. targets for 1987-88 with an assessment of performance to date (concentrating on major areas - five or six key improvements); and
- iii. the current scrutiny programme and possible new scrutinies to support our value for money targets.

**1986-87 Targets**

4. Sir Robin asked for information on performance against the agreed 1986-87 targets to be sent in advance to the Efficiency Unit. A copy of the paper we sent them is at Annex B. It tells a successful story. The Treasury made good progress in meeting its main value for money targets in 1986-87. The targets set were achieved and in many cases exceeded.

**1987-88 Targets**

5. The Efficiency Unit also have a copy of the targets for 1987-88 at Annex C. For the businesses the targets will be that much harder to achieve given the progress in 1986-87.

6/105.  
53



## MANAGEMENT IN CONFIDENCE

6. We have for the first time included one of the main areas of programme expenditure for which Treasury is responsible: the UK Coinage Vote (£14.6m in 1987-88). We should also include the Bank of England (£86.5m in 1987-88) as the largest item. But we assume that you would not wish to discuss this with Sir Robin Ibbs.

7. Sir Robin may suggest that the targets included for the central Treasury should be extended to cover policy work. There are two answers to this. First, a range of monetary, borrowing and expenditure objectives and targets are set and published in the Autumn Statement, the PEWP and the FSBR. These documents not only state objectives but also quantitative indicators against which to measure achievement. A twice yearly economic forecast is published as well as statistics and analysis on public expenditure and Civil Service manpower. These published objectives and reports provide the framework within which the Central Treasury's performance on policy formulation and implementation may be judged. Second, policies and programmes of work are under continuous review as part of the normal activities of the department. The focus is the annual planning round in which line management and the Treasury's Planning Board reviews past performance, sets forward objectives and work programmes within budgets which reflect the resources required to do the work. It is a continuing task to make these objectives as clear and definite as possible. For a privatisation exercise for example an objective could be to secure a successful outcome by a specific date.

8. It might be worth mentioning the restructuring at NEDO as an example of tough Treasury value for money action (though not declared originally as a target). No savings in 1987-88, but we hope for savings rising to £2.5m p.a. in the following year.

### Efficiency Savings

9. We have not formally conducted an Efficiency Scrutiny (under the Unit's definition) since the Freeman Review of CCTA in 1984. But we have carried forward our own reviews as part of the normal policy and management process in the department and we have participated in the multi-departmental reviews (eg Budgeting, Consultancy Inspection and Review capabilities). Annex D gives examples of such reviews.



C D BUTLER



MANAGEMENT IN CONFERENCE

7/DB10-EOG

FROM: C D BUTLER, EOG  
DATE: 25 November 1987

*If this is raised you could raise some concern about the use of scrutinies to put*

- 1. SIR PETER MIDDLETON *Pressure on the Treasury to increase pay; see the*
- 2. CHANCELLOR OF THE EXCHEQUER *latest effort in Customs*

*2  
26/11*

VALUE FOR MONEY TARGETS IN THE TREASURY

I have just heard from the Efficiency Unit about one other subject which Sir Robin Ibbs may raise on 27 November.

This is on the subject of Scrutinies. The line we recommend you to take in the main brief is that, though we do not have any reviews specifically categorised as Scrutinies, the Treasury's work naturally involves processes which are close to scrutinies. Annex D gives a list of reviews for 1987, and suggests possible subjects for 1988. [An additional thought, not mentioned in that brief, is that, if the Next Steps initiative gets off the ground, we shall be engaged in a process very like a series of scrutinies, to see which of the Treasury's activities appear ripe for Agency status.]

To the Efficiency Unit that response might not appear adequate. They like to have things which can be identified as Scrutinies, so as to keep up appearances. They have indicated that Sir Robin Ibbs might suggest that one example of a scrutiny in 1988 might be to look at the Treasury's role in relation to public service pensions (not just the civil service pension scheme). If raised, I suggest you respond by saying that the idea has merits but the time is not right to do a scrutiny in 1988.

BUTLER  
TO  
OT/EX  
25/11

In more detail you might speak as follows. The Government's policies towards improving competition and encouraging mobility are just beginning to bear fruit in the pensions sector. Measures to encourage portability, transfer payments, the purchase of Additional Voluntary Contributions, personal pensions and equal survivor benefits have all been implemented in DHSS legislation. The consequences for civil service and other public service pensions are either just beginning or about to start. In principle (and in fact) all this is going to have a profound effect on the way in which the Treasury and other departments administer the award and payment of pensions to public service employees. So the area might be suitable for review.



MANAGEMENT IN CONFIDENCE

But in practice it is just the wrong time. To implement all these changes to a tight timetable we are making heavy demands upon a scarce resource (those experienced in pensions administration) in our rather unglamorous superannuation divisions. The time to conduct a review of processes and procedures would be when that did not put at risk the achievement of those deadlines. We might, however, flag up the thought of a review for later treatment, if other priorities permit.



C D BUTLER



PRIVATE AND CONFIDENTIAL

FROM: P J CROPPER  
DATE: 2 December 1987

FINANCIAL SECRETARY

cc Chancellor

VALUE FOR MONEY

Having sat in on your recent meetings, particularly that with Sir Robin Ibbs last week, I have been confirmed in my original view that "Value for Money" is a rather odd yardstick to apply to a revenue department. I would have thought the Prime Minister might sooner or later come to the same view, and that her questioning at your meeting in January might take off in a very different direction from that for which briefing has been prepared.

2. In the case of a spending department, the concept of "Value for Money" is straightforward and meaningful. The Department of Transport spends a certain amount of money; value is obtained by the community; some of that value, such as safety on the railways, may not be easy to quantify in money terms, but it is there nonetheless.

3. In the case of a revenue department there are not one, but three elements in the assessment of "Value":

1. The efficiency and economy exercised in collection of that amount of tax that actually is collected.
2. The inconvenience and waste of resources imposed on the taxpayer (compliance costs).
3. An assessment of the amount of tax that is authorised by law, but does not actually get collected (another aspect of efficiency).



4. Most of the work being done by the Inland Revenue seems to be concentrated on section 1. That is fine as far as it goes. Speed of collection determines how much tax is outstanding, and that has an interest cost. The efficiency with which some tax offices are run, and others are not, is clearly important. The monitoring of progress in the reduction of unit cost is vital (although I sense too much concentration on the head count, and not enough consideration given to "capital" as a factor of production, i.e. money invested in the past in technology and skills).

5. Equally important, however, from the point of view of the national economy, is the trend in the cost of compliance. What about the inconvenience cost to employers of being unable to get replies out of the Superannuation Funds Office in under a year? What about the cost of engaging expensive professionals to explain the complexities of the law on Profit Sharing Schemes, BES, PRP? That is completely outside the Inland Revenue's assessment of "Value for Money": the law is ordained by Parliament. Compliance costs of this sort are left to Professor Sandford to work out, in his own good time, at Bath. And who knows what the trends are? I suspect that, just at present, they are firmly upward.

6. Then again, what about the tax that goes uncollected? The law provides for a whole lot of people to pay a whole lot of taxes. It is patently clear that many of those people are not paying all that is due from them. Apart altogether from Black Economy estimates of £7-£10 billion, one has the Inland Revenue itself saying, in a recent paper:

X | "In our compliance work, with a planned small increase  
| in resources and better selection procedures we are  
| looking to increase yields by more than 15% over the  
| next three years. This is pretty ambitious. And because  
| of our continuing loss of trained Inspectors to the  
| private sector we may not quite succeed. But if we  
| do it will mean over those years an extra £5½ tax for



the Exchequer. And the benefit in terms of better compliance should increase that figure to something over £b8."

Mr Battishill to FST: 20 Nov. Para. 45.

Should this not be one of the objects of a "Value for Money" investigation? May it not be a more important item than any of those so assiduously calculated by Mr Rogers and Mr Crawley? And what about the cost of the very task in which they are engaged? We are told that sizeable resources are going into the development of sophisticated performance indicators for Sir Robin Ibbs. If the marginal return to compliance work, using top Revenue staff, is running at 10:1 and 15:1 - as we are told - then should we not be multiplying by ten or fifteen the apparent "cost" of the time being devoted by Messrs Rogers, Crawley & Co. to all this work? The opportunity cost is the amount of revenue foregone.

7. I sense a breakdown in logic in our management of the Inland Revenue. By concentrating on such a narrow definition of "Value for Money", and by ignoring most of the commercial principles that would have to be taken into account by a business, are we not missing the whole point? If I were the Prime Minister I would want to pursue a quite different line of questioning. Time will tell whether that happens in January or not. But might it not be wise to be ready with a "line to take" before going round to No 10? The strong likelihood is that the Prime Minister will not actually quiz you on "Value for Money", but on "Cost of Collection", with a dash of the recent Oliver Stanley article thrown in.



P J CROPPER



PERSONAL AND CONFIDENTIAL

FROM: P J CROPPER  
DATE: 2 December 1987

FINANCIAL SECRETARY

cc Chancellor ←

You and the Chancellor will no doubt decide whether this is helpful, or whether it should be consigned to the wastepaper basket - or both.

P J CROPPER

Mr Cropper has a good point. There is clearly scope for more revenue for ~~the~~ @ Exchequer tax rate by ~~dropping~~ additional reasons to reducing ~~the~~ tax base. However, we need to know precisely what that will mean in practice - the 'who? whom?' part of the question. Now we have to be part of an IRS-type investigation: in a similar way to the ~~same~~ looked @ by ourselves outside the IRS process: it is proposed by IR to be submitted by FPO and checked by the FSB. Meanwhile, I shall be grateful

for a note on the latest state of play re X.





FROM: MISS M P WALLACE

DATE: 3 DECEMBER 1987

**NOTE FOR THE RECORD**cc PS/Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr C D Butler**VALUE FOR MONEY TARGETS IN THE TREASURY**

Sir Robin Ibbs and Ms Kate Jenkins called on the Chancellor at 10.00am on 27 November at No.11. Sir P Middleton and Mr C D Butler were also present.

2. Sir Robin Ibbs said he would not take up the Chancellor's time discussing details of targets for CCTA, or CISCO. He would prefer to concentrate on the progress that was being made in developing Departments' use of output and performance measures. The Chancellor said that this was of course primarily a matter for the Chief Secretary, but he emphasised that the search for better value for money was an essential element of the Government's public expenditure strategy. Sir Peter Middleton added that the PES system had been refined so that it took more account of available information on output and performance. Value for money questions were an important part of every Survey bilateral, and the quality and quantity of output and performance measures in the public expenditure White Paper had greatly increased in the last few years. The Chancellor said he thought the Treasury was in a unique position to keep up the pressure in this field - this was why it was important to preserve the Treasury's role in approving expenditure proposals.

3. Sir Robin Ibbs asked if it was true that Departments' chances of securing additional resource in the Survey were greater if they could demonstrate the output and performance they expected to achieve. The Chancellor said this was a factor, but not the only one. Sir Peter Middleton said that the progress the Treasury could



MANAGEMENT IN CONFIDENCE



make was constrained by the need to make sure that pressure for better value for money did not increase public expenditure overall - for example, in social security spending. The Chancellor pointed out that performance measures could sometimes be misleading. For example, the cost of collecting each £1 of income tax could be reduced by raising the rate of tax, but this was obviously not the Government's ambition.

4. Sir Robin Ibbs asked what plans the Treasury had for ways of increasing the pressure for better value for money. Sir Peter Middleton said that there was still scope for developing budgeting and financial information systems within the FMI. At the same time, it would be important to try and make the pay system more flexible, and the Treasury was anxious to avoid being centralist and heavy handed.

5. Within the Treasury itself, Sir Peter Middleton said he was still considering the implications of the transfer from the MPO. There might well be scope for savings, or improvements in capability. The Chancellor also mentioned the savings that had been achieved by slimming down the number of EDCs, and reducing the number of NEDC meetings. Sir Robin Ibbs asked if the integration of MPO divisions in the Treasury would be a candidate for a scrutiny. Sir Peter Middleton said he thought it could probably be handled internally, and Mr Butler suggested that it could be dealt with at the management board.

6. Otherwise, Sir Peter Middleton said he was very pleased with the performance of CISCO against its targets, in what was now a very competitive field. He still wished to consider whether the CCTA corporate plan was demanding enough. Both Sir Peter Middleton and the Chancellor felt that the Chessington Computer Centre was performing well in an area where recruitment was very difficult. There were of course problems in assessing the success of the central Treasury against its work programming targets, as its



MANAGEMENT IN CONFIDENCE



outputs were not under its direct control. But Sir Peter Middleton felt that the reorganisation of the finance side a year ago had certainly paid off.

*mpw.*

MOIRA WALLACE





EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries: 01-270 0273

Direct line: 01-270

(PMP)

CH/EXCHEQUER	
REC.	04 JAN 1988 4/1
ACTION	SIR P.M. MIDDLETON
COPIES TO	

BF 3/2  
~~4/2~~  
 8/2  
 11/2  
 15/2

The Rt Hon Nigel Lawson MP  
HM Treasury

31 December 1987

Dear Nigel

17/2 ✓  
 19/2  
 28/2  
 WALKER

BF 21/1  
~~25/1~~  
 28/1  
 2/1

VALUE FOR MONEY TARGETS

When we met on 20 November we discussed the importance of output measures and the means by which Treasury was encouraging Departments to make greater use of such measures. I fully share your objective of ensuring that output measures improve in both quality and quantity, and have been somewhat encouraged in my discussions on 1987/88 targets with Ministers in charge of Departments to find that targets are being defined to cover a broader spread of both administrative and programme expenditure. You are no doubt considering how the concept can be extended within the Treasury so that all the main areas of your expenditure are so far as possible covered. I would be glad if we can discuss your 1988/89 targets early in the new financial year, and if these can be sent to the Unit before the end of March.

We also discussed the integration of the MPO sections which have been absorbed into the Treasury, and I will be interested to hear how you decide to handle this. Treasury has not undertaken a scrutiny for some years, and this might well provide a fruitful area.

Yours ever,

ROBIN IBBS



CONFIDENTIAL



FROM: J M G TAYLOR  
 DATE: 4 January 1988

PS/FINANCIAL SECRETARY

cc Mr Cropper

**VALUE FOR MONEY**

The Chancellor has seen Mr Cropper's minutes of 2 December to the Financial Secretary.

2. He has commented that Mr Cropper has a good point. There is clearly scope for raising more revenue at existing tax rates by devoting additional resources to reducing tax evasion.

3. However, we need to know precisely what this would mean in practice - the who/whom question. Nor would he want this to be part of an Ibbs-type VFM investigation. It is something to be looked at by ourselves outside the Ibbs process: ie a proposal by the Inland Revenue to be scrutinised by FP, and considered by the Financial Secretary.

4. Meanwhile, the Chancellor would be grateful for a note on the latest state of play on the Revenue's targets of increasing yields by more than 15 per cent over the next three years, through a planned small increase in resources and better selection procedures for compliance work.

A handwritten signature in dark ink, appearing to be 'JMG' or similar initials.

J M G TAYLOR





FROM: CHIEF SECRETARY

DATE: 21 June 1988

PRIME MINISTER

R-p.

**BUDGETING IN DEPARTMENTS**

When I sent you on 16 February the second progress report on budgeting following the 1986 Multi-Department Review I said that I would consult you again about publication.

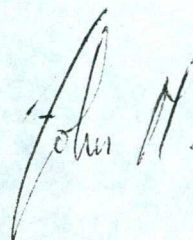
2 The further action plans for the work still to be done by those departments that have not yet met all four principles have now been settled with the departments concerned and have been added to Volume I of the report at Appendix 1. This is attached.

3 In that minute of 16 February I mentioned the difficulties departments were having in devising suitable output and performance measurement systems in some areas of programme expenditure. For the most part, the further action plans concentrate on this area. Within the resources available for public expenditure, it remains important that we maximise outputs and set keen targets for improved performance. We have therefore reinforced this message by again asking departments to provide plans for output and performance measures, with particular emphasis on measures of efficiency and effectiveness, in the running costs management plans and other value for money information submitted for this year's public expenditure Survey. Output and performance measures will also feature prominently in developing the policy and resource frameworks and associated targets for agencies under Next Steps. That will give the work on budgeting a helpful impetus. But we must look to colleagues to ensure that they use this information in the internal management of their programmes.



4 I propose that the report should be made public by way  
... of an arranged PQ. A draft question and answer are attached.

5 I am copying this minute to members of the Cabinet, to  
Richard Luce, Christopher Patten, Patrick Mayhew, Kenny Cameron  
and Sir Robin Butler and Sir Robin Ibbs.

A handwritten signature in black ink, appearing to read 'John M.', written in a cursive style.

**JOHN MAJOR**



**DRAFT PQ FOR WRITTEN ANSWER**

Question : To ask Mr Chancellor of the Exchequer what progress has been made in implementing the recommendations of the Multi-Department Review of Budgeting following the then Chief Secretary's announcement of 29 April 1986 (OR Col 371).

Answer : Departments were asked to draw up action plans for achieving the four principles highlighted by my predecessor and by the Prime Minister in her foreword to the 1986 Report. A report has been prepared which shows that overall departments have made good progress in implementing its recommendations. 13 departments have arrangements in place which meet all four of the principles in respect of all or nearly all of their running costs and programme expenditure. Another 16 have satisfactory arrangements for at least two of the four principles. In a number of departments further work needs to be done, particularly in the field of output and performance measures, as a contribution to the continuing drive to improve financial management. This work will provide an important contribution to the development of policy and resource frameworks for executive agencies under the arrangements announced by the Prime Minister on 18 February 1988 (OR Col 1149).

I am today arranging for copies of the Second Report on the Implementation of the Recommendations of the Multi-Department Review of Budgeting to be placed in the Library of the House.



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# **BUDGETING**

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**Second Report on the Implementation of the  
Recommendations of the Multi-Departmental Review**

**Volume I**



**BUDGETING**

**Second Report on the Implementation of the Recommendations of  
the Multi-Departmental Review**

**Volume I - Main Report and further Action Plans**

**HM Treasury  
Financial Management Group**

**May 1988**



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D	Progress by the central departments	



**SUMMARY****Introduction**

Section 1. This is the second progress report on the implementation of the multi-departmental review of budgeting. Its purpose is to report the action taken by the 34 departments covered by the first report of December 1986 against the 4 main principles of budgeting endorsed by the Prime Minister and to describe the results achieved. It also examines the work done in departments to improve their consultancy, inspection and review (CIR) services; and it summarises the work carried out by the 2 central departments in support of the recommendations in the first progress report.

**Progress by departments on their 1986 action plans**

Section 2. Good progress has been made by almost all departments in carrying out the plans of action reproduced in the first progress report. Some adjustments to the original plans have had to be made to reflect changing priorities or unforeseen developments; but in most of the key areas substantial improvements have been achieved. Examples of progress are shown in Section 2 and, for each department, progress is summarised in Annex A (Volume II).

**Where we are now**

Section 3. An analysis of departments' progress reports on budgeting has been carried out in order to assess their current standing against the 4 key principles for budgeting.

Of the 34 departments, 13 have met all 4 principles in respect of all or nearly all of their running costs and programmes, and another 16 have satisfactory arrangements for at least 2 of the 4 principles. Where a department still has work



to do to meet any principle the Treasury asked the department to produce a further plan.

### **Examples of improvements**

Section 4. A wide range of examples of improvements is given in this section as an illustration of the achievements resulting from better management, budgeting, etc. More are set out, department by department, in Annex B (Volume II).

### **Progress on consultancy, inspection and review services.**

Section 5. The progress reported in this section, and in Annex C (Volume II), leads us to conclude that the need for central oversight of progress in implementing the Efficiency Unit report on CIR is no longer necessary. The top management of departments are fully involved in controlling and deploying CIR forces to best advantage, and in the context of CIR, internal audit arrangements are satisfactory.

### **Progress by the central departments**

Section 6. This section summarises the work carried out by the central departments in support of the initiative for better financial management in departments. The subject is covered in more detail in Annex D (Volume II).

### **The way ahead**

Section 7. We conclude that there is no need for another central progress report covering all departments. Work is well in hand in departments who are at different stages in developing their systems. Departments' plans for further work are summarised in Appendix 1. These developments should be followed up and supported individually by Treasury expenditure divisions as part of their normal contact with departments. More work needs to be done in developing output



and performance measures and linking these with input measures which incorporate the full costs of operations. The Treasury will need to keep abreast of techniques in the private sector to ensure that the Service takes advantage of best current practice.



## 1. INTRODUCTION

1.1 The first report on the progress of budgeting in government departments was issued by the Joint Management Unit, now the Financial Management Group in HM Treasury, in December 1986. This followed the multi-departmental review (MDR) of budgeting.\* As in 1986, the present report looks at the progress made by the 34 departments listed in Annex A (Volume II). It has been prepared by a multi-disciplinary team which included a private sector consultant, under the leadership of the Treasury's Financial Management Group. The team worked in consultation with Treasury expenditure divisions, with whom the assessments of departments' progress were agreed.

1.2 The progress report in 1986 analysed departmental responses in relation to the 4 key principles of budgeting as endorsed by the Prime Minister, and a number of related yardsticks set out by the Chief Secretary to the Treasury. It found that, although progress had been made, there was still some way to go before departments could satisfy the 4 principles. These are that:-

(i) all managers, from the top right through the management line, should be responsible for setting and reviewing budgets;

(ii) budgets must be linked with the government's annual review of public spending, and turn those plans into action;

(iii) budgets should include output and performance indicators, and there should be regular evaluation of what has been achieved compared with the objectives that have been set;

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\*MDR of budgeting; Executive Summary, HM Treasury, March 1986  
(ISBN 0 947819 06 1)



(iv) top managers must organise their own work and that of their departments so as to make clear the responsibilities for setting priorities, managing resources and reviewing performance.

1.3 The Prime Minister endorsed the recommendations in the 1986 progress report. These were that:-

(i) departments should, in October 1987, explain their further progress against the 4 principles, with particular emphasis on the changes in budgeting aimed at getting results;

(ii) departments should say what had been done to improve further the use made of their consultancy, inspection and review (CIR) services;

(iii) departments should report examples of improvements, not necessarily stemming from budgeting; and

(iv) further supporting work listed in the report should be undertaken by the central departments.

1.4 The 1986 report expected that departments' reports in October 1987 would show further advances in budgeting systems and improvements in performance. It recognised however that not every department would have achieved all the goals of budgeting during 1987. In a number of cases, departments' action plans extended well beyond 1987. The Prime Minister asked that the 1987 progress report should indicate which departments had arrangements which allowed them to apply the principles to all, or nearly all, of their running costs and programmes. For other departments there should be an action plan and a specific date by which they would have implemented budgetary controls meeting the 4 principles and the Chief Secretary's yardsticks.



## 2. PROGRESS BY DEPARTMENTS ON THEIR 1986 ACTION PLANS

2.1 A summary of the progress made by departments on the main tasks in their 1986 budgeting action plans, and which departments agreed to implement in 1987 and beyond, is contained in Annex A (Volume II).

2.2 This shows that real progress has been made by most departments in key areas. Either most of the work planned for 1987 has been fully implemented, or work is well advanced to achieve this.

2.3 Adjustments have had to be made to the original timetable by some departments to reflect changing priorities or unforeseen circumstances, or because the original action plan proved over-ambitious. For example:

**Cabinet Office.** A number of new target dates have been set to complete the extensive programme of 18 action points because some aspects have proved more complex and time consuming than originally envisaged;

**Manpower Services Commission.** The size, shape and funding of the Community Programme has been under review and the development of the funding system has therefore been held back. Improvements are being made in the funding systems of its successor.

**Welsh Office.** The suppliers of the department's computerised accounting and financial management system failed to produce it. The Office has reconsidered what it needs to do to implement the principles, both in the short and medium terms, and has produced a revised action plan.

2.4 Every one of the actions implemented by departments represents a successful stepping-stone towards fully integrated budgetary systems. Some examples of the progress made are as follows:-



**Department of Employment**, as a condition of its grants, requires Local Enterprise Agencies to produce 3-year business plans. These must include performance measures which both help the Agencies measure their success and the department judge their achievements. The grant scheme's primary aim is to increase private sector sponsorship of agencies and a target of a further increase of £1 million to a total of £3.8 million has been set;

**Foreign and Commonwealth Office** has run a successful pilot scheme in manpower budgeting in posts in the United States and another in full resource management in the communications field;

**Home Office** has built on work already done in parts of the department to develop a plan for budgeting for running costs and programmes to cover the whole department from April 1988;

**Inland Revenue** has increased the number of budget holders from 1,050, covering 72 per cent of running costs, to 1,326, covering 92 per cent.



### 3. WHERE WE ARE NOW

3.1 This section sets out our assessment of where departments stand now under the 4 principles after a further year of progress. It is based on the departmental responses to a detailed questionnaire and supporting documents, as well as on discussions with action managers and other officials. These responses were followed up in the course of the Treasury expenditure divisions' winter round of discussions with departments about general progress in improving financial management.

3.2 On this basis, of the 34 departments listed in Annex A, we consider that the following 13 have met all 4 principles in respect of all or nearly all of their running costs and programmes:

Cabinet Office	Ordnance Survey
Crown Prosecution Service	Paymaster General's Office
Customs and Excise	Office of Population Censuses and Surveys
Department of Employment	Her Majesty's Stationery Office
Manpower Services Commission	Department of Transport
Central Office of Information	Her Majesty's Treasury
Land Registry	

3.3 Another 10 departments have met 3 of the principles, 6 more have met 2 principles, and a further 3 have met 1 principle. This is not out of line with the expectations in the 1986 report, bearing in mind the amount of work some departments had to do and the number of actions extending beyond 1987. In looking at the position that individual departments have now reached, account must be taken of the point from which they started and also the varying complexity of their programmes. As the following paragraphs show, the overall results referred to above mask the progress that has been made generally by departments and in meeting each individual principle.



Principle 1: All managers, from the top right through the management line, should be responsible for setting and reviewing budgets.

#### Budgets for running costs

3.4 Principle 1 is split into running costs and programmes; for running costs we looked at three interrelated aspects in accordance with the yardsticks laid down by the Chief Secretary in 1986:

- the proportion of departmental running costs in line managers' budgets
- the level to which budgets were delegated;
- the flexibility which managers had to switch expenditure between budget headings.

To meet this principle a department must satisfy all of these. There is no point in having a high proportion of running costs delegated if the level of delegation is maintained at too high a grade, or if managers do not have the authority to switch expenditure between items as the demands of the work dictate. Conversely, a high degree of flexibility coupled with a low proportion of delegated costs is also of little use.

#### Proportion of running costs under line managers' control

3.5 26 departments delegate a **satisfactory** proportion of their running costs. Particularly good examples are:

**Crown Prosecution Service.** 96 per cent of departmental running costs are within line managers' budgets;

**Customs and Excise.** Over 87 per cent of running costs are in line managers' budgets. In the outfield where 75 per cent of costs are incurred, local managers control



96 per cent of their running costs;

**Her Majesty's Stationery Office.** All the department's running costs are delegated to about 300 line managers;

**Department of Trade and Industry.** 550 cost-centres have budgets attributed to them covering 81 per cent of departmental running costs, all within line managers' budgets.

#### Delegation of budgets.

3.6 The level of delegation varies between and within departments according to the sort of work being done. Delegation is greatest where there are large numbers of staff in local offices and least in headquarters where there are fewer staff and less scope to take full advantage of budgeting. Of the 34 departments, 25 are satisfactory in this respect. An overall indication of the extent of delegation is that there are now 11,000 budget holders in the 34 departments. Particular examples include:

**Department of Employment.** Budgets are delegated to HEO level in the Unemployment Benefit Service, with over 1,000 budget holders responsible for most running costs;

**Department of Health and Social Security.** There are about 1,100 budget holders responsible for running costs at all levels from Grade 3 to HEO;

**Land Registry.** 85 per cent of running costs are in line managers' budgets which are held as low as EO level. The department has delegated manpower budgets further than non-staff costs.

#### Flexibility within budgets

3.7 In assessing flexibility we considered expenditure



in two blocks, manpower related and other costs. As a minimum we looked for the authority to switch expenditure within both blocks (for example, between permanent staff, casuals and overtime in the manpower block) but not necessarily between them. With this level of flexibility we also required budget holders to have the authority to vary grade mix. 29 departments have satisfactory arrangements. Examples are:

**Cabinet Office.** Budget holders have full flexibility between budget headings, allowing for switching between all cost elements, and can regrade, create and abolish posts up to Grade 7 level;

**Manpower Services Commission.** A flexible system allows switching between most budget groups at varying grades, mostly 7 and above. This includes switching within and between salaries and other general administrative expenditure. It also allows variation in Grade mix and staff numbers, eg with authority to regrade posts up to Grade 6 level with top management approval;

**Central Office of Information.** Managers may switch expenditure within budgets subject only to the appropriate levels of delegated manpower authority. Managers down to Grade 7 can vary grade mix within overall cost and numbers ceilings;

**Paymaster General's Office.** There is a high degree of flexibility to switch within and between manpower and other elements of budgets.

#### Non-financial costs

3.8 As part of this principle, we also asked departments about their arrangements for non-cash costs such as stocks, depreciation and superannuation but did not use the responses as part of the assessment. Generally, non-cash costs were recorded by organisations which operate memorandum trading accounts but were not necessarily included in budgets.



3.9 This is an area where more work needs to be done in future because in linking inputs with outputs and assessing alternative courses of action, managers need to be aware of the full costs of their operations. Full costs are also required for the calculation of unit costs.

#### **Budgets for programmes**

3.10 For programme expenditure there is a much wider diversity of arrangements reflecting the nature of different programmes. One indicator of budgeting for programmes is the number of managers with delegated responsibility for programme expenditure. Across the 23 departments which have programmes there are 2,550 programme managers. Of the 23 departments, **20 have satisfactory arrangements.** Examples of departments with good arrangements are:

**Manpower Services Commission.** Programme expenditure is devolved down the line from 25 Grade 5 managers to some 1,000 regional and local office programme sub-budget holders;

**Department of Health and Social Security.** Despite the difficulties of applying budgetary control to demand-led programmes like social security, a budget will be given to each local office manager for grants or loans to be paid out of the new Social Fund. There are also many thousands of budget holders at regional, district and unit levels responsible for hospitals and community health service budgets;

**Overseas Development Administration.** Delegation is extensive, with expenditure authorised as low as head of section (Grade 7 or SEO level).



Principle 2. Budgets must be linked with the Government's annual review of public spending, and turn those plans into action.

3.11 In assessing where departments stood in relation to this principle, we considered two aspects: the build-up to the Public Expenditure Survey bid and the distribution of the resources available.

Build-up to PES bids

3.12 For the build-up to the bid we were looking for a system that involved managers contributing to internal bids against a background of agreed aims and objectives embodied in a departmental plan. **Satisfactory** arrangements were in place in **28 departments**. Good examples are provided by:

**Foreign and Commonwealth Office.** An annual top management round, covering a 5-year period, requires posts and departments to bid for changes in resource allocation, to identify the effect of potential reductions in budgets and to report variations from targets. The results of this review, together with a related review of performance and objectives, determine PES bids;

**Lord Chancellor's Department.** The planning processes leading up to PES are underpinned by an overall strategic plan for the department and are informed by the previous year's budgeting and objective-setting exercises.

Distribution of resources

3.13 The process of distributing resources should result in clear budgets being allocated to line managers in good time for the start of the financial year. **31 departments** met this requirement. Departments which have good arrangements for this process include:



**Department of the Environment.** The central finance division issues provisional allocations to each budget group and service centre in November. In the light of discussions with budget groups in January, central finance division negotiates appropriate allocations with central service managers in February. Final allocations are issued to budget and service centres in March;

**Department of Trade and Industry.** Allocations of resources are made to Grade 2s in April after Ministers have decided on the results of the planning and bidding round and the following year's PES submission. Any changes in the allocations will lead to an update in the formal plans at Grade 3 level and a consequential review of targets and performance measures. The change then works down the line management chain through revised branch and section plans.



Principle 3: Budgets should include output and performance indicators, and there should be regular evaluation of what has been achieved compared with the objectives that have been set.

3.14 For this principle we were looking for bids supported by objectives and targets, quantified options for increases and decreases, and budgets agreed and issued with a clear linking of resource allocations with output and performance targets. Only 19 departments have met this principle so far. Good examples of the application of the principle are:

#### Running costs

**Customs and Excise.** The department has developed quantitative output and performance measures. The new operational planning systems will enable results to be monitored at the same time as expenditure;

**Her Majesty's Stationery Office.** Budgets include all resource costs, including capital expenditure, and the output and performance targets, including financial objectives. Monitoring arrangements during the year are good and include an on-line interrogation facility;

**Department of Transport.** The department uses a variety of different types of output measures and performance indicators ranging from activity measures for marine and coastguard services, through detailed productivity measures in DVLC, to overall cost-benefit ratios on highways.

#### Programme expenditure

**Department of Employment.** Performance or output measures are generally included in bids for programme costs. A good system of output and performance indicators is in place at appropriate levels.



**Scottish Office.** Programme narratives submitted with PES bids contain a good spread of output and performance targets with more being developed. Programme managers offer options for increases or decreases in budget bid.

3.15 In part, the difficulties departments have in meeting this principle demonstrate the problems that are still to be overcome in devising output and performance measurement systems in many parts of the public sector. Difficulties occur mainly with programme expenditure and are generally greatest where final expenditure is incurred by agencies outside the department. For the purposes of budgeting and other day to day management controls, it is not realistic in many cases to look beyond intermediate output measures, with final output being tested less frequently in detailed studies. On this basis many other departments are now close to achieving Principle 3. Departments are now collecting a good deal of information. For many of them, the requirement now is to marshal this with corresponding information on inputs to justify given levels of expenditure and to monitor performance. In DHSS, for example, the information now becoming available as a result of the "Korner" exercise in the health service, together with improved monitoring arrangements will enable the Department to improve the way it relates its expenditure bids to the outputs which the Government is seeking to achieve, and to obtain better information about how that link is developing.



Principle 4: Top managers must organise their own work and that of their departments so as to make clear the responsibilities for setting priorities, managing resources and reviewing performance.

3.16 Although there is a wide range of different systems and arrangements within departments, **29 departments are satisfactory.** Some good examples include the following:

**Cabinet Office.** There is a high level of commitment by top management to information systems. Progress against plans is regularly reviewed, usually 3 times a year, with a formal end-of-year review. A "communications co-ordinator" has been appointed by OMCS;

**Crown Prosecution Service.** As a new department, the Service has adopted a structure which emphasises the role of the regions, with a supporting secretariat, and good systems of reporting and communicating decisions;

**Inland Revenue.** The Board has good, regular and effective means of communicating with staff (for example, Chairman's newsletters, the Revenue Record and the house magazine, Network) and takes an active part in setting priorities, and directing and reviewing the work of CIR services. It receives regular monthly reports of progress against plans and of departmental expenditure.

### **Summary**

3.17 The extent to which departments have met the 4 principles individually is shown in the table below. Departments which have not met the requirements of any principle were asked to produce an action plan for improvement, if only for a single principle, following discussions with departments in



the winter round of meetings held by Treasury expenditure divisions covering improvements in financial management. The resultant further action plans are summarised in Appendix 1.

**TABLE 3.1 SUMMARY OF ASSESSMENTS OF THE 34 DEPARTMENTS AGAINST THE FOUR PRINCIPLES**

Assessment	Principle 1	Principle 2	Principle 3	Principle 4
Satisfactory	21	28	19	29
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Further work needed	13	6	15	5



#### 4. EXAMPLES OF IMPROVEMENTS

4.1 As part of their progress report on budgeting, departments were asked to place emphasis on their results by identifying their 10 best examples of improvements in 1986-87 or subsequently. These examples might come from improvements made in the budgeting system, or from a CIR study, a scrutiny or an initiative by top management etc, the key factor being that the end result was the better management of programmes or running costs, and better value for money. We asked for quantification of the examples wherever possible.

4.2 A selection of the main examples of improvements is given at Annex B (Volume II). Some of these are reproduced below, chosen more to illustrate the wide variety of improvements taking place in departments than their individual value:

##### **Cabinet Office - Civil Service College income**

Improved utilisation of accommodation by the College has (i) increased income from outside lettings from £169,000 in 1984-85 to £224,000 in 1985-86 and to £254,000 in 1986-87, and (ii) reduced outhousing costs (arising from accommodating course members in hotels when Sunningdale is full up) from £156,500 in 1984-85 to £80,000 in 1985-86 and to £64,000 in 1986-87;

##### **Department of Education and Science - Financial management survey of Council for National Academic Awards (CNAA)**

As a result of a new computer system and increased delegation to institutions the CNAA has agreed to reduce its running costs by 1989 from £5.8 million to £4.3 million;



## Department of Employment - Quality control review

Quality control checks in local benefit offices have been reviewed and the volume reduced by applying a more selective approach to match cost-effectiveness. Savings of £1.75 million (250 staff years) have resulted;

## Property Services Agency - Reducing expenditure on utilities

One region has reduced water bills by systematic checking for leaks and close monitoring of bills against actual consumption (to identify faulty meters, double-billing etc). This has already led to actual savings of £900,000 plus receipts of £150,000. Other regions are being asked to take similar action;

## Home Office - Police national computer

Despite increased access to the computer, staffing was cut by 10 per cent during 1986-87, equivalent to a saving of £400,000 in a full year. A further cut of 15 per cent, equivalent to £600,000 in a full year, was planned for 1987-88;

## Inland Revenue - Reducing accommodation costs

A review of the Valuation Office led to decisions in 1986-87 on the closure of 23 offices and the reduction of 5 offices to sub-office status. Some 8,948 square metres of accommodation have been given up, with a consequential saving of £678,000 in annual accommodation charges;

## Department for National Savings - Premium bond accounting systems

Using the Girobanks' "Transcash" system has saved about £1.3 million in agency charges in 1987-88;



## Paymaster General's Office - Bulk mail discounts

The sorting of computer-printed overseas mail into postal zones prior to printing qualified the Office for "Airstream" discount, saving approximately £30,000 per annum;

## Department of Transport - Microfilm retrieval

DVLC has a very large microfilm library with three-quarters of a billion driver and vehicle documents stored on a quarter of a million cartridges. Replacement of the existing electrostatic microfilm reader/printer by new plain paper microfilm copiers has resulted in costs being reduced from 7p to 1p per copy. Total savings are running at over £300,000 per annum.



## 5. PROGRESS ON CONSULTANCY, INSPECTION AND REVIEW SERVICES

5.1 We recorded in the December 1986 report on budgeting the suggestion made in Chapter 4 of the Joint Management Unit's Report on Consultancy, Inspection and Review Services in October 1986 that departments should say in their 1987 progress reports on budgeting:

- what top management had done to focus better the work of their CIR services;
- what further multi-disciplinary assignments had been done, and with what results;
- what further training in CIR skills they have given their line managers, and what experience they had of managers putting those skills into practice;
- the outcome of their reviews of the organisational arrangements for Internal Audit.

5.2 We have set out in greater detail in Annex C the good progress in all respects reported by departments. All departments have established well defined, and in many cases formal, procedures by which top management can effectively direct the work of CIR staffs to take account of their assessment of needs and priorities.

5.3 A number of multi-disciplinary assignments involving different combinations of CIR specialisms have been undertaken by departments. These assignments have been a qualified success, and the lessons learned will be put into practice in future assignments. The benefits of bringing a range of expertise to bear upon a problem, and of engendering a greater awareness of what different specialists can offer have been confirmed by departments' experience.

5.4 The majority of departments have taken steps to improve the CIR skills of line managers through training opportunities



and/or provision of guidance. Experience of applying these skills is so far limited, but all the evidence suggests that a good harvest is in prospect from the seeds which have been sown.

5.5 The reports indicate that, in relation to CIR, the organisational arrangements for internal audit are generally satisfactory.

5.6 In the 3 years since the Efficiency Unit's report on CIR in 1984, departments' arrangements have improved to the extent that they can be fairly described as satisfactory. The momentum for further improvements in value for money in the use of CIR services is now firmly established in all departments, and we therefore conclude that continued oversight by the central departments of the implementation of the Efficiency Unit's report is no longer necessary.



## 6. PROGRESS BY THE CENTRAL DEPARTMENTS

6.1 The progress report in 1986 set out the Treasury's and OMCS's plans for further work in 1987. Progress has been made on the following fronts:

- delegated authorities have been revised for 6 departments; and, in addition to continuing work, there are plans to review delegations in another 7. The basis of delegated authority for IT has been redefined and linked to the preparation by departments of IT strategies. Work is in hand, or has been completed, on IT delegations for 7 departments. Expenditure delegations for each department will be codified by July 1988 where this has not already been done;
- a personnel management handbook was published in April 1988;
- for running costs the main emphasis in control and planning of departments' use of resources will from 1988-89 be on their cash provision rather than manpower numbers. By 1 April 1988 6 areas of activity had met the criteria for exemption from gross running costs control. A number of flexibilities on pay have been introduced; and long term pay agreements cover Grades 5-7 and grades represented by two major unions, the IPCS and IRSF;
- in the Public Expenditure Survey departments have been asked to submit three year management plans for running costs with annual efficiency gains;
- the review of the Treasury staff inspection guidelines is proceeding with the aim of introducing changes in 1988. Representatives from a selection of departments are being included in this work;



- case studies in 6 departments on budgeting for programmes are in progress and will be completed in 1988 as a basis for a report by the Treasury;
- guidance notes on output and performance measurement for managers and specialists in departments will be circulated in 1988;
- a revised document setting out the responsibilities of Principal Establishment Officers and Principal Finance Officers was sent to Permanent Secretaries in November 1987;
- a report for departments of progress in giving line managers more flexibility within budgets was issued in August 1987;
- a guide and progress report on policy evaluation was published in April 1988;
- a report for discussion within the Treasury on performance indicators for the management of vehicles - as an example of a service wide function - was completed in November 1987;
- a leaflet for staff setting out the main messages from the MDR of budgeting and subsequent developments was circulated to departments in July 1987.

A more detailed account of progress is contained in Annex D (Volume II).



## 7. THE WAY AHEAD

7.1 We have considered what further work needs to be done to reinforce the progress already achieved. In relation to departments and the contribution that budgeting makes to the wider objective of better management in the civil service, we think that a period of stability is required to enable departments to complete the work in hand, consolidate the improvements already made and decide for themselves, in the light of their own circumstances, what further progress is possible. We do not therefore recommend any new service-wide initiatives; nor has the need for any emerged from departments' progress reports and our discussions with them. This still leaves a significant programme of work:

(i) those departments which have yet to achieve the four principles have development work to do to complete their systems: Appendix 1 summarises the specific work to which they are committed;

(ii) departments have had to apply the principles in ways which best meet the needs of their many individual businesses - often very different even within departments. It would be optimistic to assume that every department has got its systems entirely right first time. A number of departments have been making adjustments or considering modifications to the systems installed immediately after the launching of the FMI. Realistically, we expect that most departments will need to continue the process of fine-tuning their budgeting arrangements. This mirrors private sector experience. It is a healthy sign that the systems are being used by departments and that departmental management is anxious to get them right;

(iii) some departments have been affected by organisational changes which will call for unforeseen modifications to their budgeting arrangements. The



Department of Employment, for example, has to consider the needs of the new Employment Service against the background of the different systems operating hitherto in the Unemployment Benefit Service and Manpower Services Commission;

(iv) managers at all levels in departments need to continue the process of familiarisation with the new working methods created by greater decentralisation of resource management. Private sector experience again suggests that it will take two or three annual cycles before departmental managements adjust fully to the new methods of working and the benefits of the new arrangements are maximised. This means continuing the shift towards control of inputs and outputs on the basis of linked targets for both, at successive levels of management, with the overall objective of improving value for money. In relation to running costs in particular, the new emphasis on three-year management plans with target efficiency savings should provide a considerable boost to this process and therefore help to embed the 4 budgeting principles as part of day to day working methods;

(v) organisational and other changes arising from the Prime Minister's statement on 18 February 1988 about the Efficiency Unit's Report "Improving Management in Government: the Next Steps" are likely to have practical implications for existing budgetary arrangements in a number of departments. The systems required may have to be unravelled from existing departmental-wide systems, and possibly adapted to focus them better on the discrete functions concerned. We expect the implementation of "Next Steps" to both reinforce and add impetus to the work on budgeting.

7.2 For the central departments the first need is to complete the specific actions recommended in the first progress report set out in section 6 above. Second, within the overall framework of public expenditure control, there is a need to continue to develop the emphasis on outputs, to incorporate



full costs in inputs and, through the process of linking outputs and inputs, to set forward value for money targets. This will encourage the process of change within departments and ensure a consistent approach throughout the expenditure control chain.

7.3 The Treasury will need to continue to keep abreast both of progress in departments and of particular developments in techniques outside the Civil Service to ensure that the service keeps up to date.

7.4 The Treasury will also be discussing with the Cabinet Office (OMCS) and the Civil Service College whether existing training courses need to be adapted to meet departments' needs.

#### **Future monitoring**

7.5 Now that most departments have reached the stage of consolidation and fine tuning, we think that the time has come for a different approach to monitoring from the centre. A further centrally produced report covering all departments would be of only limited value, and would make unproductive demands on the time of those in departments who should be concentrating on running and improving the new systems. Many of the departments who have yet to comply fully with the 4 principles will do so during 1988, while others may require a good deal longer. Future monitoring needs to be tailored more closely to the circumstances of individual departments, and could best be carried out on a bilateral basis between Treasury expenditure divisions (with specialist back-up and further guidance as necessary) and departments. This would be consistent with the Treasury's existing arrangements for monitoring progress on financial management, would place the minimum additional burden on departments, and would ensure that departmental systems responded both to their needs and those of the Treasury. We therefore recommend that no further reports in the present form should be commissioned.



## FURTHER ACTION PLANNED BY DEPARTMENTS

1. Ministry of Agriculture, Fisheries and Food
2. Intervention Board for Agricultural Produce.
3. Ministry of Defence.
4. Department of Education and Science.
5. Health and Safety Executive.
6. Department of Energy.
7. Department of the Environment.
8. Department of the Environment (Property Services Agency).
9. Export Credits Guarantee Department.
10. Foreign and Commonwealth Office.
11. Office of Fair Trading.
12. Department of Health and Social Security.
13. Home Office.
14. Inland Revenue.
15. Lord Chancellor's Department.
16. Department for National Savings.
17. Northern Ireland Office.
18. Overseas Development Administration.
19. Scottish Office.
20. Department of Trade and Industry.
21. Welsh Office.

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Note: The number in the left hand margin on each action plan indicates the principle on which further work is required.



## MINISTRY OF AGRICULTURE FISHERIES AND FOOD

- (3) Carry out policy evaluations on capital grants, R & D and ADAS charging. July 1988
- Examine key measures of achievement recorded in MINIM 1988 during Ministerial review meetings. June 1988
- Develop and extend output measures for main programmes included in MAFF management plan for both running costs and programme expenditure. July 1988
- Develop performance indicators for work of Farm and Countryside Service in ADAS. June 1988
- Extend information provided by policy Under Secretaries to Senior Budget Centre Managers in MINIM "Job to be Done" form to include overall programme targets and measures of achievement. May 1988
- Require targets and performance measures to be included as part of 1989-90 DBC budget submissions. November 1988
- Evaluate pilot budgetary system for Animal Health Group. October 1988
- In light of above, take stock and bring recommendations to Management Board for future work. October 1988



## INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

- (3) Senior management approval of divisional management plans and the objectives and performance measures included therein. May 1988
- Senior Managers will regularly review resource use against objectives using performance data and re-order accordingly including setting of new targets. They will make periodic reports to the Senior Management Group for any decisions on movement of resources across divisional boundaries. Summer 1988 (and quarterly thereafter)
- (4) Consider the case for recruitment of a specialist to help the Board develop consistent and comparable performance measures across differing work areas. June 1988
- Performance measures and indicators to be drawn up for all the Board's activities in the light of progress on pilot schemes. December 1988
- Specific efficiency targets for the Board's main activities to be drawn up when enough information has been gathered and in the light of experience gained from application of targets in pilot areas. March 1989
- Complete training of staff on performance measurement. December 1988



## MINISTRY OF DEFENCE

- |            |   |      |
|------------|---|------|
| (1)        | Complete development work on new budgetary and vote management arrangements   | 1988 |
|            | Finalise structure of top level budget holders  | 1988 |
|            | Begin introduction of Unit Identity Numbers into payment system   | 1988 |
|            | Introduce further higher level Executive Responsibility Budgets for senior managers                                 | 1989 |
|            | Finalise arrangements for integration of new budgetary system with resource allocation process (Long Term Costing). | 1989 |
|            | Complete implementation of Unit Identity Number system  | 1990 |
|            | Re-allocate vote management responsibilities to align with budgets  | 1990 |
|            | Complete introduction of higher level Executive Responsibility Budgets  | 1990 |
|            | Complete implementation of hierarchical budgetary system as vehicle for in-year cash management.                    | 1991 |
| (2)<br>and | Inaugurate initial pilot round of objective setting and performance review process (PROSE)                          | 1989 |
| (4)        | Complete adaptation of defence planning procedures to conform with new management strategy.                         | 1990 |
|            | Complete development of Top Management Information System (TOPMIS)  | 1991 |



- (3) Continue work, as a matter of high priority, on refining of objectives and development of performance indicators for Executive Responsibility Budget purposes.

Develop and introduce macro-type performance indicators for TOPMIS and new budgetary regime in accordance with timescales specified above.



## DEPARTMENT OF EDUCATION AND SCIENCE

- |             |  |                             |
|-------------|--|-----------------------------|
| (1)         | Complete specification for new Financial and Management Information System (FMIS).   | Autumn 1988                 |
|             | New personnel information system goes live.  | December 1988               |
|             | Formulate initial proposals for cost centre and delegated budgets arrangements in 1990-91.   | December 1988               |
|             | Select hardware and software for new FMIS.   | February 1989               |
|             | Top management decides on allocated staff budgets, total cost centre budgets and branch budgets for 1989-90.   | March 1989                  |
|             | Top management decides on new arrangements for cost centres and delegated budgets.   | June 1989                   |
|             | Development of payroll modelling system.   | December 1989               |
|             | FMIS Software design and installation and FMIS testing and training.   | December 1989 to March 1990 |
|             | FMIS goes live with new arrangements for cost centres and delegated budgets.   | April 1990                  |
| (2) and (3) | Assess budget needs for selected expenditure by reference to objectives, quantified where possible, and performance indicators for three year Survey period. | Summer 1988                 |



Budgets agreed by Ministers.

November 1988

Information prepared on objectives, quantified where possible, and performance indicators for all expenditure sub-programmes of more than £10m annually including evaluation of outputs achieved in 1988.

April 1989

Assess budget needs for three year Survey period for these sub-programmes and set priorities by reference to the information on output and performance.

May 1989

Budgets agreed by Ministers on the basis of assessment.

November 1989



## HEALTH AND SAFETY EXECUTIVE

- (1) Senior staff to be allocated budgets covering divisional plans of work and manpower ceilings, coupled with flexibility to vire between running costs within budgets. Budgeting responsibility to be devolved further down the line as considered appropriate by Heads of Divisions. Implemented
- Review scope for further delegation within budgets. Autumn 1988
- Implement recommendations of above review. 1 April 1989
- (2) Submit HSE Plan of Work for 1988-89 onwards to Ministers. June 1988
- First draft of 1989-90 Plan. March 1989
- (3) Produce annual efficiency report, including range of output and performance measures (OPM). April-August 1988
- Initiate pilot exercise to test work recording in policy divisions; examine scope for extending system to other areas to provide managers with better information to formulate OPMS. May-June 1988
- Develop method of expressing resource projections in cash terms; complete evaluation of detailed costing system for future plans. October 1988
- Introduce costing system into divisional planning for 1990-91 - depending on outcome of above evaluation. March 1989



Evaluate work recording pilot in policy divisions.

August/  
November 1988

Introduce extended work recording system - depending on Executive decisions on pilot - and recording of any additional information to support OPM.

April 1989

(4) Management Board to discuss new arrangements for devolved budgeting.

Implemented

Executive and Management Board to review new arrangements and consider future options.

October 1988

Brief Planning Officers and Senior Managers on new planning systems.

December 1988



## DEPARTMENT OF ENERGY

- (1) Prepare evaluation report, with recommendations, on the first year of the manpower budgeting experiment and on the process of setting budgets for the second year for submission to the Management Board. By October 1988
- Final evaluation of manpower budgeting experiment. June 1989
- (3) In conjunction with Treasury specialists, complete a study programme of the problems of applying output and performance measures to specific areas, in particular R & D programme expenditure and safety inspection work, and methods of overcoming them. Ongoing
- Prepare joint progress report. July 1988
- Review with certain divisions their objectives, tasks, targets and indicators and translate lessons learned into proposals for improving Divisional Returns for consideration by the Management Board. By November 1988



## DEPARTMENT OF THE ENVIRONMENT

(3) Decide priorities for the use of central economic expertise to help improve output and performance measures in certain areas of departmental activity, eg executive and service areas.

June 1988

Develop rolling programme of improvements in in output and performance measures for departmental activities. Include improved measures in 1989 MINIS round.

January 1989

Expand coverage and improve existing measures of output and performance measures in respect of programme expenditure.

March 1989



## PROPERTY SERVICES AGENCY

- (1) Complete delegation of resource cost budgets to all appropriate levels of management and increase number of items included in budgets. April 1989
- Improve linkages between existing planning and control systems for programme expenditure, workload and resource cost budgets. April 1989
- Complete integration of budgeting systems for the planning and control of programme expenditure, workload and resource costs. April 1990
- (3) Prepare quarterly memorandum trading account for Civil major works by directorate for quarter ended 30 June 1988. July 1988
- Complete design study of strategic IT systems requirements stemming from introduction of commercial accounts. July 1988
- Extend payment and untying to further PSA services and introduce MTAs to match. April 1989
- Extend payment and untying to remaining PSA service functions and introduce MTAs to cover all services. April 1990



## EXPORT CREDIT GUARANTEE DEPARTMENT

- (1) For the 1989 Business planning round, September 1988  
cost centres will bid for all resources (except certain central services, where the Department's small size requires central allocation) needed to achieve their agreed Business Plan objectives. The resources made available to service groups will be determined by the needs of the business groups.
- Cost centres will be provided with monthly May 1988  
outturn statements of direct and indirect costs as an aid to budgetary control.
- Budget managers are to be given departmental September 1989  
guidance on controlling and monitoring budgets. Training on budgetary management and general ledger systems to be given to all budget holders.
- (2) Budgets stem from the business planning December 1988  
process and in turn feed into PES submissions. Procedure to be enhanced to carry linkage through to Estimates submission and next business planning round.
- (3) The general ledger will provide a single September 1988  
source of financial information for cost centres. This will allow progress on divisional objectives to be measured against costs.
- The overhead allocation system will allow September 1988  
support group costs to be apportioned to the business groups. The departmental objectives can then be measured against costs.



Introduce an accompanying set of performance and workload indicators at group and divisional level.

September 1988

(4) Chief Executives division to co-ordinate planning process, establish priorities, and review performance, to enhance top management control.

May 1988



## FOREIGN AND COMMONWEALTH OFFICE

- (1) Extend to Information Technology Department April 1988  
two-year experiment in budgeting in the  
Hanslope Park (communications) administrative  
departments.

Extend Posts' local budgets to cover April 1989  
local staff pay, some residential rents  
and other items recommended by the  
Efficiency Scrutiny of Local Budgets.  
Local budgets to cover 45% of running  
costs and 80% of local costs by  
1 April 1989.

Extend manpower budgeting to additional January 1990  
multi-Post countries if review of  
experimental scheme in US Posts is  
favourable.



OFFICE OF FAIR TRADING

- (1) Include staff costs in line manager's delegated April 1988 budgets.



## DEPARTMENT OF HEALTH AND SOCIAL SECURITY

- (3) 1988 (and subsequent) PES bids to include output/performance indicators and forecasts. May 1988
- Key performance standards for social security administration to be set for 1988-89 and annually thereafter. October 1988
- Completion of trials of performance-based system (PBS) for complementing LOs and the Whole Unit Concept (WUC) approach to assessing LO processing rates. September 1988
- Following trials to begin the introduction of new complementing system. April 1989
- Assessment of pilot unit cost scheme for War Pension and Mobility Allowance Branches and extension of the scheme to other areas in NFCO and a pilot introduced to NCO. March 1989
- Social Security reforms to be evaluated against objectives. End 1988-89
- Health authorities performance against agreed objectives to be monitored in year and at the year end using Korner and other regular returns. April 1988
- Specific output measures to be developed for expenditure plans from 1989-90 onwards. Results to be monitored in year and at the year end. May 1988
- Subject to evaluation of existing pilot schemes, to start extending the resource management End 1989



initiative to all acute hospitals, providing clinicians with detailed patient information and involving them in the management of budgets.

Following trial, develop and extend package of performance measures for HQ divisions. On going

Continue development of output and performance measures for programmes, including:

(a) key indicators for the Personal Social Services to be put into use; December 1988

(b) existing performance indicators for Family Practitioner Services to be refined for use in the General Medical, Dental and Pharmaceutical Services. December 1988



## HOME OFFICE

- (1) Review levels to which budgets have been delegated and, in the light of experience, consider scope for further formal sub-delegations. Autumn 1988
- (2) Complete further work on the implications for existing Annual Performance Review and strategy exercises of budget holders bidding for resources for the full Survey period in the context of agreed objectives, targets and performance measures. [Autumn 1988]
- (3) Extend and improve output and performance indicators for Magistrates' Courts, Probation Service, Prisons, Fire Service, Civil Defence and police. December 1988
- Introduce aggregated indicators of national performance for Magistrates' Courts. Autumn 1989
- Finalise specification for Probation Service Financial Management Information System. Phased introduction into probation area services. Spring 1989
- In Prison Service, evaluate regime monitoring system and develop improved arrangements for putting accurate staff costs to activities within establishments. Summer 1989
- In the light of decisions about the extent of further sub-delegation of budgets, improve the quality of financial data to functional managers within establishments by (a) determining the proper alignment of financial management systems; (b) providing more soundly-based manpower costs for functions; and (c) implementing the necessary changes to data bases. 1992



## INLAND REVENUE

(3) Develop a wider range of efficiency (input/output) indicators for use in departmental planning and budgeting:

- develop a series of unit costs covering main blocks of department's work. Autumn 1988

Following pilot scheme, introduce Clerical Resource Allocation Guide (CRAG) throughout Taxes network to improve allocation of manpower resources and monitoring of their use:

- issue District complements under new system. Autumn 1988

Following pilot scheme, implement nationally new points system for content/targeting of Inspector investigation work:

- to monitor 1988-89 results; Autumn 1988
- extend to include targeting for 1989-90. April 1989

Further develop Finance Division database. Spring 1989



## LORD CHANCELLOR'S DEPARTMENT

- (1) Agree the residual details and nominate Courts Administrators as budget holders in the Court Service; October 1988
- Define those costs to be included in budgets and the required supporting activity planning, resource bidding and expenditure monitoring procedures; March 1989
- Issue central guidance which ensures uniformity of practice and defines the authority to switch expenditure between budget heads; March 1989
- Train Courts Administrators in the concept of delegated budgetary control and effective resources management and the practical implications of both for their jobs. Continuous programme
- Develop a management information system for budget holders based on a defined uniform management information requirement agreed with Resources Division. October 1989
- (4) Develop a comprehensive management information system for the Management Board and Resources Committee. Framework: October 1988  
Final: October 1989
- Agree and promulgate a business related Departmental strategy with defined objectives straddling organisational boundaries which sets the parameters for the planning, objectives setting and control cycle. May 1988



## DEPARTMENT FOR NATIONAL SAVINGS

- (3) DNS are including information on workload and linking this in their Resource Management Budget for 1988-89 for the first time to units of work per head achieved in the past year and assumed for the budget year. The Resource Management Budget was issued in April 1988. From May 1988 the Management Board will monitor both the workload and the units of work achieved by staff on major product workstreams.

May 1988



## NORTHERN IRELAND OFFICE

- (1) Review the existing arrangements for delegated budgetary control with a view to extending the formal delegation to reallocate budgets in-year below Responsibility Centre manager (Grade 3) level. December 1988
- (3) Review and implement improvements in the output and performance measures used for the police and the probation service. December 1988



OVERSEAS DEVELOPMENT ADMINISTRATION

(1) Prepare detailed proposals, including as full an assessment as possible of likely costs and benefits, for the further delegation of running costs (and, in particular, manpower) from the centre to line managers. The bidding/resource allocation process should be linked with Aid Framework procedures. December 1988

Take decisions on implementation of proposals by 31 March 1989. March 1989



SCOTTISH OFFICE

- (4) Introduce procedures for obtaining Ministerial May 1988  
decisions on priorities in the Departmental  
Management plans, and in response to in year  
constraints on expenditure.



## DEPARTMENT OF TRADE AND INDUSTRY

(3) To develop proposals for further output and performance measurement for major programme expenditure. July 1988

To reach agreement with HM Treasury on our proposals and, where necessary, on an action plan for the introduction of specific measures. October 1988



## WELSH OFFICE

(1) Further extend budgeting to cover 1990-91 telecommunications, training, accommodation costs not previously delegated, some capital expenditure and all remaining delegatable office services.

Commence extending responsibility for budgeting 1988-89 to Grade 5 and where practicable to Grade 7 level.

Increase flexibility in budgets by allowing budget 1988-89 managers to transfer funds within their delegated budgets, to adjust complement and in the case of Grade 5 officers to regrade posts up to SEO level.

Install the enhanced management and financial 1991-92 accounting system.

Trial pilot scheme for recharging in order to 1989-90 make managers aware of the total cost of their functions.

Commence extension to middle management of 1988-89 involvement in the budget setting process.

(2) Integrate group plans into the internal public 1989-90 expenditure Survey in order to further improve the information available to top management and Ministers as a basis for determining priorities.

Introduce three-yearly departmental management 1988-89 plans, the plans to be approved by Ministers.



(3) Introduce divisional planning systems based on 1988-89 objectives and incorporating resource targets, output measures/measures of achievement.

Improve the relationship between objectives and 1988-89 performance targets.



CH/EXCHEQUER	
REC.	27 JUN 1988 <i>22/6</i>
ACTION	CST
COPIES TO	



*MP*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

24 June 1988

*Dear Sir*

BUDGETING IN DEPARTMENTS

The Prime Minister has seen the Chief Secretary's minute of 21 June on this subject. She is content that the report should be made public, and she is also content with the draft PQ which the Chief Secretary set out.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Minister for the Civil Service, the Minister for Overseas Development, the Attorney General, the Lord Advocate, Sir Robin Butler and Sir Robin Ibbs.

*Yours*  
*Dominic*

Dominic Morris

Miss Jill Rutter,  
Chief Secretary's Office.



UNCLASSIFIED

FROM: D J McSHARRY

DATE: 29 JUNE 1988



PS/CHIEF SECRETARY

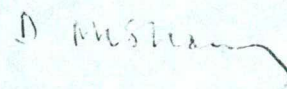
cc) PS/Chancellor 12/2  
PS/Paymaster General  
Mr Anson  
Sir Anthony Wilson  
Mr Phillips  
Mr Harris  
Mr Welsh  
Mr Gieve  
Mr Dyer  
Mr Flitton

**PUBLICATION OF THE 1988 REPORT ON BUDGETING**

As you know the Prime Minister has agreed to the publication of the second progress report on the MDR of Budgeting (see her private secretary's letter to you of 24 June).

2. Subject to the Chief Secretary's approval, the written PQ which he submitted to the Prime Minister with the report on 21 June will be tabled for answer on Thursday 7 July. IDT (Mr Flitton) has confirmed that this is an acceptable date from their point of view: the Prime Minister's press office are also content for the announcement to be made on this date. Copies of the report will be placed in the libraries of the House of Commons and House of Lords. Further copies of the report will be made available through the Treasury's Publishing Unit.

3. We do not expect the report to create a great deal of press interest. However, we are preparing some briefing for our press office which will be copied to FMI contacts in departments.



D McSHARRY





FROM: S I M KOSKY

DATE: 4 July 1988

*[Handwritten signatures and initials]*

MR D J McSHARRY

cc:

PS/Chancellor

Paymaster General

Mr Anson

Sir Anthony Wilson

Mr Phillips

Mr Harris

Mr Welsh

Mr Gieve

Mr Dyer

Mr Flitton

**PUBLICATION OF THE 1988 REPORT ON BUDGETING**

The Chief Secretary has read your submission of 29 June and has given his approval to the written PQ being submitted to the Prime Minister.

*[Handwritten signature of S I M Kosky]*

S I M KOSKY