



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Business,
Innovation and Skills

Financial management report

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National Audit Office

Department for Business, Innovation and Skills

Financial management report

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
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Amyas Morse
Comptroller and Auditor General
National Audit Office

9 July 2012

This report focuses on the Department's financial management, including how it oversees its partner organisations to ensure their sound financial management.

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This report can be found on the
National Audit Office website at
www.nao.org.uk/bis-financial-management-2012

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Key facts

£22.5bn

the Department's operating cost, net of income, for 2010-11

42

partner organisations that the Department sponsors

78%

of the Department's spending was by its partner organisations in 2010-11

- 92 per cent** of the Department's net assets are direct loans to students
- 18.8 billion** or 60 per cent, after adjusting for inflation, forecast growth in the value of student loans between 31 March 2011 and 31 March 2015
- 27 per cent** current funding cut, after adjusting for inflation, which the Department will undergo between 2010-11 and 2014-15 in core resources. This is a slight increase from the 25 per cent announced at the time of HM Treasury's spending review
- 9.2 per cent** underspend, at 31 March 2012, compared with the Department's final net budget requirement estimate, as at February 2012
- 53 per cent** of partner organisations, in February 2012, provided timely information to include in the Department's monthly management accounts, a significant improvement on the 12 per cent that managed this in May 2011

Summary

1 The Department for Business, Innovation and Skills (the Department) is focused on delivering the Government's goal of sustained and balanced economic growth. It is responsible for a broad range of policy areas including: science and research; innovation; enterprise and business; fair markets; better regulation; universities and skills; and regional economic development. The Department was created in June 2009, following the merger of two predecessor departments.

2 The Department devolves the majority of its delivery aims to its network of 42 partner organisations. These vary significantly in their size, function and legal status.

3 In 2010-11, the Department had an operating cost, net of income, of £22.5 billion of which 78 per cent was spent by its partner organisations. The nature of the Department's business, with its focus on investment and loan activities, means it has a complex and substantial balance sheet.

4 This report reviews the Department's financial management against a model developed by the National Audit Office. The main features of good financial management that the model covers are:

- financial monitoring and forecasting;
- financial planning;
- financial and performance reporting;
- finance for decision-making; and
- financial governance and leadership.

5 This report focuses on the Department's financial management, including how it oversees its partner organisations to ensure their sound financial management. Our methodology is set out in Appendices One and Two.

Key findings

The scale of the challenge for the Department

6 The Department has developed financial management processes and capacity that are effective for stable circumstances. The Department has been through successive machinery of government changes in recent years and now covers a broad span of policy areas. It sponsors 42 partner organisations, most of whom have their own finance systems. Despite this, the Department's resource accounts have historically been published to time and received true and fair audit certificates. The Department has a number of high-quality capable finance staff. It typically produces management accounts within 10–12 working days of month end; a time frame that compares well across government. It has also taken steps to develop its finance function further.

7 The Department will have to manage a much tighter financial position following the 2010 spending review announcement. In particular it will:

- need to reduce its administration budget by 42 per cent, once inflation is taken into account;
- have less flexibility to manage its resources due to the growth of hard-to-predict budgets such as maintenance grants and increased ring-fencing of monies; and
- implement a substantial reform programme which includes replacing the higher education teaching grant with student loans, attracting private investment into Royal Mail and establishing the Green Investment Bank.

The core resources covered by the 2010 spending review announcement are forecast to reduce by 27 per cent, after inflation, between 2010-11 and 2014-15. However, this does not include a rise in student loan payments, much of which the Department expects will be repaid sometime after 2014-15. Once these financial transactions are included, total departmental spending is forecast to reduce by 6 per cent, after inflation, between 2010-11 and 2014-15.

8 The Department recognises that its current financial management capacity and skills will not be sufficient if it is to manage the substantial challenges ahead. It is implementing a number of change programmes aimed at integrating financial management across the Department and its partner organisations. The outcomes of this are as yet unclear and our work has identified a number of areas where the Department will need to make further changes to financial management.

9 The Department has managed itself and its partners effectively in its efforts to produce consolidated accounts for the first time as part of HM Treasury's 'clear line of sight' programme. The 'clear line of sight' programme requires the Department to produce a more complex set of accounts that includes the Department's non-departmental public bodies as well as the core department and executive agencies. The Department has 33 additional bodies to include as a result of this programme, making it a far more significant undertaking for them than for most other departments. The additional bodies include six which had delayed accounts in 2010-11 and the eight regional development agencies that were closing down in 2011-12. The Department has devoted significant management effort to the programme and is beginning to realise wider benefits such as improved communication between itself and its partners. At the time of publication of this report, the Department does not expect to meet the summer parliamentary recess target for producing these accounts but this does not detract from its overall effective management of the programme.

Informed decision-making

10 The Department is on a different financial reporting system than many of its partner organisations, making management reporting complex and resource intensive and leading to incomplete reporting. In May 2011, 12 per cent of partner organisations provided data to the Department on a timely basis for inclusion in monthly management accounts. This improved in the second half of the financial year and, in February 2012, 53 per cent of partner organisations provided sufficiently timely data. However, even with these improvements the overall accuracy of management accounts was weakened by the significant percentage of partners unable to provide timely data. The Department is planning to bring its partners together on one system, by a phased move to a shared service centre. In October 2011, we found that there had been problems with establishing the shared service centre and that substantial work was required before any expansion took place.

11 The Department needs to take further actions to improve its forecasting accuracy. In 2011-12 it underspent, based on provisional figures, its final approved parliamentary expenditure limit by 9.2 per cent. A significant element of the underspend was attributable to difficulty forecasting the value of the student loan book and the associated impact of any changes in value on operating costs. Such valuations are sensitive to changes in economic forecasts. The Department has undertaken a series of actions to improve its forecasting accuracy, for example developing better financial models to support its preparation of forecasts for key activities. Further work is needed, however, to improve in-year monitoring and forecasting performance.

12 The Department has developed an innovative framework for reporting its non-financial performance but, as yet, this does not clearly link to its spending.

In September 2011, the Department developed a new performance management framework. This new framework has helped the Department to better understand the link between its activities and its objectives. However, the Department still has some way to go before it understands the link between cost and performance. For example, it reports financial performance differently and so overall performance monitoring and reporting is not yet integrated. When the Department, in November 2011, reviewed the financial position for 2012-13 to 2014-15, it decided to apply uniform cuts of 1 per cent rather than, if better information had been available, targeting areas that were inefficient or over-performing.

13 The Department does not sufficiently consider how to manage its overall finances in the medium and longer term. The Department considers future years infrequently and does not include a monthly profile of future spending in its management accounts. The balance sheet is critically important to the Department, particularly due to the cash flow management implications of student debt recovery and the wider policy potential of selling the student loan book. We would therefore expect the balance sheet to be routinely reviewed by one of its governance committees but this does not occur. Further, the Department does not typically agree operational plans until three months after the financial year has begun.

14 The Department needs a more structured approach to making decisions with significant financial implications, as the current approach risks weakening the financial scrutiny of key decisions. The Department is responsible for some major areas of spending and reform. It has taken steps to improve the information available to aid decision-making. However, it currently takes a case-by-case approach to key decisions meaning they are not all subject to the same scrutiny before approval. In some instances, the Department completed business cases after making decisions. There is no consistent quality assurance process for scrutinising the financial elements of business cases.

Financial capability

15 The Department has raised and strengthened the profile of its finance function, but governance changes mean there is a risk that this focus will not be maintained. Since mid 2011, the main forum for financial oversight was the Department's executive finance board, chaired by the Permanent Secretary. Compared with previous arrangements, evidence suggests the top management team has been more closely engaged in the financial performance of the organisation. Changes to governance from March 2012 mean that some of the board's financial decision-making will now be delegated to a new performance, finance and risk committee, chaired by the Director General, Finance and Commercial. There is, in our view, a risk that financial management issues will be seen within the Department to have been downgraded just as the challenges are increasing. The Department has recently decided to invite non-executives to join its performance, finance and risk committee.

16 The Department's finance function has a number of high-quality, capable staff but relies on a small number of key individuals to effect change. Feedback from Department staff, its partner organisations and external parties about senior finance officials was positive. However, the role of group finance staff, who support managers in making spending decisions, needs to keep developing so that they can secure further change and deliver the Department's ambitious financial management plans effectively.

17 The Department has taken steps to improve its sponsorship arrangements with partner bodies but this has yet to lead to lasting change. In early 2011, the Department put in place a number of measures to improve sponsorship including establishing a sponsorship advisory board and developing guidance to help oversee partner bodies. The Department also initiated reviews of its major partners, to assess the inherent risks faced and overall capabilities. We found little evidence that the assessments had yet impacted on how the Department sponsors organisations. Despite the steps the Department has taken there are still gaps in communication, especially with audit committee chairs.

Conclusion on value for money

18 The Department has worked hard over the last 18 months to improve the prominence and quality of its financial management. Its current financial management practices have enabled it to keep its day-to-day financial management on track, during a period of substantial organisational change.

19 The Department is facing substantial financial challenges in the medium term, largely as a result of the 2010 spending review settlement. To meet these challenges the Department needs to refocus efforts from procedural to strategic financial management. Until it does so, the Department will not achieve the value for money it needs from its financial management activities. Key areas for action include: improving the quality of information available to support decision-making; strengthening cross-department arrangements for scrutinising investment proposals; and improving its sponsorship of partner organisations.

Recommendations

- a** **The Department's management team needs a wider range of data available to it to improve its management of the business.** There are a number of gaps in the financial and non-financial performance information routinely available to the Department. In particular the Department needs to:
- integrate financial and non-financial data so that it is better informed on cost drivers and relative efficiencies;
 - allow for greater scrutiny of non-financial performance by more clearly quantifying the information provided to the management team and being clearer on what constitutes good performance; and
 - include a wider range of data in management accounts so that financial performance is better understood and the management of financial risk more widely shared.
- b** **The Department should establish a common framework across the organisation for reviewing all decisions with significant financial implications.** The Department needs a more structured approach to making decisions with significant financial implications. A common framework could, for example, take the form of a single investment board with clear delegations for those decisions not subject to its oversight. For a new approach to work effectively, the Department will need to develop a more consistent way of appraising and presenting the information used in such decisions.
- c** **The Department needs to guard against the risk that its new governance arrangements reduce the focus devoted at board level to financial management issues.** The new governance arrangements carry a risk that financial management issues do not receive sufficient coverage at top-management level and receive limited non-executive scrutiny.
- d** **The Department needs to build the capacity and capability within its sponsorship function and better prioritise the resources it devotes to this activity.** The Department's risk assessment processes are not used to facilitate differentiation in the Department's approach to sponsoring partners who are considered to be high or low risk. The Department is also not communicating effectively with audit committee chairs meaning that a valuable resource for improving partner organisation performance is not used fully.

Part One

The increasing importance of financial management for the Department

1.1 This part of the report outlines:

- the Department's responsibilities;
- its principal financial management challenges;
- the Department's plans to strengthen financial management; and
- the scope of this report.

The Department's responsibilities

1.2 The Department for Business, Innovation and Skills is responsible for delivering the Government's goal of sustained and balanced economic growth. This remit includes government policy on: science and research; innovation; enterprise and business; delivering fair markets; better regulation; universities and skills; regional economic development and improving the government's management of its shareholdings.

1.3 The Department has had to manage a series of reorganisations. It was formed in June 2009, following a merger of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills. These former departments were themselves created in June 2007. Since its establishment there have been additional smaller reorganisations, most recently in July 2011. Our work on reorganisations within government has shown that they impose cost and pose major challenges for public bodies, absorbing significant management time including reorganising the finance function.¹ The Department has said that it took between 12 and 24 months for the Department to stabilise after the June 2009 changes.

1.4 The Department provides its services through 42 partner organisations.² Partner organisations vary considerably in their size, function and legal status. The Higher Education Funding Council for England, for example, is a statutory body that provides grant funding for higher education. It receives funding from the Department of over £7 billion. In contrast, for example, Capital for Enterprise Limited, a government-owned

¹ Comptroller and Auditor General, *Reorganising central government*, Session 2009-10, HC 452, National Audit Office, March 2010 and Comptroller and Auditor General, *Reorganising central government bodies*, Session 2010-2012, HC 1703, National Audit Office, January 2012.

² The 42 excludes advisory and tribunal non-departmental public bodies and any partner organisations which are subsidiaries of other partner organisations.

company, acts as an investment manager for the Department’s venture capital and debt guarantee schemes and receives grant funding from the Department of around £2 million. The Met Office provides global weather and climate services and is the UK’s National Weather Service. As a trading fund it is legally part of the Department but operates as a separate semi-commercial entity. The Met Office returns a dividend of around £8 million each year to the Department, which is also its main customer.

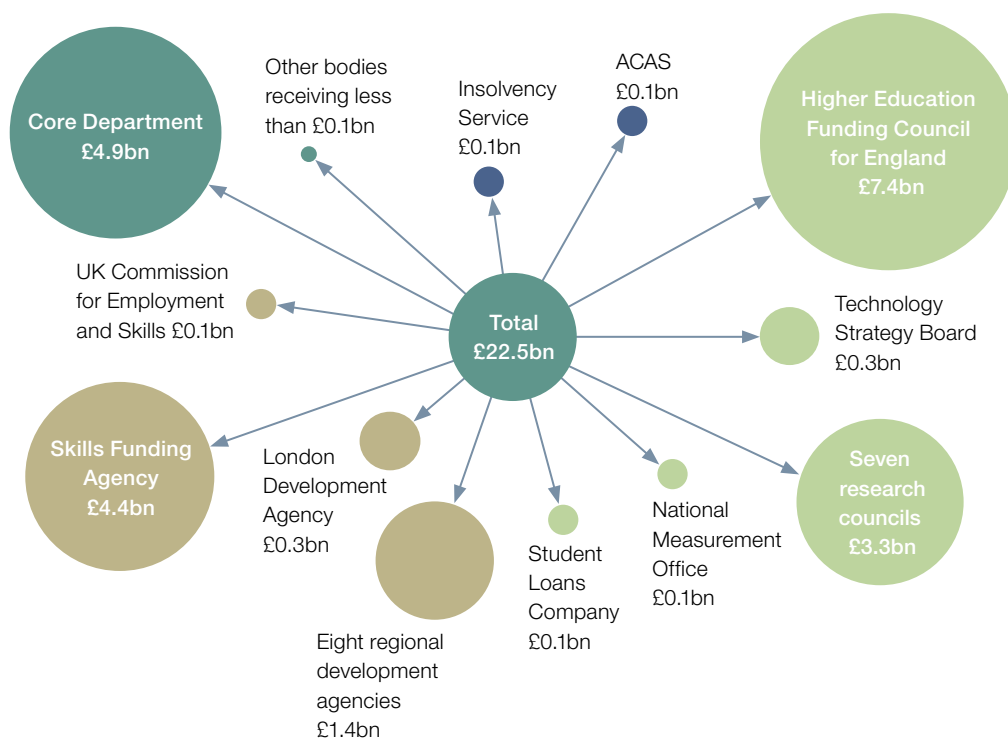
Financial management challenges

1.5 The Department had an operating cost, net of income, of £22.5 billion in 2010-11. Of this, 78 per cent was spent by its partner organisations (Figure 1).

Figure 1

The most significant spending partner organisations in the Departmental group, 2010-11

Of the Department’s net operating cost, 78 per cent is spent by its partner organisations



Departmental group

- Knowledge and innovation
- Market frameworks
- Business and skills

NOTES

- 1 The regional development agencies and the London Development Agency will be wound up by summer 2012.
- 2 The Department is involved in policy affecting a number of non-ministerial departments, such as the Office of Fair Trading, which are financially independent of the Department and do not feature in the above table.
- 3 Partner organisations that operate as trading funds or for-profit companies, such as the Met Office and Royal Mail Holdings PLC, do not appear in the above figure.
- 4 The Department, along with the Foreign and Commonwealth Office, also funds UK Trade and Investment.
- 5 Numbers do not add due to rounding.

1.6 The Department manages an increasingly complex balance sheet. The balance sheet is dominated by the Department's £24.3 billion of direct loans to students, which account for 92 per cent of the net assets of the Department. It also has investments of £1.9 billion made to the civil aviation industry to support designing and developing civil aerospace projects (**Figure 2**).

Figure 2

Summary of the Department's balance sheet, as at 31 March 2011

Direct loans to students account for 92 per cent of the Department's net assets

Net assets/(liabilities)	£ billion
Direct loans to students	24.3
Items affecting companies	1.8
Of which: investments to support developments in civil aviation	1.9
Investments in venture capital funds	0.1
Guarantees to others supporting companies, especially small companies	(0.2)
Items affecting partner organisations not included in accounts	0.7
Of which: investments and guarantees affecting Royal Mail and Post Office	1.1
Other investments and guarantees	(0.4)
Other	(0.3)
Total assets less total liabilities	26.5

NOTE

1 Other items are those concerned with the management of the Department including the Department's property, cash holdings and its own liabilities.

Source: *Department's Resource Accounts 2010-11*

1.7 Figure 3 shows that over the period 2010-11 to 2014-15, the structure of the Department's spending will be changing, requiring tighter financial management:

- The Department expects to reduce spending on core resources by 27 per cent, after adjusting for inflation.³
- The Department's administration budgets will be reduced by 42 per cent, after inflation, from £0.9 billion in 2010-11 to £0.6 billion in 2014-15.
- The largest financial impact will arise from reforming higher education. From September 2012, a significant proportion of the grants from the Higher Education Funding Council for England will gradually be replaced with tuition fees paid by students, in most cases borrowing from the Government. By 2014-15, the Department forecasts it will be spending £3.1 billion less on teaching grants than in 2010-11, but £5.3 billion of additional student loans will be made compared with those in 2010-11.⁴ The combined effect of this is that total departmental spending will fall by 6 per cent in the spending review period. The Department anticipates that most of the student loans paid out in this spending review period will be repaid in the future.

1.8 The Department is also working on a number of other reforms associated with the spending review settlement. These include:

- By the summer of 2012, the Department will have replaced the regional development agencies with local enterprise partnerships. Government assessors, appointed by the Department and following Cabinet Office guidance, assessed progress on this project in March 2012 to be 'amber/green' concluding that successful delivery was probable but that constant attention was needed to mitigate the risks.
- The Department will aim to attract private investment into Royal Mail. By March 2012, the Department had obtained the necessary primary legislation and European Union state aid approvals to proceed with its plans.
- By March 2015, the Department will provide £1.3 billion to modernise the Post Office network.
- By September 2012, the Department will set up the Green Investment Bank. The investment bank will support environmentally beneficial industries, with initial capital of £3 billion. By March 2012, the Department had produced an outline business case for the Bank and established a shadow organisation, known as UK Green Investments.

³ HM Treasury, *Spending Review 2010*, Cm 7942, October 2010, pp. 51–53. This source shows a 25 per cent adjustment. When changes since the spending review are included this increases to 27 per cent.

⁴ The £5.3 billion of additional student loans is net of repayments but includes interest charged to students and graduates and a forecast £0.5 billion of loans to further education students.

Figure 3

Total departmental spending, 2010-11 and 2014-15

The largest changes during the 2010 spending review, by financial impact, arise from reforming higher education, including reducing teaching grants which is offset by increasing the gross book value of student loans

	2010-11	2014-15	Total increase/ (decrease) before adjusting for inflation (£bn)	Percentage change after adjusting for inflation (%)
	(£bn)	(£bn)	(£bn)	(%)
Items contributing to net operating cost of Department				
Core resources announced in spending review 2010	17.1	13.9	(3.2)	-27
Of which: ring-fenced science and research	4.2	4.2	0.0	-10
Ring-fenced administration	0.9	0.6	(0.3)	-42
Non-ring fenced:				
Higher education teaching grants	5.1	2.0	(3.1)	-64
Further education	3.6	3.3	(0.3)	-18
Maintenance grants and allowances for students	1.6	2.1	0.5	18
Other	1.7	1.7	0.0	-8
Non-cash consequences of balance sheet movements	4.3	3.5	(0.8)	-27
Other operating cost items	1.1	(1.0)	(2.1)	-181
Total net operating cost	22.5	16.4	(6.1)	-34
Items contributing to movements in balance sheet				
Net increase/(decrease) in gross book value of student loans	4.4	9.7	5.3	97
Other	0.4	1.5	1.1	289
Total capital movement affecting balance sheet	4.8	11.2	6.4	112
Total departmental spending	23.0	24.1	1.1	-6

NOTES

- 1 No adjustment has been made for inflation except for in the final, percentage change, column. For this, inflation has been adjusted for using the GDP deflator.
- 2 Numbers for the 2014-15 financial year use Departmental forecasts, as at 31 March 2012. For some items, including all those listed under the heading 'Core resources announced in spending review 2010', budgets were set in the HM Treasury spending review in November 2010, more details of which are available at www.hm-treasury.gov.uk/spend_index.htm. These numbers have been updated for announcements since the spending review up to and including 31 March 2012. The Department has some discretion on how it allocates monies against these lines.
- 3 Total departmental spending is equivalent to total net operating cost plus total capital movement affecting balance sheet less non-cash consequences of balance sheet movements.
- 4 Non-cash consequences of balance sheet movements are mostly the Department's estimate of student loans that will not be repaid and, where applicable, subsidies for loans on which market rates of interest are not charged. This amount also includes depreciation but does not include movements on provisions or working capital.
- 5 Other operating cost items include capital grants and the effective interest charged on student loans.

Source: *The Department*

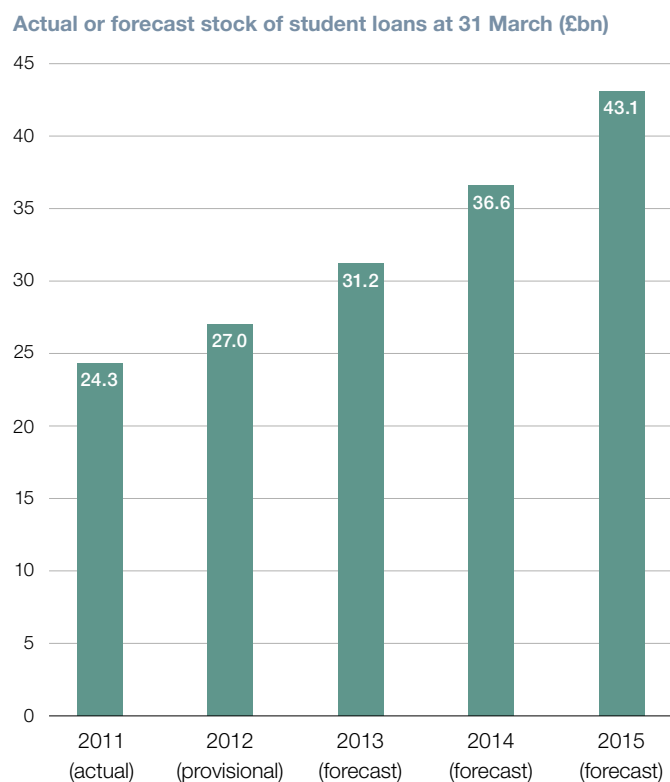
1.9 The Department will need to manage its balance sheet more carefully as a result of changes during the spending review period:

- Reforms to higher education will result in the balance sheet value of student loans growing from £24.3 billion, as at 31 March 2011, to a forecast of £43.1 billion by the 31 March 2015 – an increase of £18.8 billion (60 per cent after adjusting for inflation) over the period (**Figure 4**). The Government has an on-going policy interest in the sale potential of the student loan book.
- Assets of around £28 billion from the Royal Mail pension scheme will come on to the Department’s balance sheet during 2012, prior to disposal by the Department.
- The assets and liabilities of many more of the Department’s partner organisations will come onto the Department’s balance sheet as a result of HM Treasury’s ‘clear line of sight’ programme.

Figure 4

Forecast balance sheet value of student loans, 2011 to 2015

The balance sheet value of student loans is expected to rise by 60 per cent, after adjusting for inflation, during the 2010 spending review period



Source: The Department

1.10 The Department's ability to manage and flex its budgets is likely to decrease by 2014-15, compared to 2010-11, due to several factors:

- The growth as a share of departmental spending of maintenance grants and allowances for students. Spending on these items is, to a degree, demand-led and outside the control of the Department.
- Increased ring-fencing means that underspends on some items, such as science and research, cannot be used to meet overspends elsewhere.
- New Cabinet Office rules, which require some areas of spending, such as ICT and consultants, to be approved by them before being incurred.

Department plans for strengthening financial management

1.11 Since the Department was formed in 2009, it has produced its resource accounts before the summer recess, meeting the expectations of Parliament, and received a true and fair audit certificate. In 2011-12, the Department is producing a more complex set of resource accounts under a programme known as 'clear line of sight'. This programme aligns the treatment of partner organisations in the HM Treasury budget and Parliamentary accountability frameworks. Through the programme, the Department will have to consolidate an additional 33 partner organisations not previously included in resource accounts.⁵ The additional bodies include six which had delayed accounts in 2010-11 and the eight regional development agencies that were closing down in 2011-12. This is a major undertaking for the Department and it has devoted significant management time and effort to the programme.

1.12 The Department has recognised it needs to strengthen its finance function. It is:

- introducing a 'finance for the future' initiative, that is seeking to integrate financial management within the Department and its partner organisations, comprising common data formats, financial processes and approaches to staff development;
- migrating to a shared services facility to introduce common processes and systems for processing routine financial transactions in the Department and its partner organisations; and
- having more demanding financial targets and expectations for the most senior civil servants in the Department.

⁵ Resource accounts previously included four partner organisations. Five trading funds and public corporations will still be excluded from resource accounts after the 'clear line of sight' programme.

Scope of report

1.13 This report examines whether the Department's actions to improve financial management are likely to be sufficient to meet the challenges ahead. The report is underpinned by an assessment model that we have developed that compares the current and recommended financial management performance, identifying any gaps.⁶

1.14 The report considers:

- how far the Department's systems deliver the financial and performance information needed to inform decision-making (Part Two); and
- the Department's capacity, in terms of governance, skills and processes, to use this information to drive business performance (Part Three).

The report considers how well the Department oversees partner organisations but does not assess the financial maturity of those partner organisations. Appendices One and Two to this report summarise the study methods.

⁶ Further details of the model can be found at: www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

Part Two

Informed decision-making

2.1 This Part examines the Department's capacity to produce the financial and performance information it needs to support its decision-making, in particular:

- financial monitoring and planning;
- linking financial to non-financial performance; and
- making decisions with financial consequences.

Financial monitoring and planning

2.2 The Department has a monthly management accounts process to monitor and report on its finances, which reports by administrative group within the Department. We examined the completeness, accuracy and timeliness of this information.

2.3 The finance team in the core Department faces the challenge of producing reliable financial information, using data drawn from its partner bodies. Many of these partner organisations are on different ICT systems to the Department's Oracle-based financial system. As a result, most of the partner bodies supply data manually for input on to the Department's financial systems. Where partner organisations cannot supply timely financial data, the Department has to use forecast figures for its monthly reports.

2.4 The Department has improved the completeness of the data in its management accounts. However, by February 2012, only 53 per cent of partner organisations were providing data in sufficient time for inclusion in monthly management accounts. This compares with May 2011 when the Department received timely data from only 12 per cent of partner bodies (**Figure 5** overleaf).

2.5 The Department is producing management accounts within a reasonable time frame. Our analysis of the Department's data shows that in the last financial year, it took between 10 and 12 working days to produce the management accounts after the month had finished.⁷ This compares well with other government departments.

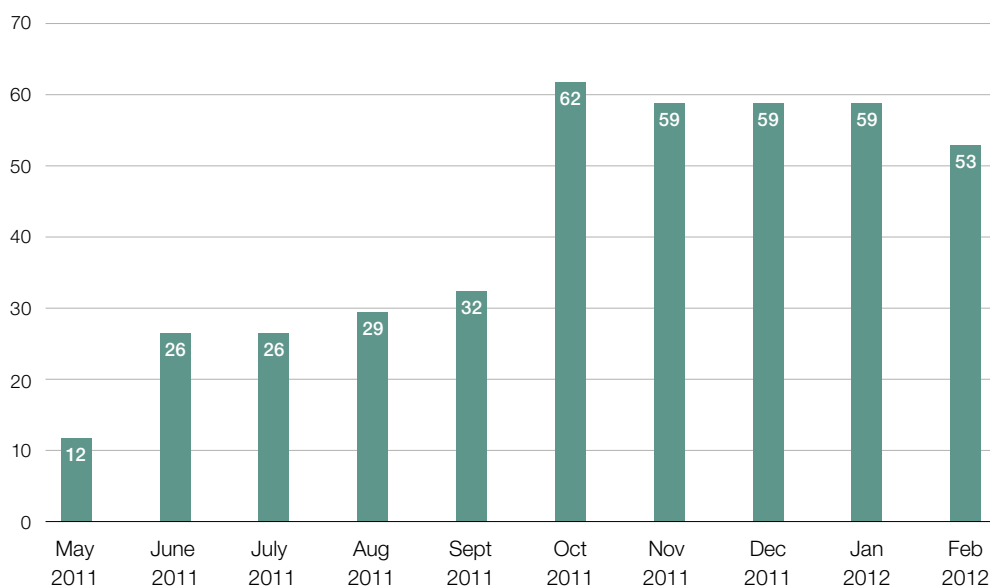
⁷ This analysis excludes March 2012 for which accounts were produced significantly later than usual, in mid May, as part of full year financial reporting.

Figure 5

Partner organisations included in management accounts in 2011-12

The Department has improved the completeness of its management accounts. However, by February 2012, only 53 per cent of partner organisations were providing data in sufficient time for inclusion in monthly management accounts

Percentage of partner organisations whose actual results were included in management accounts

**NOTES**

- 1 No management accounts were produced in April 2011.
- 2 Management accounts for March 2012 were produced in May, significantly later than normal, as part of full year financial reporting. They did, though, include all partner organisations.

Source: National Audit Office analysis of information from the Department

2.6 The completeness of management accounts would be further improved by including other pieces of data. For example, the management accounts do not, even quarterly or less regularly, include a balance sheet. We would expect to see some regular monitoring of the balance sheet, given its significance to the Department (see paragraph 1.9), the cash flow impact of student debt recovery and that changes in the balance sheet can significantly impact on the Department's income and spending.

2.7 The Department plans to address the weaknesses in its financial monitoring and reporting systems as part of migrating its systems and, in phases, those of its major partner bodies to the shared service centre platform developed by the research councils. The first phase of this migration is planned to take place during 2012 and will include the core Department and nine of its partner organisations, requiring an investment of £12 million. We found in October 2011, that the research councils had encountered problems while establishing, and during the early operation of, the shared service centre and that substantial work was required before any expansion took place.⁸

⁸ Comptroller and Auditor General, *Shared services in the research councils*, Session 2010-2012, HC 1459, National Audit Office, October 2011.

The migration is a major project for the Department and it, and the shared service centre, have put in place project management and assurance regimes to help them achieve a successful outcome.

Financial forecasting

2.8 In recent years financial forecasting has been an area of weakness for the Department, leading to significant over- or underspends against parliamentary allocations (**Figure 6**). In 2011-12, it underspent its final supplementary estimate, based on provisional figures, by 9.2 per cent. Its internal management forecasts during 2011-12 showed significant volatility in the projected end-of-year position with estimates ranging from £24.9 billion to £27.4 billion compared to the final figure of £25.1 billion (**Figure 7** overleaf). This prompted the Department to submit a supplementary estimate to Parliament in February 2012.

Figure 6
Outturn against parliamentary estimate

The Department has been weak at financial forecasting, leading to significant over- or underspends against parliamentary allocations

	2009-10		2010-11		2011-12 (provisional)	
	Net resource requirement	Net cash requirement	Net resource requirement	Net cash requirement	Net budget	Net cash requirement
Main estimate: presented to Parliament between April and July of the financial year to which they relate (£bn)	21.5	24.6	20.3	24.6	24.9	22.8
Final supplementary estimate: presented to Parliament in the February of the financial year to which they relate (£bn)	23.0	26.1	24.3	24.6	27.6	24.3
Final outturn (£bn)	22.0	24.6	23.5	23.3	25.1	22.5
Over- or (under)spend against main estimate (£bn)	0.5	0.0	3.2	(1.3)	0.2	(0.3)
(%)	2.5	0.1	15.5	(5.2)	0.7	(1.1)
Over- or (under)spend against final estimate (£bn)	(1.0)	(1.5)	(0.8)	(1.3)	(2.5)	(1.8)
(%)	(4.4)	(5.6)	(3.3)	(5.2)	(9.2)	(7.2)

NOTES

- 1 There were two main estimates in 2009-10, one for each predecessor of the Department.
- 2 Net resource requirement is the upper limit agreed by Parliament on the amount of resources a department may spend in a year. It does not include capital but does include non-cash items such as depreciation. In 2011-12 parliamentary accountability frameworks were aligned with HM Treasury budgeting frameworks under the 'clear line of sight' programme. This led to new parliamentary control totals, which when added together are known as net budget. Net budget is approximately the equivalent of net resource requirement plus approved capital spend.
- 3 Net cash requirement is the upper limit agreed by Parliament on the amount of cash a department may use in a year to finance its spending. It is the sum of net resource and capital requirements adjusted for non-cash items.
- 4 The 2011-12 final outturn is in the process of being audited and is provisional until that work is completed.

Source: Parliamentary estimates, departmental resource accounts and the Department

Figure 7
Accuracy of forecasting in 2011-12

The Department's internal management forecasts in 2011-12 showed significant volatility concerning the projected end-of-year position

	Full year management forecast as made at: (£bn)				Provisional full year actuals (£bn)
	Beginning of the year (budget)	End of September 2011	End of December 2011	End of February 2012	
Most volatile budgets	8.1	8.4	10.8	10.7	8.9
Other spending	16.8	15.8	16.6	16.2	16.2
Total	24.9	24.2	27.4	26.9	25.1

NOTES

- 1 The Department's most volatile budgets are the daily cash requirements of the Post Office, for example to make pension or benefit payments, and three elements of student loans: the gross amount paid to and repaid by students, the Department's estimate of the non-recoverable element of student loans and the ongoing subsidy following the sale of part of the student loan book in 1998 and 1999.
- 2 Management forecasts of spending are produced as part of monthly management accounts processes. They are not the same as the upper limit on spending set by parliamentary estimates shown in Figure 6.

Source: National Audit Office analysis of Departmental data

2.9 The Department's primary difficulty lies with forecasting some sizeable and inherently volatile commitments, most notably student loans and meeting the daily cash requirements of the Post Office. These items, as shown in Figure 7, accounted for much of the volatility in its forecasts in 2011-12. The financial impact on the Department of student loans, for example, is influenced by decisions taken by higher education institutions, students and the performance of the economy:

- The value of the student loan book is dependent on expectations of future earnings by students. Students repay their loans, plus interest, at a rate of 9 per cent of income above a certain threshold. If the Department expects not to recover any part of a loan, it must account for that as a net operating cost immediately. Estimates of likely recoveries are highly sensitive to movements in economic forecasts. In 2010-11 and 2011-12, the Department's operating cost was £2.6 billion and £1.9 billion higher than expected at the start of the year. This was due to worse-than-expected economic performance, low interest rates and some changes to the Department's expectations of future incomes. The Department's supplementary estimate, submitted to Parliament in February 2012, made provision for an even higher figure but the Office for Budget Responsibility's economic forecasts in March 2012 resulted in the provision not being needed.

- Higher education institutions have some autonomy to set tuition fee levels. The amount paid out in loans therefore depends on the fees set by higher education institutions, the number of students attending each institution and the take-up of student loans. Under the Government's reforms of higher education, the average tuition fee set by higher education institutions will increase. The outstanding loans, which will appear as an asset on the Department's balance sheet, are set to increase significantly over the coming years, with any fluctuation in the valuation year-on-year having an impact on net operating costs.

2.10 The Department took action in 2011-12 to try to improve its forecasting practice. For example it has: introduced more sophisticated modelling on some of its more difficult-to-forecast activities, including student loans; introduced a mid-year review of its income and spending against budget with the aim of better understanding where over- and underspends might occur; and introduced software to help managers cost and track administrative spending with some improvements to the accuracy of forecasts on the latter.

2.11 The Department is taking additional steps to improve its forecast accuracy in 2012-13 but there is scope for it to go further. The Department monitors outturn against budget each month, but it does not monitor against the most recent forecast. Therefore, it does not know how good its most recent forecasts have been. Further, the management accounts do not include a monthly profile of spending for the current year. Also, reporting on future years is annualised and produced infrequently and separately from management accounts. We would expect an organisation the size of the Department to report a profiled forecast for the coming 12 months or longer, and to monitor against this as well as against the original budget.

Linking financial to non-financial performance

2.12 Understanding the link between financial performance and non-financial outcomes is a key element of good financial management. In this section we consider how the Department monitors and reports non-financial performance, and the link with reporting financial performance.

Measuring performance

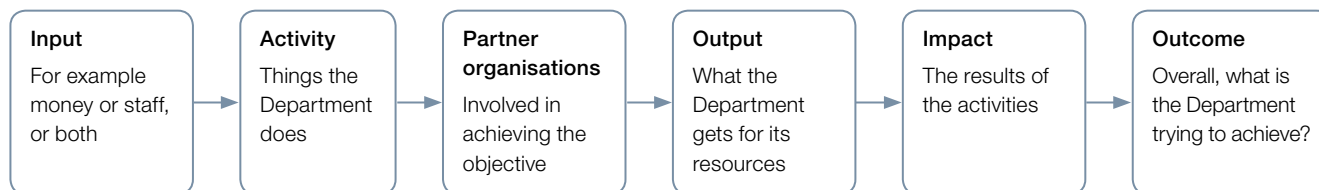
2.13 The Department divides its business into 27 objectives covering both internal and external outcomes. Collectively they cover the entire scope of the Department's responsibilities. For each objective, the Department has mapped, using what it terms 'logic chains', the inputs, activities, partner organisations, outputs and impacts that contribute to the achievement of the desired outcome for that objective (**Figure 8** overleaf). Each element of the logic chain (activity, output, impact and so on) is underpinned by a number of indicators. Developing and reviewing each logic chain includes assessing current performance and looking forward to whether the outcome will be achieved within three to four years.

Figure 8

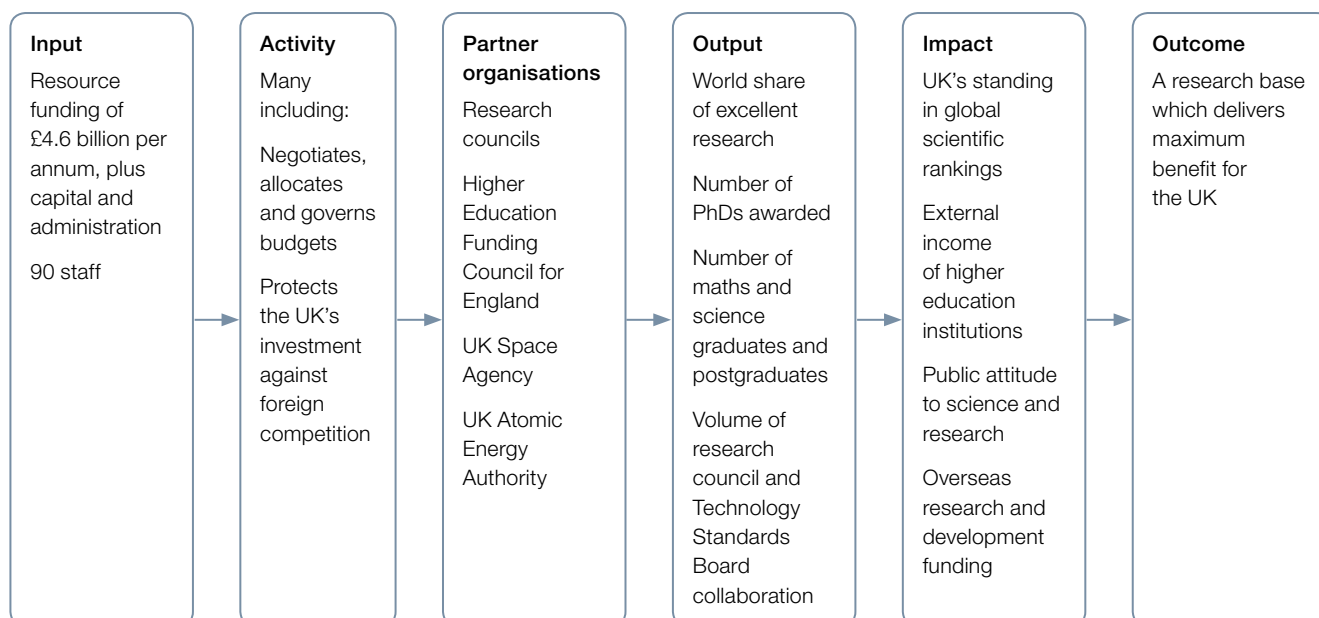
The Department's logic chain

The Department has attempted to map inputs to outcomes for each of its 27 objectives

Overall structure



An example – Scientific research



Source: The Department

2.14 The processes for monitoring the performance of the elements in each logic chain need further development. The Department compiles the data to assess performance manually. As a result, the Department makes the assessments about every three months. Further, the Department currently presents the results of its assessment as a four point scale, red to green, without any underpinning detail. The criteria that determine the assessment rating appear high level and subjective, for example there is scope to use quantified thresholds for some of the ratings.

2.15 Together the logic chains form the operational plan for the Department for each financial year. The Department has been slow to approve these plans. In both 2011-12 and 2012-13, the operational plans were approved in June, three months after the year started.

2.16 The Department's governance committees used the logic chains in so called 'deep dives' to help them think strategically about aspects of their business. In the nine-month period, from June 2011 (when the Department approved the operational plan) to the end of the financial year, the Department's governance committees discussed 3 out of 27 of the logic chains.

Linking the use of resources with outcomes

2.17 The Department has acknowledged that it needs to develop a clearer link between financial and non-financial performance. Such information would help it to better understand the trade-off between resources and their impact on meeting the Department's aims.

2.18 Developing the logic chains may give the Department a framework to link financial and non-financial reporting. At present, it produces monthly management accounts by administrative group, which is different to the reporting by objective used in the logic chains. Although each logic chain includes an 'input' element, the figures currently recorded against these activities do not match its overall spending.

2.19 The Department's ability to derive the unit cost of delivering its various activities is patchy. In some of its most significant activities it holds good data on costs and understands what affects them. But in some of the more complex areas of its activities, such as innovation, it does not fully understand the marginal cost of additional activity.

2.20 The lack of information on the link between resources and outcomes impedes decision-making. This impact can be seen in the mid-year review exercise, where the Department, in November 2011, revised budgets for 2012-13 to 2014-15. Rather than reallocate funding based on understanding costs across the organisation, it cut a blanket 1 per cent from each departmental group. The NAO's work across government has found that a uniform top-slicing of budgets can leave organisations unprepared for the future and lead to higher overall costs.⁹

9 National Audit Office, *A short guide to structured cost reduction*, June 2010.

Information to make decisions with financial consequences

2.21 Deciding to reform how a service is provided, or introducing a new service, always carries risk and needs to be informed by robustly appraising the options, including financial appraisal. We would therefore expect to see the Department:

- using a clear documented process to guide all financial decisions;
- using clear guidance about the depth of evidence required to underpin a decision, evaluate uncertainties and consider options;
- using a consistent presentation of business cases, and other appraisals, for ministers and others to review; and
- having a clear framework of delegations governing who is responsible for reviewing decisions and advising the Accounting Officer as appropriate. This may take the form of a single investment committee.

2.22 The Department approaches the review and approval of major financial decisions on a case-by-case basis, with no single board overseeing assessment and approval. It informed us that analysts and finance staff in each of the main business groups develop business cases in their areas. A central economics team reviews the business cases and some, but not all, high-value cases require approval from the Department's Chief Economist. The Department then submits plans to ministers and, where applicable, HM Treasury for approval. Some cases are also considered by a statutory body, the Industrial Development Advisory Board, which advises the Department's Secretary of State on the exercise of his powers to give direct assistance to industry under the Industrial Development Act 1982.

2.23 Our review indicated that there were a range of processes for examining business cases in different parts of the Department but no single framework to ensure that all cases are prepared in a consistent way and receive appropriate scrutiny. The Department currently has insufficient guidance about the evidence required and process to be followed when developing business cases. It informed us that when preparing business cases it uses *The Green Book* developed by HM Treasury.¹⁰ *The Green Book* is not drafted, however, to give detailed guidance. The Department has yet, for example, to provide a standard framework or template for business cases, or a common cost model to analyse costs and financial benefits consistently. There are no consistent quality assurance processes for scrutinising the financial elements of business cases. While these findings do not necessarily mean that appraisals in general are of lesser quality, it makes it harder for the Department to know whether business cases across the organisation are sufficiently robust and include all that they should.

¹⁰ HM Treasury, *The Green Book: Appraisal and evaluation in central government*, 2003.

2.24 The Department has recognised the need to strengthen some of its appraisal procedures but weaknesses remain. Its business and skills group reviewed its approach to investment decisions in September 2011 reviewing six key policies for the group including the Regional Growth Fund and the Enterprise Finance Guarantee scheme. The group found a degree of variability in approach, methodology and assumptions used for guiding decisions. The Department has set up an appraisal, monitoring and evaluation group, made up of Departmental economists, to increase consistency in appraising investments, which so far has considered some key elements of cost–benefit analysis.

2.25 We reviewed the process for a small selection of business case approvals and found occasions where business cases were only completed after decisions were taken. For example, our work has identified that the Department made various decisions about the launch of the Green Investment Bank and how it would be established, including the location of the Bank, before developing and approving a full business case. This means that, in our view, the Department is now so committed to the Green Investment Bank programme that it could not stop activity if the evidence in the full business case suggested it should do so.

Part Three

The Department's financial capability

3.1 This part of the report looks at the Department's capacity to take effective financial management decisions and exercise oversight. It examines, in particular, its:

- governance structures;
- departmental finance function; and
- sponsorship of partner organisations.

Governance

3.2 The Department's governance structures have evolved since it was formed in June 2009. The main arrangements evaluated in this report existed between May 2011 and January 2012. Following a review led by a director general, the Department introduced new arrangements in March 2012. These are considered briefly in this report but it is too soon to fully evaluate their effectiveness.

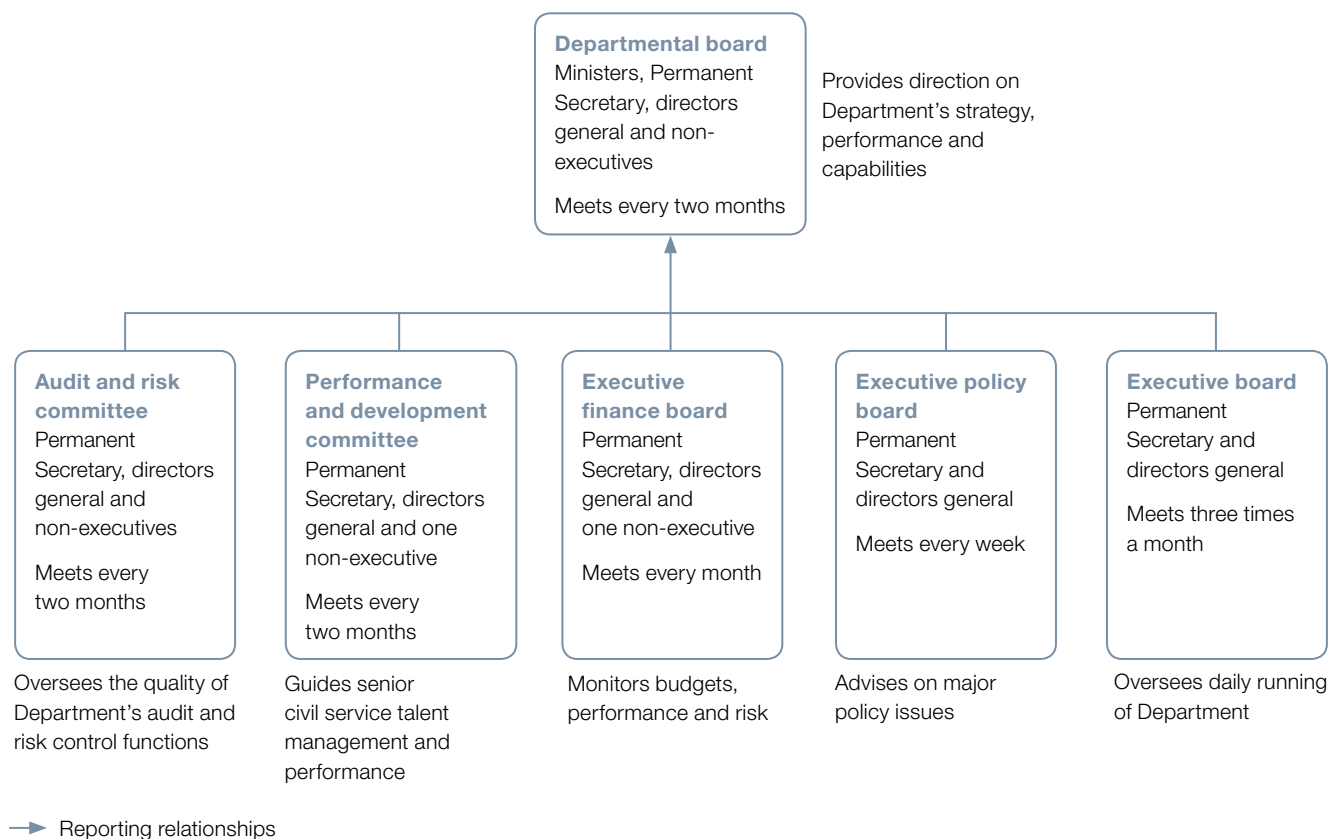
3.3 Up to January 2012, the Department's primary forum for financial oversight was the executive finance board, which reported to the main departmental board chaired by the Department's Secretary of State. The executive finance board, under the chairmanship of the Permanent Secretary, comprised members of the executive management team, primarily at director general level, and one of the Department's non-executive directors (**Figure 9**).

3.4 The minutes of the executive finance board suggest that it improved the scrutiny of finance issues between its inception and January 2012. The executive finance board, for example, played a key role during the 2011-12 mid-year review of the Department's financial position. The board discussed the review several times and made changes to the recommendations following its deliberations. This contrasts with the arrangements for the original 2011-12 budget, which the Department's governance committees never formally approved.

Figure 9

Departmental governance, May 2011 to January 2012

During this period, the Department had an executive finance board, chaired by the Permanent Secretary and including directors general and a non-executive director

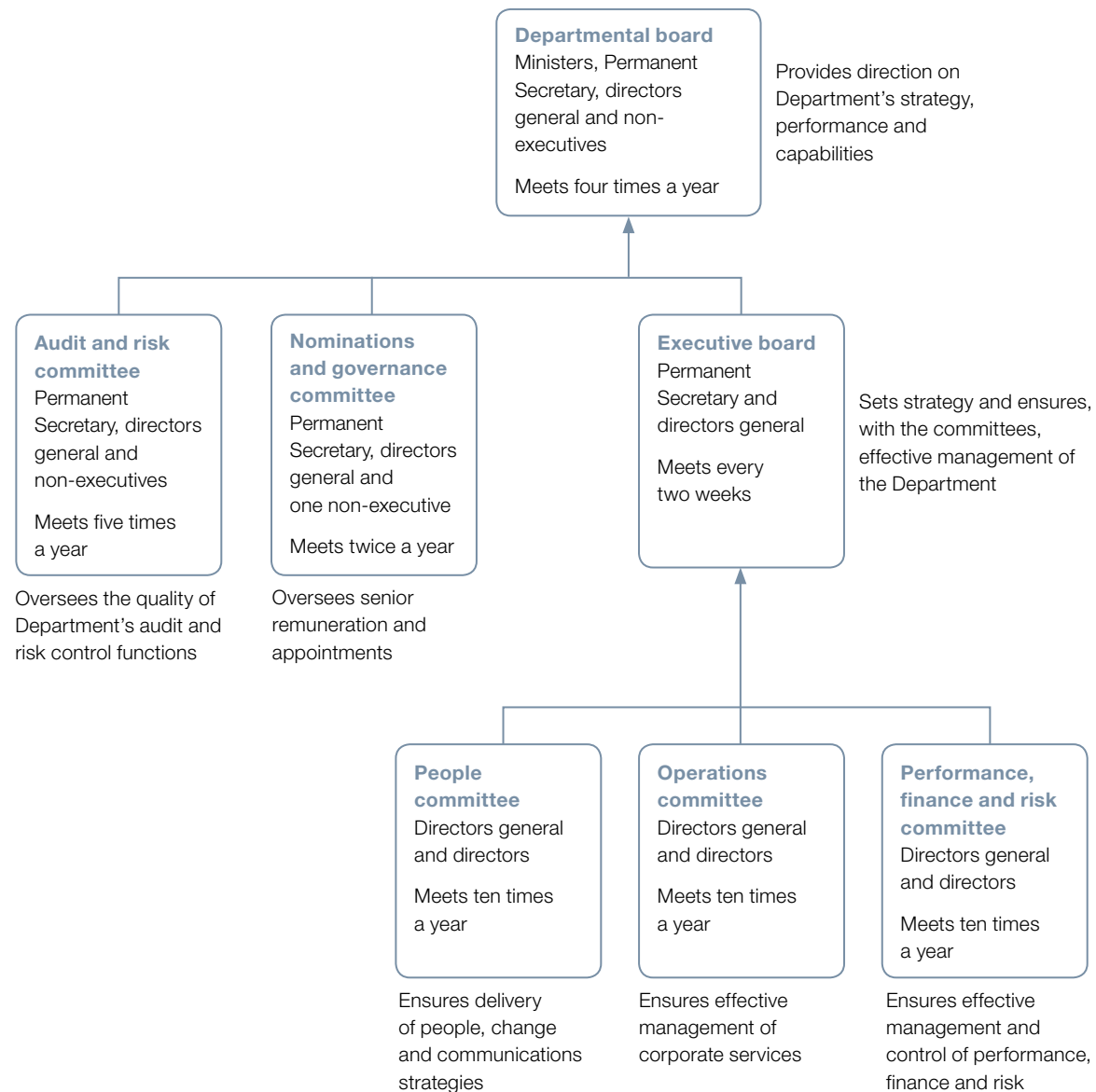


Source: *The Department*

3.5 The Department changed its governance in March 2012 to delegate more to senior staff, free-up the executive management team to focus on the more strategic decisions and generally increase the visibility of decision-making in the Department. The revised arrangements include a single executive board, chaired by the Permanent Secretary, which meets every two weeks (**Figure 10** overleaf). Various aspects of financial governance are reserved to this executive board. However, much of what was done by the executive finance board is now delegated to a performance, finance and risk committee, chaired by the Director General, Finance and Commercial. Another member of the executive management team attends the performance, finance and risk committee, along with six directors from within the Department. Non-executives were not originally included as members of the new executive board or the performance, finance and risk committee. In June 2012, the Department decided to offer non-executives a range of ways to get more involved in strategic oversight of the Department including attending the performance, finance and risk committee.

Figure 10
Revised governance from March 2012

The revised governance will move much activity done by the executive finance board to a performance, finance and risk committee, chaired by the Director General, Finance and Commercial and attended by one other director general and six directors



→ Reporting relationships

Source: The Department

3.6 It is too early to evaluate the new arrangement. However, there is a risk that financial management issues will be seen within the Department to have been downgraded just as its financial challenges are increasing. It will be important to have appropriate input from non-executives. Non-executives can provide a key challenge to executive management, potentially reducing the level of optimism in information such as financial forecasts.

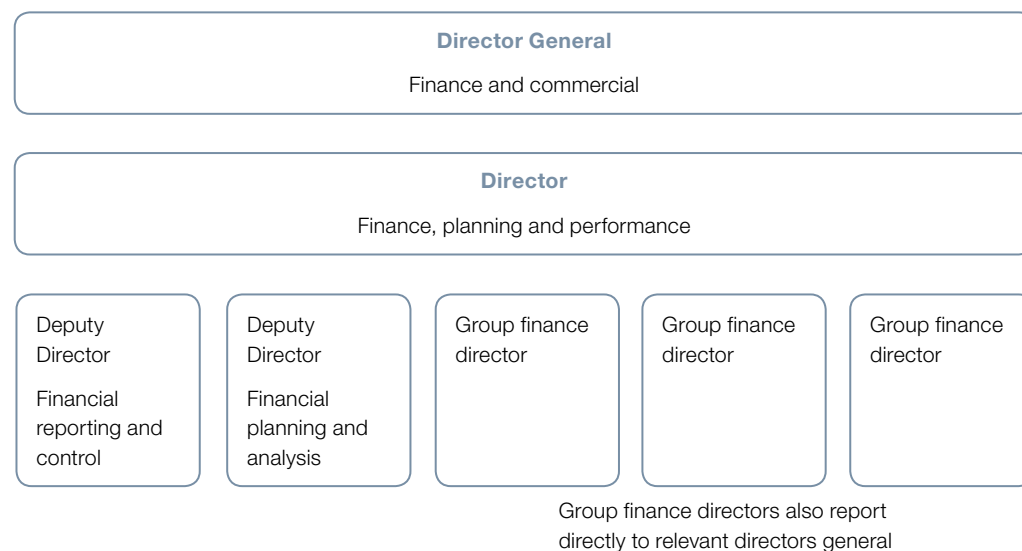
The Department's finance function and skills

3.7 The core Department's finance function consists of a director general, who is also part of the Department's executive management team, a director and five teams headed by deputy directors. Three of the deputy directors are known as group finance directors and directly support one or more other members of the executive management team, reporting to them and the Director, Finance, Planning and Performance (**Figure 11**). Partner organisations have their own finance teams, headed by a finance director. There are a range of forums for interaction between finance teams in partner organisations and the core department.

Figure 11

Organisation of the core Department's senior finance function

The core Department's finance function consists of a director general, who is also part of the Department's executive management team, a director and five teams headed by deputy directors



NOTE

- 1 In addition to the posts shown in the diagram, there are three further directors who also report to the Director General, Finance and Commercial and one further deputy director who also reports to the Director, Finance, Planning and Performance. These do not form part of the core finance function.

Source: *The Department*

3.8 We received good feedback about those in senior finance roles in the core Department. We interviewed the chief executive, finance director and audit committee chair at six of the Department's partner organisations. Feedback from these suggested that the Department's financial management was improving and that this was largely due to the Director General and Director of finance in the core Department. These positions were appointed since the Department was formed in 2009. HM Treasury reported that their relationship with the Department was good and open.

3.9 The group finance function is perceived to be supporting the Department's routine financial work well but needs to develop further. In a survey of around 200 budget holders (which had 44 responses), 80 per cent of respondents said that group finance was mainly or fully meeting their expectations. The role of group finance, though, needs to keep developing so that they take a clearer lead in supporting their directors general. Some survey respondents were confused about the roles of central finance, group finance and senior management. The Department is seeking to use the results of its survey to help group finance become more of a strategic partner to senior managers in achieving their objectives.

3.10 The Department has developed a learning and development strategy for its finance staff. As at 1 September 2011, 25 per cent of the Department's finance staff (excluding partner organisations) were qualified accountants. The strategy includes development groups to coordinate learning, training for fast-track graduates with potential for senior finance roles and a range of other training options. One of the work streams in the 'finance for the future' initiative is to develop finance people across the Department and its partner organisations.

3.11 The Department has partial benchmarking data on its finance function. This covers four processes in scope for the shared service centre project, representing between 20 and 25 per cent of total finance function spend. This data suggests that these four processes currently cost about 15 per cent more than the median average cost of these processes among a benchmark group for the Department.

Sponsorship of partner organisations

3.12 Over three-quarters of the Department's spending was spent by its partner organisations. Strong financial management depends on the Department ensuring strong management in the partner organisations. The Department has a number of sponsorship teams who oversee the financial and non-financial performance of one or more partner organisations. These teams are typically led by a director in the Department although smaller bodies may have less senior lead sponsors.

3.13 The Department has recently taken steps to improve its sponsorship arrangements. Our reports have highlighted some occasions when the Department has failed to properly oversee developing problems in its partner organisations. For example, we have reported on the Student Loans Company and establishing the research councils' shared service centre. Responding to this the Department has:

- established a sponsorship advisory board for lead sponsors to discuss issues and share best practice;
- developed a range of guidance to help sponsors undertake common tasks, such as monitoring performance and reviewing senior staff pay; and
- sought to strengthen relations between departmental corporate functions (for example finance) and their equivalent in the partner organisation.

3.14 Our examination identified some notable areas of good practice, in particular in the Shareholder Executive. The Shareholder Executive is a Department group that aims to be an effective shareholder of businesses owned or part-owned by the Government. Its senior team typically have commercial and corporate finance expertise. It has developed a method of sponsoring partner organisations that effectively collates and challenges financial and other data on the organisation, to add value to the sponsored body and wider government policy.

3.15 Our review also identified two areas where the Department could do more to improve sponsorship generally:

- Manage partner organisations more consistently, to control risk.
- Communicate cross-department messages more effectively to partner organisations.

Risk-based approach to sponsorship

3.16 In the first quarter of 2011-12, the Department undertook a risk assessment of its partner organisations. The process required partner organisations to self-assess their performance, which was then reviewed by the sponsor team and centrally within the Department. The assessments were summarised against a four-point scale from red (high risk) to green (low risk). One of the Department's aims for the risk assessment was to prioritise its limited resources according to risk. However, we could find no evidence of resources subsequently being allocated to reflect the assessment. Four of the partner organisations we spoke to received identical risk assessments but we witnessed noticeably different approaches in how the Department sponsored these bodies. It told us that one of these four, the Student Loans Company, represented one of the highest risk bodies for the Department, related to its importance for its reform programme in higher education, but this was not reflected in its risk assessment.

3.17 Follow-up to the risk assessment process has been slow. The Department and partner organisations began to put action plans into place in September 2011. These responded to high risk areas and shortcomings. However, by the end of March 2012, only 11 (less than 25 per cent) had been agreed. It has set up a panel to review progress against action plans, chaired by the Director General, Finance and Commercial.

Communicating across the Department family

3.18 For sponsorship to be effective, the Department must understand the issues faced by its partner organisations and ensure that partner organisations understand the context the Department operates in. It has a number of forums where partner organisations meet each other and key Department staff. As part of the partner risk assessment process partner organisations were invited to give their feedback on the Department's sponsorship arrangements. The feedback suggested that partner organisations feel that the Department should increase their visibility to them, involve and communicate with them, and understand the relative differences of partners. Our interviews with senior staff in partner organisations suggested an improving relationship between the core Department and its partners, particularly in the context of HM Treasury's 'clear line of sight' programme. However, senior staff also told us that the Department could communicate better with them at critical moments, for example when a finance director takes up post.

3.19 The Department has previously attached less priority to communicating with the chairs of audit committees in partner organisations but has recently sought to open up communication. Chairs of audit committees are non-executives in partner organisations and therefore it is not appropriate for them to engage in many of the executive forums that the Department runs. The committee chairs we spoke to reported very little contact with the Department. In January 2012, the Department held a meeting with 13 chairs of partner organisation audit committees and it is currently considering how to build a more effective partnership with them.

Appendix One

Our audit approach

1 This report provides an overview of the Department for Business, Innovation and Skills' financial management against a model developed by the National Audit Office. Our work focuses on how the Department manages its finances, and oversees the finances of its partner organisations, to ensure sound financial management.

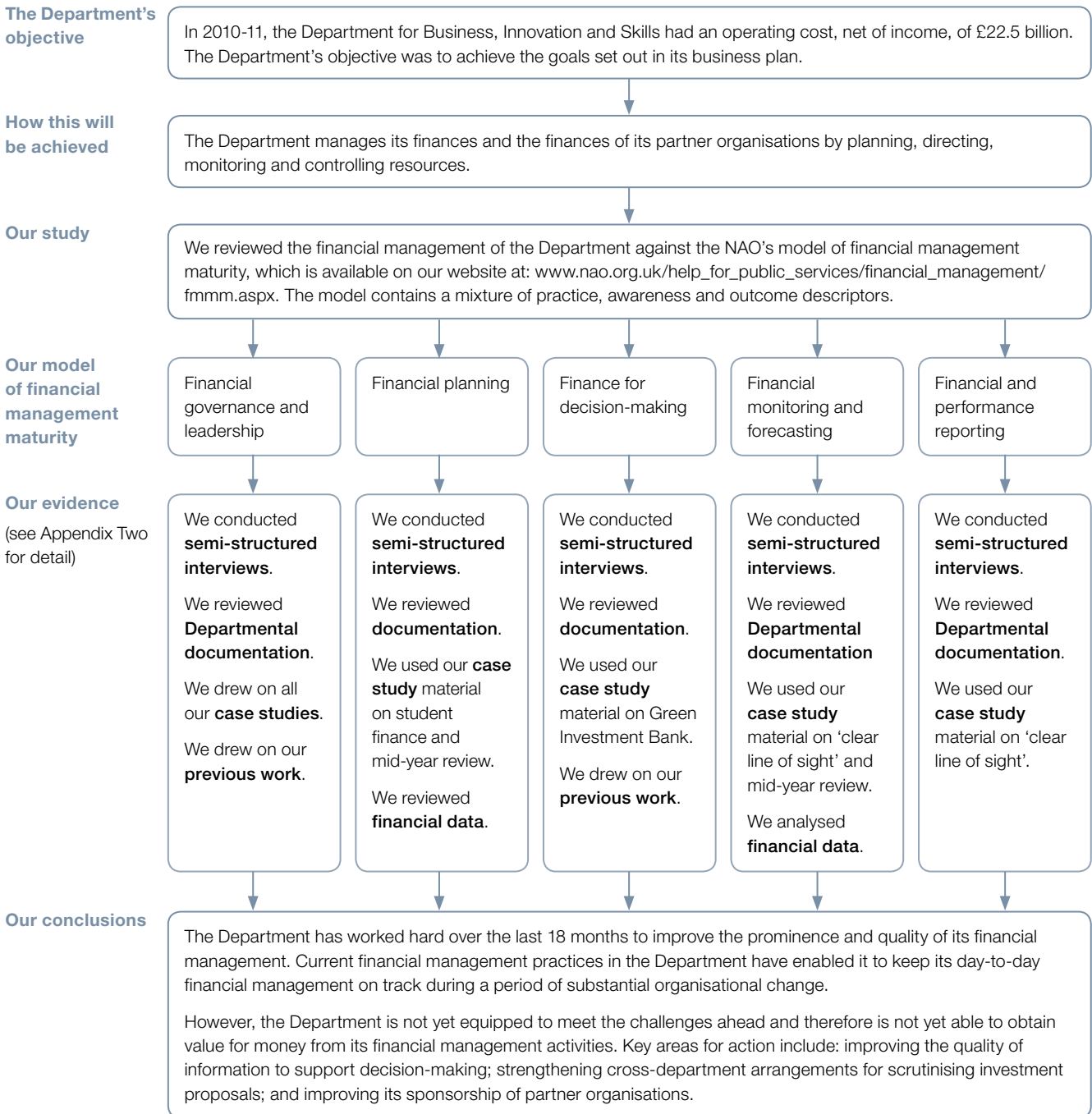
2 In making our assessment we applied the NAO's financial management maturity model.¹¹ The model looks at the practice and awareness of financial management and relates that to the outcomes that organisations might expect. The model uses a series of descriptors to help readers understand how the organisation currently operates and the scope for improvement. Within the model, we assessed financial management by asking key questions grouped under five aspects (see **Figure 12** overleaf):

- Financial governance and leadership
- Financial planning
- Finance for decision-making
- Financial monitoring and forecasting
- Financial and performance reporting.

3 Our audit approach is summarised in Figure 12. Our evidence base is described in Appendix Two.

¹¹ National Audit Office, *Financial management maturity model*, 2010. Available at www.nao.org.uk/help_for_public_services/financial_management/fmmm.aspx

Figure 12
Our audit approach



Appendix Two

Our evidence base

1 Our independent conclusion on the financial management of the Department for Business, Innovation and Skills was based on our assessment against the criteria outlined in the NAO's financial management maturity model. We collected our evidence between November 2011 and March 2012. Our audit approach is outlined in Appendix One.

2 We assessed the Department's current financial governance and leadership, the Department's proposals for change, its financial monitoring and forecasting, and its financial and performance reporting.

- We conducted 12 **semi-structured interviews** with key staff and members of the Department's board to establish how governance works and to get their perceptions as to the Department's strengths and areas to improve financial management. We interviewed:
 - the Department's Permanent Secretary/Accounting Officer;
 - three directors general with budget management responsibilities;
 - two non-executive directors;
 - the Director General, Finance and Commercial, the Director, Finance, Planning and Performance and two deputy directors for finance;
 - the Head of Internal Audit; and
 - the staff member responsible for developing and operating the Department's logic chain system.
- We selected six partner organisations with which to conduct **semi-structured interviews**. These interviews were used to examine how the Department sponsors its partner organisations, as well as to gather the views of the partner organisations on the Department's financial governance and leadership. The partner organisations were selected to get a spread across a range of criteria, including budget size, type of organisation and length of time it has been part of the Department's wider family. The selected organisations were:
 - the Higher Education Funding Council for England;
 - the Skills Funding Agency;
 - the Student Loans Company;

- Capital for Enterprise Limited;
- the Insolvency Service; and
- the Met Office.

With each partner organisation we met the Accounting Officer, the finance director and the non-executive chair of the partner organisation's audit committee, or their equivalents. We also interviewed the lead sponsor in the Department for the partner organisation and the group finance director within the Department with responsibility for helping the lead sponsor manage the organisation's finances.

- We also conducted a **semi-structured interview** with the head of the Department's spending team in HM Treasury. This interview was used to provide triangulation and an independent point of view on matters arising out of other interviews and document review.
- We reviewed a range of relevant **departmental documentation**, in particular: the papers presented to and minutes of the Department's executive finance board, audit and risk committee, and performance, finance and risk committee; its performance reporting; its monthly management accounts; and its resource accounts. In forming views on the quality of these documents we applied relevant parts of two other NAO toolkits including:
 - reporting financial information to the board; and
 - board evaluation questionnaire.
- To help us understand some issues in detail, we carried out six **case studies**. These case studies were chosen to give a mix of pure financial management areas and areas under reform with a significant financial component. For each case study we reviewed relevant departmental documentation and interviewed one or more departmental staff and, where relevant, staff within partner organisations. The selected case studies were:
 - the Department's mid-year review process;
 - 'clear line of sight', HM Treasury's programme intending to align budgeting and resource accounting;
 - 'finance for the future', an initiative looking to produce an integrated approach to financial management across the Department and its partner organisations;
 - student finance;
 - the Green Investment Bank; and
 - Royal Mail.

- We drew on our **previous work** collating all existing NAO evidence relevant to financial management, including reviews of financial audit files and management letters, value-for-money studies published since the Department was established in 2009; and performance improvement work.
- We obtained **financial data** from the Department on their financial forecasts. We analysed the accuracy of these forecasts using the financial outturn data contained in management accounts. We did a similar exercise with the annual published data contained in estimates and resource accounts.

3 We assessed the Department's current position in relation to financial planning. Much of the work already outlined also provided evidence relevant to this set of criteria. In addition:

- We conducted **semi-structured interviews** with the staff responsible for key financial planning models and, in some cases, received demonstrations of these models. The models examined were:
 - two student finance models;
 - the administration spending model; and
 - the financial analysis and reporting model.
- We reviewed a range of departmental **documentation** relevant to these models and reviewed HM Treasury documentation including the published 2010 spending review documents and unpublished league tables of cash management performance.
- We also reviewed a range of **financial data** supplied by the Department or contained within its 2010-11 resource accounts to help us understand the implications of the 2010 spending review for the Department.

4 We assessed the Department's current position in relation to finance for decision-making. Much of the work outlined under financial governance and leadership also provided evidence relevant to this set of criteria. In addition:

- We conducted a **semi-structured interview** with members of the economics division to understand the Department's approach to, and guidance on, decision-making.
- We reviewed a range of Departmental **documentation** relevant to decision-making including guidance, minutes of the appraisal, monitoring and evaluation group and a review within the business and skills group on their approach to investment appraisal. We also drew on HM Treasury guidance contained in *The Green Book: Appraisal and Evaluation in Central Government*.



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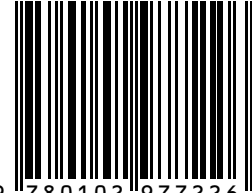
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