

HM Treasury

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Dear Accounting Officer,

POWER TO INCUR EXPENDITURE ON PREPARATIONS FOR POSSIBLE UK ENTRY TO THE SINGLE CURRENCY

Purpose of this DAO

This DAO letter is intended to provide guidance to departments on the application of the “new services” rules set out in *Government Accounting* section 2.3 to expenditure incurred on preparations for possible UK entry to the single currency.

Information

2. Following consultations with departments on preparation for the euro, HM Treasury undertook to issue guidance on the power to incur spending on preparations for possible UK entry to the single currency. This letter attempts to set out the practical implications of the “new services rules” set out in chapter 2 of *Government Accounting*, for these preparations.
3. It is important to stress at the outset that departments are advised to consult their Treasury spending team and/or the Treasury Officer of Accounts (TOA) where they are in doubt as to whether or not envisaged expenditure is permissible under the *Government Accounting* rules.

Departmental Preparations for possible UK Entry

4. The background to this activity is provided by the Chancellor’s announcement to the House of 27 October 1997. Specifically the Chancellor concluded that:

“ [the Government] believes that, in principle, British membership of a successful single currency would be beneficial to Britain and to Europe”, and

“ ... in order to give ourselves a genuine choice in the future, it is essential that the Government and business prepare intensively during this Parliament, so that Britain will be in a position to join a single currency, should we wish to, early next Parliament.”

Government Accounting rules

5. As a matter of Parliamentary propriety, in cases where specific statutory authority is to be sought, the “new services” rules set out in chapter 2 of *Government Accounting* will apply. Generally speaking, expenditure resting on the authority of a specific Act of Parliament should not take place until Royal Assent has been obtained. However, it is possible for departments to spend money before Royal Assent on:

- a the formulation and the examination of alternative policy options;
- b the legislative process, which will include the passage of the Bill and the assessment and costing of the new functions which are the subject of the legislation, in order to provide Parliament with an adequate assessment of the financial, manpower and other implications;

but not on

- c making the necessary arrangements for the new task to be performed, eg recruitment of staff, acquisition of accommodation, development of supporting IT systems and the acquisition of supplies;
- d the operation of the new task.

6. In the present case, it will of course be reasonable to include under 5b above any expenditure which is considered necessary so that the general public can make an informed decision when they vote in the referendum. It would also be necessary to be in a position to tell Parliament, business and the public the detailed arrangements that would apply during the changeover.

7. The Government Accounting rules are designed to ensure that if the Bill in question fails, any nugatory costs incurred by departments are kept to a minimum. However expenditure under the criteria at 5a and b may not be nugatory. Thus it is important that departments should not incur significant expenditure on planning which does not meet the criteria at 5a and b.

8. Our discussions with departments involved in such preparations indicate that spending is likely to fall under one of the following categories:

Category A Spending on longer term preparations to ensure that the UK is in a position of genuine choice early in the next Parliament. Specifically:

- Ai. Devoting resources (which might include some expenditure on IT as well as on staff and consultancy fees) to the planning needed to be in a position to join should the Government, Parliament and electorate decide to do so;
- Aii. Piloting potential systems solutions - with systems changes of the scale required to introduce the single currency, it is standard practice to design and trial potential solutions at an early stage. This is necessary to be in a position to tell Parliament, business and the public the detailed arrangements that would apply during the changeover.

Category B Marginal spend to ensure that new IT equipment or system upgrades purchased for unrelated reasons build in the ability to cope with the euro were the UK to join.

Application of the rules to spend under Category A

9. Many departments are now actively engaged in planning - category A (i). Most expenditure of this type should fall under paragraph 5a and b, and as such should generally be permissible. Given the Government's commitment in principle to join a successful single currency provided the economic case is clear and unambiguous, it is reasonable that departments should incur some expenditure to enable them to deal with the contingency of entry.

10. A number of departments have also proposed spending under category A(ii). Here, the situation may not be so clear cut. Expenditure on pilots is generally permissible where it falls within paragraphs 5a and b. There may, however, be some types of expenditure which do not fall clearly into these categories so in cases of doubt departments should consult their Treasury spending team.

Application of the rules to spend under Category B

11. Departments buying new equipment or upgrading existing financial systems are faced with a choice whether or not to build in the facility to deal with the euro in the contract specifications.

12. Expenditure in this category might be seen as anticipating Parliament's authority for the UK to join the single currency. There may, however, be a value for money case for such expenditure. For example, the cost of making a change now (perhaps as part of other necessary IT upgrades) may be significantly less than the cost of making the change later. Departments will therefore need to judge whether the risk of expenditure being nugatory (because the UK does not join the single currency) is offset by the savings which may be realised if the change is made now.

13. Where departments are unclear whether or not it represents value for money to build in the ability to deal with the euro, they are advised to discuss with their Treasury spending team. Where the expenditure concerned is marginal and the purpose is to provide flexibility to meet various possibilities rather than to implement UK membership of the single currency there should not, however, be any problems with propriety: the significant value for money arguments would make the expenditure defensible.

14. Clearly it would be useful to give clearer guidance on this category of spending. With a view to doing this in the future, we will compile those cases that are submitted to us with a view to developing a "case law" in this area. If and when it is possible to deliver guidance based on departments' experience, we will do so.

Action

15. You are asked to draw this letter to the attention of staff in your department who may be responsible for work on preparing for the eventuality of the UK's entry to the single currency. You should also ensure that this letter is sent to any subsidiary bodies for which your department is responsible which may have an interest in this guidance.

Enquiries

16. General queries on the application of the new services rules should be addressed to Jennifer Truelove in TOA on 0171 270 5363 (GTN 270 5363). Queries on the UK's preparations for the single currency should be addressed to Stewart James in EPU on 0171 270 4734 (GTN 270 4734.)

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