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11 Excess Votes [1992-93]	<p>4. We emphasize that incurring an excess vote always represents a failure of control and should never be regarded by departments or the Treasury as a routine or acceptable matter. The Supply Estimates approved by the House of Commons are the basis of the statutory authority for the appropriation of funds and are a key feature of Parliamentary control. The amounts voted are limits, not targets. Departments and other bodies have a duty to plan and monitor expenditure closely throughout the year to ensure that approved grants are not exceeded, as an essential feature of their own financial management and control. We expect the Treasury regularly to remind departments of the importance of these matters, including the need for submission of Supplementary Estimates for Parliamentary approval if original grants are expected to be exceeded.</p> <p>5. We endorse the need for taut and realistic estimating and recognise that this can in some circumstances increase the potential risk of overspend. But it is the responsibility of departments successfully to manage these competing demands; and careful monitoring of outturn and the use of Supplementary Estimates and the agreed provisions for flexibility in the</p>	<p>Ian Thomson's letter dated 27 April 1994 to the Principal Finance Officers of all departments.</p>

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	<p>timing of some year-end payments mean that excess votes should always be avoided, except in wholly unusual circumstances. We regard it as unsatisfactory if excess votes arise from inadequate forecasting, monitoring or reporting procedures.</p>	
	<p>7. We expect the Treasury to draw these concerns to the attention of the departments and other bodies concerned and, where appropriate, to departments more generally.</p>	
<p>12. Department of Health and Social Services: The Provision of Acute Hospital Services in Northern Ireland</p>	<p>(xvii) It is essential that all valid options are considered in appraisals. We recommend that up-to-date information on all relevant options should always be obtained and used when making appraisals on capital projects.</p>	<p>Northern Ireland Department of Finance and Personnel Memorandum dated 18 May 1994 (Cm 2555), paragraph 18:</p> <p>The Department accepts the need for decision makers to ensure that all valid options are considered, and that up-to-date information should be used. In the case of Antrim Hospital, to which the Committee referred, the final decision to proceed was based on investment appraisals with the latest costings. All future projects will be subject to the same rigorous assessment.</p>
	<p>(xix) We are glad to note that the Department recognises</p>	<p>Northern Ireland Department of Finance</p>

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	the need, where there has been delay, to examine the continuing validity and sensitivity of the various assumptions and options considered in appraisals before final decisions to proceed are given.	and Personnel Memorandum dated 18 May 1994 (Cm 2555), paragraph 20: Noted.
	(xx) We stress the importance of such a course of action to all Departments, particularly where there are expected to be delays. There should always be a complete reworking of economic appraisals before final construction is approved.	Northern Ireland Department of Finance and Personnel Memorandum dated 18 May 1994 (Cm 2555) paragraph 21: The Department accepts that economic appraisals should address all the required factors; that assumptions should be re-examined regularly to ensure their validity and sensitivity; and that where significant delays occur these should lead to a complete review before final construction is approved. This approach will continue to be applied to all future projects.
21 Sale of the Scottish Bus Group	(i) In all cases where sales take place at one remove from the Department the roles of each party should be clearly defined at the outset. We are therefore concerned that there was some initial uncertainty in the sale of the Scottish Bus Group as to the respective responsibilities of the Department and the Group. This was a weakness which should have been avoided, and we will expect departments to	Treasury Minute dated 29 June 1994 (Cm 2602), paragraph 83: The Scottish Office Industry Department (the Department) accepts the need for a clear definition of responsibilities in such sales. It believes that these were established in good time for the sale of

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establish much more clearly defined roles and relationships in future.

the Scottish Bus Group (SBG). The respective responsibilities of the Secretary of State and the Scottish Transport Group (“the Group”) were set out in section 3 of the Transport Act (Scotland) 1989 under which the disposal took place. In addition, the Department discussed the roles and relationships with the Group at an early stage and the Department established a number of flexible joint arrangements with the Group which reflected the division of responsibilities and which worked to ensure that there was proper control over the sales strategy and active monitoring of the changing circumstances of the disposal process.

- (v) More particularly we consider that the creation of the steering group and the increased responsibilities of the Scottish Bus Group managing director came about too late to be fully effective. With a view, therefore, to ensuring more effective management control and to maximising the value of businesses prior to sale, we recommend that in future trade sales departments should require the early appointment of a senior manager, with no interest

Treasury Minute dated 29 June 1994 (Cm 2602), paragraph 87:

The Department notes the recommendation. The Group Managing Director was charged with the responsibility for the strategic management of the companies before and during the disposal. The Department

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in the buy-out and with a clear remit to improve company profitability and sale value during the pre-sale period.

does not believe that an external appointment at senior executive level would have materially altered the outcome of the sale.

- (x) We note that the trustees not only secured significant benefit improvements for members but generated a large surplus which will be paid into the Exchequer. To protect the taxpayer's interest in future sales where pension funds are involved we recommend that departments take early professional advice on all relevant matters such as members' benefits and the disposal of any actuarial surpluses.

Treasury Minute dated 29 June 1994 (Cm 2602), paragraph 90:

The Department accepts that early professional advice should be taken on all relevant pension matters. The Government Actuary's Department (GAD) was appointed in April 1989 and was fully involved in all aspects of pension arrangements from that date. This enabled GAD to advise on the proposed arrangements for the pension funds and to confirm final decisions. The Department considers that the date of the appointment did not adversely affect the outcome of these matters and, in particular, is satisfied that the entitlements of members have been safeguarded and that the position of the taxpayer was protected.

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22	<p>(xiii) We are concerned that £787,000 was spent on work which was not subjected to competitive tender. While we note the Department's reasons for dispensing with competition in this case, we emphasise the need for the proper control of costs in the sale of public assets. In particular we look to departments to demonstrate propriety and the achievement of value for money through competitive tendering.</p>	<p>Treasury Minute dated 29 June 1994 (Cm 2602), paragraph 94: The Department strongly endorses the committee's view on controlling the costs of the sale of public assets and the use of competitive tendering. The Department appointed its advisers in open competition and in accordance with Treasury guidance. The £787,000 spent which was not subject to competitive tendering related to additional work connected with the main contracts which required a high degree of familiarity with the Group's business and which were inappropriate for parcelling into larger contracts for competitive tendering. The Department believes that, in these circumstances, efficiency and value for money gains were achieved through the Group's limited use of such firms.</p>
22	<p>(ii) We also note that the properties were put on to the market at the same time as other bodies such as Scottish Enterprise and the Welsh Development Agency were selling significant numbers of properties. Since the taxpayer's interest could be put at risk if the market is saturated, we recommend</p>	<p>Treasury Minute dated 13 July 1994 (Cm 2618), paragraph 3: The Government fully accepts that public bodies should, as far as is practicable, seek to avoid saturating the</p>

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that there should be better liaison between public bodies to ensure that the amount of property sold at any one time does not depress sale prices.

market through their property sales. English Partnerships is not able to control the rate or timing of the disposal of similar properties through other public bodies, but will continue to liaise with these bodies to determine the nature of their annual disposal programmes and endeavour not to compete directly by placing similar property on the market at the same time.

(iv) We note that, to meet their objectives of getting new industries and jobs in the assisted areas and to satisfy funding needs, English Estates limited the extent to which some properties were put out to competition. We reiterate the principle, endorsed by a former Committee of Public Accounts, that assets should be sold in competition unless there are compelling reasons to the contrary. It is not only that this is generally the best way of securing the highest price: it also helps demonstrate that public assets have been sold transparently with due regard to probity.

Treasury Minute dated 13 July 1994 (Cm 2618), paragraph 5:

The Government fully accepts the principle that public assets should be sold in competition unless there are overriding reasons for not doing so. English Partnerships will ensure that properties offered for sale are extensively marketed in order that the best price is achieved. However, sales to special purchasers, such as tenants, will continue to be negotiated directly provided that this practice achieves significantly higher prices than other types of sale. Any proposals to sell to a Specific investor, other than tenants and

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other special purchasers, without wider marketing would require the Department's, approval. The Department will examine critically any such proposals.

- (v) We note the Department's reasons for not including clawback provisions in any of the property sales to date. We accept, in the case of English Estates' properties, the potential for increased value, for example through revised planning consent, may arise only infrequently. On the other hand the valuation of a property in its existing use can, as in the case of the Bradford factory, increase markedly following a rent review. We therefore recommend that the case for selling property subject to clawback conditions should be considered on its merits in each case.

Treasury Minute dated 13 July 1994 (Cm 2618), paragraph 6:

The Department accepts this recommendation which accords with the practice being adopted by English Partnerships. Prior to the disposal of any asset, English Partnerships will consider the merits of including a clawback provision in the sale agreement, and will include such a provision where they can reasonably expect it to result in an enhancement of proceeds in due course, without unduly jeopardising the initial price offered for the property.

- (vi) We note the Department's practice of monitoring sale proceeds against the annual accounts valuation. However, it is fundamental to the basis on which

Treasury Minute dated 13 July 1994 (Cm 2618), paragraph 7:

The Department agrees that annual

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assets are valued in accounts that valuations should be on the prudent side of what is likely to be obtained; and it is not surprising that sale prices have usually exceeded such valuations. We therefore recommended that sale prices also be judged against other indicators too, such as the ratio of prices to rent levels.

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valuations do not in themselves provide an adequate basis for judging sale prices. Annual valuations of the portfolio are in fact prepared primarily for the purposes of balance sheet accounting. Properties are also valued immediately prior to sale and this figure is used to ensure that the price achieved is in line with current market value. The ratio of prices to expected rent levels (yield) does not necessarily provide an effective indicator for monitoring sale proceeds. This is because yield will vary between similar properties because of such factors as the relative merits of the lease terms (timing of the next rent review etc), location and status of tenant.

- (vii) We note that English Estates calculated the cost of sale to be a very low percentage of proceeds. However their estimate is an approximate one. We therefore emphasise, without wishing to add to administrative burdens, the importance of a record of sale costs that is sufficiently accurate for management to be able to identify the main trends.

Treasury. Minute dated 13 July 1994 (Cm 2618), paragraph 8:

The Department accepts the importance of identifying main trends in the costs involved in selling the portfolio. External costs of sales through agents are monitored and kept to a minimum,

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		and the costs of the overall estates management function are monitored within the management accounting system and reviewed in line with changes in the size of the portfolio. This enables management to identify main trends. Separate internal costs of sales could not be split out without administrative effort and cost disproportionate to the value of the information to management.
32 The Sale of the British Technology Group	(iii) We note the Department's evidence that, with their advisers, they gave much thought to the provision of information to those bidding in this sale. But we are concerned that it was only the two consortia that the Department invited to proceed to the final bidding stage who were subsequently given access to the revenue projections for certain technologies. We recognise that there may be information which is commercially sensitive and which could undermine the commercial position of the business if it were made generally available. However, while each sale will have to be judged on its merits, we consider it an important principle that all serious bidders should, as far as possible, be given as much information as is needed to ensure that there is fully informed competition among bidders	Treasury Minute dated 17 October 1994 (Cm 2677), paragraph 54: The Department agrees with the Committee's conclusion. The Department believes that all serious bidders should be given as much information as is necessary to encourage informed bids. A balance must be struck between providing comprehensive information in order to attract potential purchasers, while not disclosing prematurely any matters which are commercially sensitive and which could be of use to a competitor. It is also necessary to take into account any legal constraints on making information

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available to third parties; eg in licence agreements. The Department normally adopts a two-stage process of dissemination if issues of commercial confidentiality and legal constraints arise. Initially, only general information is given to enquirers. Later, those who are asked to submit final bids are given as much information as can be released, within any legal constraints. Where management participation in a bid occurs the Department strives to release as much information as possible to ensure fairness.

- (iv) We note that the Department applied claw-back on income arising from two areas: land and buildings and intellectual property rights. In seeking claw-back on income from the intellectual property rights, the Department were seeking to obtain a future benefit from the company's main source of income based on the technologies held in the company's portfolio at the time of the sale. This is a novel use of claw-back which we welcome.

Treasury Minute dated 17 October 1994 (Cm 2677), paragraph 55:

The Department welcomes the Committee's conclusion.

- (viii) The Department selected PA Consulting Group by

Treasury Minute dated 17 October 1994

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	single tender because they thought that the timing was crucial. We emphasise that, as a rule, competitive tendering should be applied when employing consultants. Full and open competition avoids any suggestion of favouritism and helps to promote efficiency and economy.	(Cm 2677) paragraph 57: The Department agrees with the Committee that full and open competition in the selection of consultants promotes efficiency and economy, and avoids any suggestion of favouritism. However, there may be exceptional circumstances, such as when timing is crucial, when selection by single tender may be justifiable. Exceptions to the rule of full and open competition are considered carefully by the Department on a case-by-case basis.
45 Export Credits Guarantee Department Appropriation Accounts 1992-93; Irregular Payments to Exporters	(iv) We stress that in conducting public business it is not sufficient to rely upon lay interpretation of legal documents or to make settlements on bases that seem equitable. Payments must properly reflect the legal force of the contract terms.	Treasury Minute dated 25 January 1995 (Cm 2739), paragraph 19: - ... the Department accepts that the systems for handling legal issues between lawyers and administrators were not satisfactory. The interpretation of the guarantee is not simple or straightforward as is shown by the fact that it took a year to establish the precise legal position with regard to the excess payments. The Department has taken a number of steps to improve its legal risk management, including the appointment

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48 Management and Sale of Houses in Borders Region	<p>(iii) As we have pointed out on a number of occasions in the past, Government departments and other public bodies, seeking to buy services from the private sector should do so on the basis of full and open competition unless exceptional circumstances apply.</p> <p>(v) This is not only -to secure the best possible value for the' taxpayer but to 'help ensure that the public bodies concerned can demonstrate.a clear arm's length relationship with those wishing to bid for the provision of services.</p>	<p>of its own General Counsel. The Department has issued guidance to staff that any payment, including allocations of recoveries, must be made in accordance with the strict terms of the contract or guarantee concerned unless Treasury authority for ex gratia or extra contractual payments is obtained, where the amount involved exceeds the Department's delegated authority.</p> <p>Treasury Minute dated 25 January 1995 (Cm 2739), paragraph 54:</p> <p>The Scottish Office Environment Department (the Department) notes the Committee's concern and accepts the presumption that contracts should normally be let through competition. In circumstances where competition is not considered appropriate or cannot realistically be achieved the Department will continue to seek to ensure that safeguards are in place so that proper judgements can be made about value for money. As in this case such safeguards will include a detailed appraisal of the proposals by independent advisers if appropriate. The expression of interest</p>

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by another landlord was not pursued because the 'Scottish Special Housing Association (SSHA) judged that the landlord did not have the capacity to manage all the stock. This landlord was however awarded the management of a smaller number of houses in the Borders in an area where it already operated.