HM Treasury

Tom Scholar
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

020 7270 4360 / 5158
Tom.Scholar@hmtreasury.gov.uk
www.gov.uk/hm-treasury

Dame Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
London
SW1A 0AA
[By email]

10 December 2021

Dear Dame Meg,

COVID-19 - LESSONS LEARNED

The government's response to the recommendations of the Committee's COVID-19: Cost Tracker Update report was published on 9 December 2021. In this response, the Treasury committed to write separately to the Committee to share reflections on the lessons learned from COVID-19 spending decisions.

The Treasury has been considering the lessons learned throughout the pandemic, particularly those relating to value for money. The previous Chief Secretary to the Treasury wrote to the Chair of the Treasury Committee on 1 April 2021 sharing reflections on the spending control framework we applied through the pandemic, how we used it flexibly and setting out the lessons we had taken from where it had worked less well. He also shared some key lessons learned on the government's procurement during the height of the pandemic. These included the need for stronger information sharing across government departments and the NHS, greater Cabinet Office external scrutiny earlier in the process, and embedding Treasury and Cabinet Office officials into internal processes in spending departments where there is a need to work quickly.

In addition to these reflections, the Treasury has developed further lessons learned in partnership with colleagues from across government. Cat Little, the Director General Public Spending and Head of the Government Finance Function, shared some of these during the November hearing, and I wanted to provide you with additional detail.

Accounting Officer lessons learned exercise and Managing Public Money

The Treasury facilitated a review for the Civil Service Board of the application of the Accounting Officer (AO) processes during the initial phases of COVID-19. This review identified the following lessons:

- AO assessments are a valuable tool in undertaking a systematic appraisal of specific significant projects or proposals;

- detailed arrangements for producing AO advice should be tailored to the wider structures of each organisation. However, the Finance Function within each body provides an important second line of defence, and should therefore sign off an AO assessment before it is put to the AO for final clearance; and
- AOs and those who support them would benefit from enhanced training and support, as well as more detailed central guidance in specific areas, including the circumstances which merit departments assuming a greater level of risk appetite than they would in usual conditions.

Revised AO assessment guidance is being developed in consultation with users across departments and will be published shortly. The Treasury will continue to publicise these requirements through seminars and training events, including emphasising the importance of the AO assessment process as part of the AO induction training delivered to all new AOs.

The next update to *Managing Public Money* will reflect the lessons learned through the review for the Civil Service Board and other standard processes and will:

- incorporate and clarify the requirements to produce AO assessments and publish summaries of these for projects in the Government Major Projects Portfolio (GMPP);[1]
- incorporate the requirement for directions to be published on gov.uk as soon as possible unless there is a broader public interest in keeping them confidential;[2]
- set out, where confidentiality is deemed necessary with a direction, that it is good practice for the AO to write to the Chair of the Public Accounts Committee and relevant departmental select committee to explain the reasons for this and provide an expectation for when that need is likely to fall away;[3] and
- clarify the respective role of boards and ministers in the direction process in respect of arm's length bodies.

A cross-departmental senior strategic finance group has also been established, facilitated by the Treasury Officer of Accounts, to discuss *Managing Public Money* and AO issues. This will facilitate peer support on AO issues and sharing of best practice. The first meeting of this group was held in November.

Robust forecasting

Accurate cross-government forecasting enables better value for money because it informs how resources are allocated and ensures that government borrows only what is needed. The pandemic presented challenges to forecasting which no doubt contributed to the significant underspends departments reported against the budgets set at Supplementary Estimates. These underspends highlighted the different approaches taken to forecasting across departments and the challenges of forecasting new, demand-led programmes.

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[1] First set out in a Dear Accounting Officer letter in September 2017 (DAO02/17): https://www.gov.uk/government/publications/dao-0217-accounting-officer-assessments
[2] First codified in a Dear Accounting Officer letter in January 2021 (DAO01/21): https://www.gov.uk/government/publications/dao-0121-control-totals-2020-21
[3] ibid.

In response, the Treasury has prepared a new forecasting framework, which has been shared with departments and will be incorporated into the 2022-23 update to *Consolidated Budgeting Guidance.* This sets out forecasting expectations, such as the importance of not including contingency in central estimates of full-year spend, and provides incentives to departments to share robust forecasts that enable the Treasury to monitor public spending effectively and thereby minimise the risk to public finances. This framework draws on lessons learned from a newly established Finance Leadership Group Forecasting Sub-Group, chaired by the Treasury's Director of Public Spending. This group has been set up for finance leaders to share ideas and best practice on forecasting.

The Government Finance Function's finance board pack reporting minimum standards also set out how departments can improve the quality and consistency of financial information, including forecasts.

Fraud and error

Managing Public Money requires AOs to design cost-effective control environments best suited to manage fraud risk. The Treasury is working with departments and the Government Counter Fraud Function (GCFF) to review the estimated and detected losses due to fraud and error and to compare these with expectations. It is currently too early to draw conclusions from this work given that the data currently available is only provisional. The government is expecting more complete data sets which will allow HMRC, and other departments, to provide final estimates in due course.

In the interim, the Treasury has provided the resources for counter fraud work to be prioritised within Cabinet Office. A Fraud Ministerial Board, established in 2020, is co-chaired by Ministers from the Cabinet Office, Treasury and Home Office. This Board has set the direction on the COVID-19 fraud response, which includes departments undertaking post event reviews to detect, and in the highest risk schemes provide an estimate of the level of, fraud and error in COVID-19 schemes.

Guidance for Annual Reports and Accounts in 2021-22 will require departments to estimate the level of fraud and error in their COVID-19 support schemes. This is an additional requirement that builds on the existing mandated reporting on COVID-19 related expenditure. Departments will need to identify risks, make an evidenced estimate of the extent of fraud and error, and explain how risks are being managed.

In addition, the government's annual fraud landscape report will publish detail on the reported and estimated levels of fraud across government, including COVID-19 schemes and spending. The GCFF is writing separately to the Committee with a detailed response to recommendations on Fraud and Error made by the Committee.

I am copying this letter to the Comptroller and Auditor General.

Tom Scholar

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