HM TREASURY

TREASURY MINUTES

Government responses on the Twenty Fourth and the Twenty Sixth to the Thirty Fifth Reports from the Committee of Public Accounts Session: 2012-13

Cm 8613

May 2013

Treasury Minutes on the Twenty Fourth and the Twenty Sixth to the Thirty Fifth Reports from the Committee of Public Accounts
Session 2012-13

24th Report	Nuclear Decommissioning Authority: managing risk at Sellafield (Energy)
26th Report	Multilateral Aid Review (International)
27th Report	HM Treasury: Annual Report and Accounts 2011-12 (Treasury)
28th Report	Franchising of Hinchingbrooke Health Care NHS Trust, and Peterborough and Stamford Hospitals NHS Foundation Trust (Health)
29th Report	Tax avoidance: tackling marketed avoidance schemes (Revenue)
30th Report	Excess Votes 2011-12 (Treasury)
31st Report	Lessons from cancelling the Intercity West Coast franchise competition (Transport)
32nd Report	Managing the defence inventory (Defence)
33rd Report	Work Programme outcome statistics (Work / Pensions)
34th Report	Managing budgeting in Government (Treasury)
35th Report	Restructuring the National Offender Management Service (Justice)

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Twenty Fourth Report

Department for Energy and Climate Change

Nuclear Decommissioning Authority: managing risk at Sellafield

Committee of Public Accounts report summary

The Nuclear Decommissioning Authority (the Authority), an arm's-length body of the Department for Energy and Climate Change (the department), was set up in 2005 with the specific remit to tackle the UK's nuclear legacy. Sellafield is the largest and most hazardous site in the Authority's estate and is home to an extraordinary accumulation of hazardous waste, much of it stored in outdated nuclear facilities. It is run for the Authority by Sellafield Limited, the company licensed by regulators to operate the site. In November 2008, the Authority contracted with an international consortium - Nuclear Management Partners Limited – to improve Sellafield Limited's management of the site, including the development of an improved lifetime plan.

Over several decades, successive Governments have been guilty of failing to tackle issues on the site, allowing an enormous nuclear legacy to build up. Deadlines for cleaning up Sellafield have been missed, while total lifetime costs for decommissioning the site continue to rise each year and now stand at £67.5 billion. It is essential that the Authority brings a real sense of urgency to its oversight of Sellafield so that the timetable for reducing risks does not slip further and costs do not continue to escalate year on year.

The Authority believes it now has a credible plan for decommissioning Sellafield and expects Sellafield Limited to start retrieving hazardous waste currently held in legacy facilities in 2015. Nonetheless, given the track record on the site and given that only 2 of the 14 major projects were being delivered on or ahead of schedule in 2011-12, the Committee is not yet convinced that this date will be met or that sufficient progress is being made. Basic project management failings continue to cause delays and increase costs, while doubts remain over the robustness of the plan, in particular whether the Authority is progressing the development of the geological disposal facility as quickly as possible.

The Authority has a cost reimbursement contract with Sellafield Limited and all bar one of the major projects at the site involve a cost reimbursement contract between Sellafield Limited and its subcontractors. This means that taxpayers - rather than Sellafield Limited or its subcontractors - bear the financial risks of delays and cost increases. This contracting approach may be the best option while the plan and individual projects contain significant uncertainties, but the Authority has yet to work out how and when it will start to transfer more risk to the private sector.

More immediately, the Committee is not yet convinced that taxpayers are getting a good deal from the Authority's arrangement with Nuclear Management Partners. All payments to Nuclear Management Partners and, indeed to their constituent companies, need to be strictly controlled and determined by robust, verified assessments of the value gained, so that payments are not made which would seem to constitute a reward for failure. Furthermore, the costs of seconding staff from Nuclear Management Partners' parent companies appear excessively high, especially given the wage rates in the local economy.

Finally, an enormous amount of public money - some £1.6 billion - is spent at Sellafield each year. Such public expenditure can secure substantial wider economic benefit in what is an area of high need and deprivation, for example: through support for businesses, job creation and skills development in the region and in the UK. But there needs to be a clearer ambition for what this investment can achieve and a proper process for measuring and monitoring its actual impact.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department of Energy and Climate Change, the Nuclear Decommissioning Authority, and Sellafield Limited on the management of risks at Sellafield on 26 November 2012. The Committee published its report on 4 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The lifetime plan for Sellafield may be more credible than previous plans, but it is still not clear that it is sufficiently robust. The plan has not been sufficiently tested against benchmarks and there are a number of uncertainties yet to be resolved, for example: regarding the character of the waste in the legacy ponds and silos, which have a potentially significant impact on costs and schedules. Under current plans the design and build of a geological disposal facility for long term storage of hazardous waste is expected to take another 27 years to 2040. It seems implausible that this critical project cannot be expedited.

The Authority should develop and apply benchmarks to assess the robustness of the lifetime plan and challenge existing assumptions on costs and timescales for critical projects; and rigorously examine the timetable for the geological disposal facility.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014 on benchmarking of lifetime plan.

1.2 Prior to the creation of the Authority there was no credible lifetime plan for Sellafield. The Authority has implemented robust processes to assess the nature and estimate the costs of dealing with Sellafield and as a result there is now a more credible plan in place. The Authority recognises that uncertainties remain to be resolved at Sellafield, particularly the character of the waste in the legacy ponds and silos, which may impact on future costs and schedules.

1.3 The 2010 Plan, agreed between the Authority and Nuclear Management Partners (NMP), was subject to extensive challenge and scrutiny by the Authority. Whilst the Authority did not have benchmarks against which to compare the plan, other assurances were considered sufficiently robust for the plan to be accepted as a credible baseline. Improvements in the quality of the baseline plan are made through a process of continuous review and change control. The Authority's contract with NMP has breakpoints (at 5, 5, 5 and 2 years, which can be used in any order), which deliberately provide an opportunity to re-baseline plans. The unique nature of many activities at Sellafield, particularly the legacy ponds and silos programmes, makes it very difficult to benchmark in those areas. In other areas, such as elements of the construction projects, operational costs and site overheads, the Authority recognises that there is greater scope for benchmarking.

1.4 As part of the re-baselining work associated with the first contract breakpoint in April 2014, the Authority, with appropriate external assistance, will seek out those elements of the plan that can be meaningfully benchmarked and obtain data from across the site, the NDA estate and other comparable industrial operations in order to effectively challenge the revised Sellafield Plan. In its use of benchmarking the Authority will seek to strike the right balance when setting delivery targets, where the aim is to be neither unrealistically optimistic or at the other extreme insufficiently challenging. Once set, the actual delivery cost of these benchmarkable activities will be monitored annually in order to track progress in cost reductions, towards the reasonable targets established from benchmarking.

1.5 The department manages the process and timetable for identifying a site for a geological disposal facility. The Authority maintains the reference design and a programme for site investigation, construction and operations. Additionally, the Authority has benchmarked its own geological disposal facility implementation programme and timescales against more advanced programmes overseas (for example: Sweden) and concluded that the UK's programme compares favourably. Evaluation of the timetable for the GDF is ongoing in the context of the process for finding a volunteer community and the need to develop a robust long-term safety case for any chosen site.

1.6 In December 2011, at the department's request, the Authority published a review of options for accelerating implementation. At that time it was concluded that further consideration was required, in particular regarding host community volunteerism, before options for programme acceleration could be realistically evaluated.

1.7 In January 2013 Cumbria County Council voted to withdraw from the process to find a volunteer host community. Although both Copeland and Allerdale Borough Councils voted in favour of remaining in the process, it had previously been agreed that both Borough and County level needed to vote positively in order for the process to continue in west Cumbria, so the process was brought to a close. The department has stated that the Government remains committed to geological disposal and will reflect on lessons learned from the siting process while continuing nationally to apply the process to find a volunteer host community

PAC CONCLUSION AND RECOMMENDATION 2

Basic project management failings continue to cause delays and cost increases to critical risk reduction projects and programmes. The Authority has missed regulatory targets but expects to start retrieving waste from the 'legacy' cooling ponds and storage silos in 2015.

To help ensure there is no further slippage to timetables and costs are kept under control, the Authority should invite the Major Projects Authority to review the most critical and largest projects, and should report publicly on the progress of key risk reduction programmes against plans and budgets.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2013.

2.2 Major projects in the Authority's estate are subject to scrutiny and governance by its Programme and Projects Review Group (PPRG), which is run on similar principles to the Major Projects Authority (MPA). This is staffed by people with MPA experience and independent external reviewers. Whilst performance on some major projects has been poor, the Authority is taking appropriate steps with Sellafield Limited to address the root causes.

2.3 The MPA has stated that it would not be appropriate for it to routinely review the delivery of specific programmes and projects on the Sellafield site as this would duplicate the work of the Authority and projects run in the private sector are usually considered out of MPA scope. The MPA retains the right to conduct occasional assurance on SLC run projects within the NDA should HMT approval be required, or at the request of the NDA, Ministers or the Executive Director of MPA under the terms of the Prime Ministerial Mandate.

2.4 However, the Authority has agreed with the MPA that they will carry out an independent review of the Authority's assurance processes and their effectiveness in securing the delivery of major projects and programmes. In doing so, the MPA will look at a sample of the largest projects. This review will be completed by October 2013.

2.5. It is important to note that this further external scrutiny will not itself prevent future slippage in timetables, or increases in costs, in particular where there are underlying characterisation and engineering uncertainties still to be resolved, which are unrelated to project management. The Authority already reports through its Annual Report and website on the key risk reduction programmes, but will be considering further enhancements to its reporting.

PAC CONCLUSION AND RECOMMENDATION 3

Because of the uncertainty and delivery challenges at Sellafield, taxpayers currently bear almost all of the financial risk of cost increases and delays. The use of cost reimbursement contracts for Sellafield Limited and its subcontractors means the financial risks are borne by the taxpayer. This contracting approach may be the best option where costs are very uncertain. However, as project and programme plans firm up and the lifetime plan becomes more robust, it should be possible to move away from cost reimbursement contracts.

The Authority should determine how and when it will have achieved sufficient certainty to expect Sellafield Limited to transfer risk down the supply chain on individual projects and then to reconsider its contracting approach for the site as a whole.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

3.2 The responsibility for meeting the costs associated with decommissioning and cleaning up the facilities at Sellafield falls to the Government. There remains ongoing uncertainty in the work, associated with the waste characteristics, the technology required to retrieve and treat it, and the age and poor reliability of operational plant. This uncertainty means that further slippage of schedule and further increases in costs are likely. Such inherent risk cannot be transferred economically to the supply chain across a Tier 1 contract for the site.

3.3 The Authority's view, formed in part by testing the market during the competition in 2008, is that private companies are unwilling to show any interest in significant risk transfer at Tier 1, and, even if they were, the cost of transferring such uncertainly would not represent value for money. The Authority would also note that any large scale default by a private company would return the risk and associated liability back to the Government. Substantial uncertainty in the Sellafield mission will remain, and meaningful risk transfer at Tier 1 will not, therefore, be possible for many years to come. Elsewhere in the estate, where there is substantially less uncertainty, risk transfer at Tier 1 is being pursued and remains the Authority's preference.

3.4 For Sellafield, in the absence of the ability to transfer significant risk at Tier 1, the Authority looks to its contractor, Sellafield Ltd, to transfer reasonable delivery risk down into the supply chain at a project level - for example: the adoption of fixed price and target cost contracts for elements of some projects. However, the Authority acknowledges that this approach is not yet sufficiently widespread and is therefore working with Sellafield Limited to identify further projects that would be suitable for contracting arrangements to transfer manageable delivery risks to the private sector.

3.5 The Authority will complete a structured review of the baseline Sellafield plan to examine procurement strategies and confirm that any opportunities, at project level, for the reasonable transfer of risk into the supply chain have been identified and implemented. The review should be completed by December 2015.

PAC CONCLUSION AND RECOMMENDATION 4

The level of 'savings' achieved at Sellafield is central to the Authority's decisions on contract renewal and the performance fee paid out each year, but such savings figures can be overstated. Nuclear Management Partners claim to have achieved efficiency savings worth almost £700 million. The Authority is verifying these savings, but National Audit Office (NAO) reports have shown that, across Government, claimed savings figures are often overstated.

The NAO should review the basis on which savings have been assessed and provide assurance to the Committee that the level of savings achieved at Sellafield has been measured and reported accurately.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

4.2 The Authority's quantification of savings is based on the comparison of actual cost performance against the costs agreed for that same scope in the baseline plans, making various adjustments for windfalls and cost increases beyond the reasonable control of Sellafield Limited. The Authority is confident that its processes are robust and that the level of savings achieved at Sellafield has been measured and reported accurately. The approach has been subject to external review commissioned by NDA's audit function. The Authority will facilitate a review by the National Audit Office to check the robustness of the Authority's process. This review is likely to be complete by December 2013.

PAC CONCLUSION 5

The Authority has not been able to demonstrate what value it is getting for the payments made to Sellafield Limited. In 2011-12, the Authority paid out £54 million in fees, £17 million for 'reachback' staff and £11 million for executive staff seconded from Nuclear Management Partners. Sellafield Limited also awarded contracts to Nuclear Management Partners' constituent companies worth some £54 million in 2011-12. That means, in effect, that those who let contracts awarded their own constituent companies contracts, which raises concerns about fair competition and value.

PAC RECOMMENDATION 5

The Authority should ensure all payments are linked to the value delivered and that payments are not made where companies have failed to deliver. It should also routinely provide assurance on the operation of its controls over payments for Nuclear Management Partners' constituent companies.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The Authority is clear what value it is getting for the payments made to Sellafield, including the costs of the executive team, "reachback" staff, and fees. Fees are related to performance, with the Authority able to withhold fee where performance falls below acceptable levels. Under contract, Sellafield cannot earn any fee unless it has generated savings from its activity. It then earns fee as a percentage of those savings, subject to meeting specified schedule and production targets. In its first three years, Sellafield has generated savings of £425 million, from which it earned fees of £175 million. This fee level represents 3.5% of the contract spend at Sellafield Limited, comparing favourably to similar arrangements in the USA, where fees are typically between 4% and 8%.

5.3 The Authority focuses much effort on ensuring that payments are linked to value delivered at Tier 1, and expects Sellafield Limited to do the same at Tier 2 and 3 down the supply chain. The Authority also supports Sellafield Limited in the resolution of contentious contract claims. As the end of the first five year contract period approaches in April 2014, the Authority is looking at options for ensuring that the fee arrangements best incentivise delivery of the Government's priorities at Sellafield.

5.4 NDA routinely reviews the selection criteria and award decisions made by Sellafield Ltd, with particular focus on those where contracts are awarded to the constituent companies of Nuclear Management Partners. It is routine to allow constituent companies, of a site management consortium, to bid at Tier 2 and 3. Indeed where these companies are subject matter experts (for example Areva are world experts in MOX and vitrification) it would be unwise to exclude them. At Sellafield, where NMP constituent companies bid for Tier 2 and 3 contracts, all seconded employees from the biding companies do not participate in the bid evaluation and contract award process. Contracts let by the Authority and Sellafield Limited are subject to Official Journal of the European Union (OJEU)[1] competition requirements.

PAC CONCLUSION AND RECOMMENDATION 6

It is not clear what wider economic benefits have been achieved from the enormous quantity of public money spent at Sellafield. The Department for Business, Innovation and Skills, the Department of Energy and Climate Change, the Authority and Sellafield Limited all provide support for the development of the nuclear supply chain. In addition, the £1 billion spent annually by Sellafield Limited on procurement ought to help create jobs, build skills and drive sustainable economic growth in the region and the UK.

The Authority and Sellafield Limited should set out what added value can be achieved from taxpayers' investment in Sellafield, clarify their roles in delivering this and set performance targets for contributing to the development of the regional and national economy and workforce.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2014.

[1] The Official Journal of the European Union (OJEU) is the publication in which all tenders from the public sector, which are valued above a certain financial threshold according to EU legislation, must be published. The legislation covers organisations and projects that receive public money.

6.2 Skills and socio-economic development are important supplemental obligations in the Energy Act 2004 and the Authority works very actively with others, including Britain's Energy Coast and Local Councils who hold primary responsibility for these matters.

6.3 Sellafield employs in excess of 10,000 people, spending £551 million on direct staff costs. Spend in the supply chain is £1.1 billion annually. In 2011, 34.4% of the total contract value at Tier 2 and 3 level was with firms in West Cumbria, compared to 2008 when it was 31.9%, indicating a small, but positive change for local companies. Stobbarts Ltd, Workington is a good example where work from Sellafield has contributed to the expansion of a local company, over the last 10 years, to over 200 people.

6.4 The Authority and Sellafield Limited are committed to ensuring skills requirements are met in the coming years. There are around 400 young people in various stages of training across the Authority's estate at any one time, with 150 joining annually. The Authority has invested directly in the recruitment and employment of 130 apprentices in the supply chain via its *Community Apprenticeship Scheme* and there has been £19 million invested in training centres in England, Scotland and Wales, with a world-class research facility in West Cumbria.

6.5 The Authority and Sellafield Limited will publish, by April 2014, a joint summary of the approach to contributing to skills and socio-economic development in and around Sellafield. Working with stakeholders, including Britain's Energy Coast and Local Councils, the Authority will also establish performance metrics against which future performance can be measured. This will include progress towards meeting the Government's supply chain targets for SMEs. The Authority will also continue to work with UKTI and others to explore opportunities to export UK's nuclear decommissioning expertise overseas.

Twenty Sixth Report

Department for International Development

The multilateral aid review

Committee of Public Accounts report summary

Multilateral organisations can play a very valuable role in development; they often work in politically sensitive areas, can offer economies of scale, broker international agreements and set international standards. The Department for International Development (the department) funds a range of these organisations to deliver its objectives. It spends almost half of its total aid budget on core funding for multilateral organisations, amounting to £3.6 billion in 2011-12. The UK is normally only one of many members of multilateral organisations, each of which have their own governance arrangements, policies and priorities. This obviously constrains the department's influence on how the funding it gives is used.

The department is making good progress in assessing the effectiveness of multilateral organisations. The department published a Multilateral Aid Review (the Review) in March 2011, which assessed the value for money of 43 multilateral organisations in achieving departmental objectives. The Committee welcomes this Review, which was more thorough and transparent than previous assessments.

Refinements to the Review process will allow the department to build on its successes and improve the effectiveness of future Reviews. These include pressing multilateral organisations for better data on costs and results, better assessment of gaps and duplication in their activities, and strengthening the link between a multilateral organisation's performance and the department's funding. Collaborating with other countries on reform programmes and sharing assessments will help the department to maximise the impact of the Review process and minimise the administrative burdens on multilateral organisations.

The department's overall budget for international aid will increase by 27% in real terms between 2010-11 and 2014-15, reflecting the Government's commitment to providing funding worth 0.7% of Gross National Income from 2013. Public confidence in the value of UK aid depends on the department demonstrating that the funds are well spent. Better comparisons between the cost-effectiveness of bilateral aid and multilateral aid will allow the department to determine which approach is best placed to deliver its outcomes.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for International Development on its Review, how it is seeking to maximise the impact of the Review, and the cost-effectiveness of different types of aid on 24 October 2012. The Committee published its report on 11 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Multilateral Aid Review was a significant step forward in assessing the performance of multilateral organisations. The Review provided a welcome focus on the costs and the results delivered, but it was limited by the availability of data from multilateral organisations. There have been limited financial or other incentives for multilateral organisations to routinely provide data on their costs and results. Without good quality information it is not possible to assess and demonstrate the value for money of UK aid.

The department should use its future funding as a lever to persuade organisations to improve their data on costs and results by making such data a requirement for increased funding.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

1.2 The department has made improving data on costs and results a reform priority for the multilateral organisations that the department funds. Whilst linking funding directly to this specific issue will often be the most effective way to bring change, there will also be cases where other levers would work better. In addition to improving data on costs and results for all organisations, the department has sometimes prioritised other issues, which are judged to be of more critical importance to the delivery of the department's objectives. This is particularly true of humanitarian organisations and their ability to effectively operate in fragile states.

1.3 Recognising that different organisations have different business models, the department has created other incentives for multilateral organisations to improve their results and cost reporting, including through publishing additional data in the Departmental Annual Report, and through working with other donors to collectively demand improvement in this area. The department will continue to press for improved data on costs and results in its engagement across all multilateral organisations and, where appropriate and most effective, will make linkages with the department's funding during the Multilateral Aid Review (MAR) update.

PAC CONCLUSION AND RECOMMENDATION 2

The department has an opportunity to develop further its understanding of the way multilateral organisations operate ahead of its next full Review in 2015. Some refinement in the framework to reflect differing types of multilateral organisation will support more meaningful comparisons between organisations. The department took a pragmatic approach to reviewing each multilateral organisation separately, but has not yet set out whether there are gaps or overlaps between the organisations funded.

Before its next full Review in 2015, the department should refine its framework to better reflect all types of multilateral organisation and it should map the roles of multilateral organisations, highlighting gaps, overlaps and linkages, to enable informed decisions on who can best deliver the department's objectives.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

2.2 The department has developed, through consultation, an assessment framework to capture the work of organisations that are primarily concerned with setting norms and standards, rather than direct delivery of goods and services. This framework is being used in the MAR update exercise, which is due to be completed at the end of 2013, and will feed into the framework for the next full MAR in 2015.

2.3 The MAR update should provide further information about possible gaps or overlaps that could affect the performance and value for money of multilateral organisations. The department will at that stage undertake a pilot exercise to map the roles of multilateral organisations in a sectoral or thematic area where the international architecture is complex or unclear. If this pilot provides useful information, then the department will carry out additional exercises in other sectoral or thematic areas in time to feed into the MAR in 2015.

PAC CONCLUSION AND RECOMMENDATION 3

The department rated nine multilateral organisations as poor, but so far has only withdrawn funding worth £8 million from four organisations. Linking funding levels to performance provides a strong incentive for organisations to improve but so far changes to funding patterns have been limited.

The department should use its information on performance to determine future levels of funding, and where it provides a significant proportion of total funding, use this leverage to drive improved performance.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

3.2 The department used information on performance from the MAR to set multi-year funding envelopes for multilateral organisations in 2011, together with agreed reform priorities. Progress assessments from the MAR update in 2013 will provide key input into decisions on future levels of funding for all multilateral organisations, including those to which the department provides a significant proportion of total funding.

PAC CONCLUSION AND RECOMMENDATION 4

The department's Review has encouraged other donor countries, such as Australia and Denmark, to conduct similar assessments. The department told the Committee that it is in discussions with these countries about how to develop shared assessments to ensure they minimise burdens on multilateral organisations and maximise the incentives for organisations to reform.

The department should work with those open to collaboration to agree reform priorities for key multilateral organisations and alternative ways of delivering objectives if organisations do not improve, with a view to greater collaboration in its 2015 assessment.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

4.2 The department agrees that collaborative working with other donors strengthens international efforts to improve multilateral effectiveness. The department works with a wide range of donors and other stakeholders to develop a shared reform agenda for multilateral organisations. For example, with the Nordics and Australia, the department agreed with the Asian Development Bank that it would strengthen its Results Framework for 2013-2016 with improved indicators on performance and results, and more ambitious targets on each of the MAR reform components.

4.3 The department is also working with the other donors of the Multilateral Organisation Performance Assessment Network (MOPAN) to reshape MOPAN to become the key shared information source for donor multilateral effectiveness assessments, and to develop a stronger common resource of country-level evidence.

4.4 Following the 2013 MAR update, the department will review progress in its work to collaborate with others and update its approach.

PAC CONCLUSION AND RECOMMENDATION 5

The department has so far made only limited assessments of the relative cost effectiveness of multilateral and bilateral aid in achieving its objectives. The proportion of aid delivered to the 43 multilateral organisations subject to review increased from 41% in 2009-10 to 47% in 2011-12. But the department only compared the value of its proposed funding increases in delivering its objectives with bilateral alternatives for four of these organisations. Comparisons are easier where data are more readily available, such as on education and health outputs. Robust data are more difficult to obtain for projects focused on governance or international security.

As better data becomes available, the department should increase its use of comparisons of bilateral and multilateral aid.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

5.2 The department's choice of delivery routes is based on identifying options that offer good value for money. At the resource allocation round for the Spending Review 10 period, this included examining the balance between the bilateral and multilateral delivery channels. In a few cases, where this was appropriate and the evidence made it possible, the department compared the value for money of delivery through a bilateral and multilateral delivery channel. In many cases these comparisons were limited by data availability.

5.3 The department agrees that comparison of value for money across delivery routes must increasingly guide the decision whether to allocate resources to multilateral organisations or alternative delivery routes. To ensure that it is better placed to do this, the department is systematically identifying areas where it will be appropriate and feasible to do such comparisons. The department is also improving the availability of data on the costs and effectiveness of alternative delivery routes to allow value for money comparisons to be done across alternative delivery routes where this is feasible. The department will work closely with multilateral organisations to strengthen the evidence base to guide allocation across alternative delivery routes. It will update its approach to making comparisons between bilateral and multilateral channels as part of its preparations for the next full MAR in 2015.

PAC CONCLUSION AND RECOMMENDATION 6

The department may not be maximising value for money in its contracts with those who deliver bilateral aid owing to a lack of competition. Some organisations working for the department report substantial financial returns, which undermines public confidence that the department is getting value for money from its aid budget. The department has commissioned a review of its procurement process and is seeking to increase competition between suppliers.

The department must develop a more rigorous procurement strategy which enables it to secure better value through a better understanding of the provider market and increased competition.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

6.2 In September 2012, the Secretary of State asked the department to introduce a more rigorous procurement strategy in order to improve value for money. A review of procurement strategy has been undertaken and a programme of work agreed with Ministers. This recognises that as well as using competition to secure better value from tenders, there are also opportunities to improve value for money by collaborating more effectively with suppliers.

6.3 The Secretary of State has introduced new controls requiring Ministerial approval for the award of all new supplier contracts over £1 million and initiated a programme of negotiation to improve the value for money achieved from its top suppliers. To improve the effectiveness of competition in tenders and stimulate market interest, the department will regularly update and publish its pipeline of future contracts to be tendered. The department will also ensure that market factors are considered more carefully during the design of projects and make greater use of output based pricing approaches where appropriate.

6.4 The department is strengthening its monitoring of supplier performance. The department has published a *Statement of Priorities and Expectations for Suppliers* setting out standards that suppliers to the department should support and adhere to and will launch a structured programme to improve the management of its top supplier relationships to improve value for money and performance.

PAC CONCLUSION AND RECOMMENDATION 7

Although the department has in place policies and processes to detect fraud in the use of UK-sponsored multilateral and bilateral aid, the effectiveness of these processes has not been demonstrated to the Committee. The department has not therefore assured the Committee of the efficacy of these anti-fraud procedures.

The Committee urges the department to provide figures on detected fraud on a country-by-country basis.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

7.2 The department remains committed to tackling fraud and has invested heavily in initiatives to control and reduce fraud and will continue to work to embed counter fraud awareness and measures into every aspect of its work. The department adopts a zero tolerance approach to fraud and vigorously investigates and pursues all instances of detected fraud.

7.3 The department publishes details of the aggregate fraud losses in the Quarterly Data Summary submitted to the Cabinet Office. It also publishes details of write offs and losses, inclusive of any fraud losses, in its Losses Statement contained in the department's financial statements.

7.4 The department agrees that publishing details of detected fraud disaggregated on a country-by-country basis would improve transparency and accountability in how our aid is being spent. The department will put in place measures to provide this information.

Twenty Seventh Report

HM Treasury

Annual Report and Accounts 2011-12

Committee of Public Accounts report summary

HM Treasury is the nation's ministry of finance and economics. From taking evidence on the Treasury's Annual Report and Accounts for 2011-12, we are pleased to recognise improvements by the Treasury, including reducing its exposure to bank guarantee schemes and making a start on reducing its high rate of staff turnover. However, the Committee found the detail of the accounts to be impenetrable, which is of particular concern when the Treasury should be a leading proponent of clarity in financial reporting.

The Treasury's role includes the oversight of economic growth and of the "big ticket" items of public spending that affect the whole nation. It should be able to monitor public spending effectively, so that it can ensure that lessons are properly learnt from past mistakes to improve the efficiency and effectiveness of present and future spending.

To carry out this role, the Treasury needs sufficient capacity and skills. The Committee has already raised concerns about its ability to respond to a future banking crisis, and the Committee was also concerned about the Treasury's high staff turnover and commitment to further staff reductions. These threaten the Treasury's ability to effectively control the risks it is managing on behalf of the taxpayer.

The largest component of the Treasury's 2011-12 accounts is still the government's support to banks. The C&AG's Report highlighted that this support has continued to reduce, and the majority of the guarantees have now been successfully removed. However, some £119 billion of cash support remains outstanding, of which £66 billion was spent buying shares in RBS and Lloyds and is yet to be recovered. The market value of these shares had, by 31 March 2012, fallen by £34 billion.

The Treasury's economics role means it needs to monitor the economic risks and performance of the economy. The difficult economic context has led to the introduction of lending schemes, and to the Treasury indemnifying the Bank of England against losses on Quantitative Easing. The lending schemes have failed to significantly increase lending, and the Treasury told the Committee that its latest attempt, the National Loans Guarantee Scheme, had effectively been superseded by the, apparently more generous, Funding for Lending Scheme operated by the Bank of England. The Treasury has limited understanding of its role in these measures. It has not set out its goals and intended outcomes, and it has limited management information to help it monitor progress, giving the impression of a series of expensive experiments indemnified with taxpayer's money.

On the basis of the Certificate and Report of the Comptroller and Auditor General on the Treasury's Annual Report and Accounts for 2011-12, the Committee took evidence from the Treasury on its role and activities, including taxpayer support to the banks on 22 October 2012. The Committee published its report on 15 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee expects the Treasury to give equal emphasis to its two roles as both the nation's economics ministry and its finance ministry. But it appears to neglect its role as the finance ministry: its own accounts are impenetrable and its Departmental Ministerial Board met only once in 2011-12, limiting its ability to steer the Treasury and the rest of Government.

As finance ministry, it also must exercise central oversight and prevent poor spending decisions, but the Committee keeps seeing instances - most recently with offshore energy transmission - where departments made poor decisions which the Treasury should and could have prevented if it had effectively learnt from past mistakes.

1.1 The Government disagrees with the Committees recommendation.

1.2 The Treasury recognises its statutory obligation to exercise tight control over Public Spending, and indeed has several processes in place to facilitate this. *Managing Public Money* clearly identifies the expectations of all Accounting Officers, and in particular considerations for the wider public sector in financial decisions. For expenditure that exceeds specified and agreed delegated authority limits, the relevant Department is required to submit a business case to the Treasury, which must comply with the five case models. The Major Projects Review Group (MPRG) also continues to scrutinise and approve the Government's largest and most complex projects. MPRG Panels challenge projects on deliverability, affordability and value for money at key points in the Treasury's approval process.

1.3 However, the Treasury also recognises that this statutory role must be balanced with effective financial management across Government. It is both unreasonable and unfeasible to expect the Treasury to be involved in all spending decisions made by other Government departments. Departments are given delegated authority limits, which are agreed with the Treasury, below which they are not required to obtain express Treasury approval. Spending within these limits must be consistent with the guidelines set by the Treasury. Nevertheless, certain transactions will always require specific Treasury approval.

1.4 The Treasury is committed to the continuous improvement in the use of public resources and recognises how it can better use lessons learned from past experiences. Currently, the MPRG has a review process after each major spending programme, where it attempts to identify key areas which could be improved in the future. The Treasury recognises that this approach can be applied on a wider basis and is working with colleagues across Government, particularly in the Efficiency and Reform Group (ERG) in the Cabinet Office, to address this.

PAC CONCLUSION AND RECOMMENDATION 2

High staff turnover at the Treasury threatens its ability to retain the knowledge it needs to respond to crises and manage public spending effectively. During 2011-12, staff turnover fell from 28% to 16%, which is still very high. Furthermore, the Treasury remained committed to cutting its headcount by a third, and there are still very few women at senior levels within the Treasury or its subsidiary organisations.

At the Committee's hearing on the sale of Northern Rock plc, the Treasury committed to updating the Committee, by June 2013, with its response to Review of HM Treasury's Management Response to the Financial Crisis (March 2012). The Committee also expects the Treasury to ensure that its reducing headcount does not jeopardise its ability to effectively control the risks it is managing on behalf of the taxpayer.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2013.

2.2 The Treasury will update the Committee during the summer on progress against its response to the recommendations in the *Review of the HM Treasury's management response to the financial crisis*.

2.3 Treasury staff numbers will fall to around 1,000 by April 2014, reflecting the Spending Review settlement for the 2010-2015 period. Considerable thought has gone into contingency planning to ensure the Treasury remains well-placed to handle a future financial crisis. The Treasury's new Group structure has supported a clear focus on core activities as a finance and economics Ministry. The Treasury is monitoring retention carefully and taking steps to retain specialist knowledge and experience.

2.4 Among these steps is the introduction of a new grade, just below the level of the Senior Civil Service, to recognise and stretch staff with specialist knowledge, professional skills and valuable experience. The first tranche of post holders will be in place in April 2013, building to around 80 posts over the coming months. At HEO / SEO grade, the Treasury is implementing a change to its reward strategy to recognise successful performance and development at the grade. The Treasury is also simplifying other allowances to ensure that they remain flexible and appropriate in the new structure.

2.5 The representation of women at senior levels in the Treasury has improved. In October 2010, women made up 38.7% of the SCS, and 29.4% of those at SCS2 and above. In October 2012, the proportions were 43.2% and 36.8% respectively.

PAC CONCLUSION AND RECOMMENDATION 3

The support to banks provided in the last crisis helped to bring stability to the banking system and prevent its collapse, and whilst the outstanding taxpayer support to banks is falling, the cash is yet to be recovered. The Committee was pleased that the Treasury has successfully withdrawn nearly all of the taxpayer guarantees to banks, substantially reducing the risk of further cash payouts. But the taxpayer still owns some £66 billion of shares in RBS and Lloyds, which, at 31 March 2012, had reduced in market value by £34 billion according to the Treasury's accounts. The Treasury hopes that some of this loss will be recovered when the shares are sold. The Committee was concerned that a short-term decision to sell might undermine long-term realisation of value for the taxpayer.

The Treasury, with UK Financial Investments Ltd, should set out a strategy for its share sales, and how it will prioritise the government's various objectives so that the taxpayer's interests are protected in any eventual sale.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Government's shareholdings in RBS and Lloyds are managed on a commercial and arm's length basis by UK Financial Investments Ltd (UKFI), a company which is wholly owned by the Government. The Government's objective remains to sell its holdings in RBS and LBG when it is right to do so. UKFI advises the Chancellor on how to dispose of the investments in an orderly and active manner, whilst protecting value for the taxpayer and paying due regard to financial stability and competition.

3.3 It is right that the department and UKFI pursue a clear strategy in relation to the disposal of the Government's shareholdings in the banks. UKFI's objectives and the framework, within which they will pursue them, are already set out in the UKFI Framework Agreement and the UKFI Investment Mandate published in January 2010. UKFI and the Treasury will also aim to follow the value for money guidance set out in the *Green Book*.[2] Publishing any further details of the Treasury's and UKFI's disposals strategy would risk compromising their position in commercial negotiations and may not be consistent with maximising value for money.

PAC CONCLUSION AND RECOMMENDATION 4

The Treasury has not convinced us it understands either the risks it has taken on by indemnifying the Bank of England against losses on Quantitative Easing or the expected economic benefits. The indemnity creates substantial taxpayer exposure, but the Treasury is not clear on how Quantitative Easing is to be evaluated or what the intended outcomes are. It does not know what has happened to the amount - some £375 billion so far - injected into the economy, or how the effects might be distributed across society.

The Treasury must provide more transparency on what Quantitative Easing is seeking to achieve. It should work with the Bank of England to understand and publish data on the effects and benefits of the measure.

4.1 The Government agrees with the Committee's recommendation that transparency on Quantitative Easing (QE) is important, however believes that transparency has already been ensured.

Recommendation implemented.

4.2 The objective of QE, the Bank of England's programme of asset purchases financed by the creation of central bank reserves, was set out in the published exchange of letters between the Governor of the Bank of England on 17 February 2009 and the then Chancellor of the Exchequer on 3 March 2009. These letters authorised the use of the Asset Purchase Facility (APF) for monetary policy purposes at the request of the

[2] http://www.hm-treasury.gov.uk/data_greenbook_index.htm

independent Monetary Policy Committee. QE was intended to provide scope for the monetary base to be expanded. This would act to boost the supply of broad money and credit and increase the liquidity of private sector portfolios, thereby raising nominal spending.

4.3 The Bank of England has since communicated and assessed the channels through which QE works to support nominal demand and meet the inflation target in the medium term, for example in a short film, *Quantitative easing - How it Works*, published on its website, as well as in speeches by members of the MPC. The Bank's Quarterly Bulletin published in September 2011 analysed in detail the effectiveness of the first £200 billion of asset purchases and estimated a quantified impact on the economy. The Bank estimated that QE had raised UK inflation by around ¾ to1½ percentage points and increased real GDP by around 1½ to 2%. The Bank has also assessed the distributional impact of QE on pensions and savings in a paper, *The Distributional Effects of Asset Purchases,* published in July 2012.

4.4 The Treasury's *Review of the monetary policy framework*, published alongside Budget 2013, includes a description of QE and the channels through which it works.

4.5 The Office for Budget Responsibility (OBR) has estimated the lifetime benefit to the Exchequer from QE. In its March 2013 *Economic and fiscal outlook*, the OBR projected the total sum of transfers to the Treasury given the APF indemnity to be around £71 billion by 2022-23, and total payments out of the Treasury to be around £26 billion. Overall, the net transfer to the Treasury is projected to be around £45 billion. The OBR's central projection of the eventual net direct impact of QE on public sector net debt would be a reduction by roughly 2% of GDP in 2022-23.

PAC CONCLUSION AND RECOMMENDATION 5

The Treasury's measures to stimulate economic growth through new lending have not been successful so far. The Treasury's latest measure, the National Loans Guarantee Scheme, achieved only 15% of its intended take-up and has now been superseded by the Bank of England's Funding for Lending Scheme (FLS), which appears to be more generous. Even now, the Treasury has not clearly set out what it should be doing to ensure the effectiveness of the FLS, and nor has it specified how the FLS is to be evaluated.

The Treasury should set out its role in FLS, and what success would look like, for example how much new lending the Treasury wants to generate.

5.1 The Government agrees with the Committee's recommendation. However, the Government disagrees with Committee's recommendation on using a specific measure.

Recommendation implemented.

5.2 The FLS is run by Bank of England, with the approval of the Government, as part of its remit to maintain monetary and financial stability. The FLS provides funding at lower than market rates to banks and building societies, so that they can make loans to households and non-financial businesses cheaper and more easily available. Banks that increase lending to UK households and businesses will be able to borrow more from the FLS and at a lower cost. Both the amounts drawn down from the scheme and the amount of net lending that banks make under the scheme is publicly disclosed for each individual participating bank on a quarterly basis. This ensures the scheme remains transparent.

5.3 The Bank of England and the Treasury are jointly monitoring the scheme through a Joint Oversight Board that meets on a quarterly basis, where officials from the Bank of England and the Treasury monitor the performance of banks within the scheme. As part of monitoring the scheme, the key transmission stages, which are available in the Bank of England *Inflation Report* (November 2012) are observed:
- bank funding costs;
- quoted terms and availability of credit;
- loan applications and approvals; and
- the flow of credit and effective interest rates.

5.4 As the price and availability of credit begin to ease, demand is expected to pick up and this will be reflected in increased flows of lending. However it is too early to observe this and its ultimate effect will remain uncertain. Further information on the monitoring of the *Funding for Lending Scheme* is available on the Bank of England's website.[3]

[3] *Inflation Report February 2013, Bank of England* and *Quarterly Bulletin 2012Q4, Bank of England*

PAC CONCLUSION AND RECOMMENDATION 6

As well as economic measures, the Treasury has responsibility for Equitable Life compensation payments, but it has not met its payment targets for 2011-12. The Treasury has not paid out as much of the £1.49 billion total compensation as intended, and told the Committee that it has proved harder than expected to find those entitled to compensation.

The Treasury should take steps to put the payment profile back on track, and it should prioritise those recipients in the most urgent need.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: The Treasury will agree a revised plan for delivery through to the end of Scheme, including a strategy for closedown, and a revised payment profile by end of May 2013.

6.2 In the 2010 Spending Review, £1 billion was allocated to the Equitable Life Payments Scheme (ELPS) in the first three years of the Spending Review, to cover both the initial costs of the first three years of regular payments to With Profits Annuitants (WPA), and all payments to other policyholders. A further £500 million was allocated to make subsequent, annual payments to WPAs after April 2014, until their policies expire.

6.3 Following the Government's pledge, in June 2010, to set up a payment Scheme to pay redress to those who suffered maladministration in the regulation of the Equitable Life Assurance Society (ELAS), the Treasury designed and developed the policy of the Scheme in parallel with engaging with its delivery partner to plan the delivery of the Scheme's services, so that payments commenced from June 2011 in line with the ministerial commitment. The constrained timetable, within which the Scheme had to be launched, coupled with problems with the data, meant that the Scheme was unable to trace a number of policyholders in order to release payments. Therefore, the Scheme was unable to meet its payment target of £500 million in its first year of operation.

6.4 As at end of March 2013, the Scheme has made 407,000 payments, totalling more than £577 million. The Scheme forecasts that by 2014 a cumulative total of £900 million will have been paid, as some 20% of policyholders will remain untraced, despite Scheme efforts to verify their address. A detailed plan, through to the end of the Scheme, is already being prepared to deal with the remaining 660,000 payments to Group Scheme members and remaining individuals, as well as closing the Scheme down in line with Government's timetable regarding the operation of ELPS.

6.5 In accordance with advice from the Independent Commission on Equitable Life Payments (the Commission), the Scheme did attempt to "*prioritise, where practical, the oldest policyholders and the estates of deceased policyholders, so not delaying beneficiaries receiving payments when they might be most vulnerable*". The Scheme will continue to prioritise payments to policyholders in line with the Commission's advice, where practical.

Twenty Eighth Report

Department of Health

The franchising of Hinchingbrooke Health Care NHS Trust and Peterborough and Stamford Hospitals NHS Foundation Trust

Committee of Public Accounts report summary

A complete lack of strategic oversight resulted in separate decisions being taken to build a new PFI hospital at Peterborough and to award a franchise to a private company to run a nearby NHS hospital. No consideration appears to have been given to the impact these two decisions would have on the local health economy and health expenditure. The hospitals are located only 24 miles apart in the East of England, an area of the country where the NHS has a long-acknowledged over-provision of acute healthcare. The decision to approve these two deals flies in the face of past and present government policy to treat more people outside hospitals and to concentrate key services in specialist centres. This has left the Government with two hospitals whose financial viability and future is in doubt and whose value for money has not been secured.

The PFI hospital at Peterborough and Stamford Hospitals NHS Foundation Trust became fully operational in December 2010. By the end of 2011-12, the Trust had accumulated a deficit of £45.8 million on a turnover of £208 million. At 22%, this was the highest ratio of deficit to turnover in the NHS. Monitor's warnings about the affordability of this PFI deal, which has proved catastrophic for the Trust, were not acted on by the Trust, the East of England Strategic Health Authority (the SHA) or the Department of Health (the department). The severity of the Trust's financial position was increased by weaknesses in its financial management but the warning signs of these failures were missed because Monitor was not sufficiently alert to the risks. The Trust's financial position is now so serious that, even if it achieves challenging annual savings, it will still require significant financial support of up to £26 million a year for the next 30 years to remain viable.

Hinchingbrooke Health Care NHS Trust is the first NHS trust to be run as an operating franchise. The deal was put in place after the Trust accumulated a deficit of £39 million between 2004-05 and 2007-08 on an annual income of around £73 million as a result of management errors and inaccurate income projections associated with the opening of a £22 million PFI treatment centre. The present financial position of the Trust and projections over its future income are such that it also needs to achieve substantial savings to remain viable. The franchisee, Circle Healthcare, aims to achieve savings of £311 million over the ten-year life of the franchise. The company has not achieved the savings it expected in the first few months of operation and it has already parted ways with its Chief Executive, only six months into the project.

The Committee is concerned that Circle's bid was not properly risk assessed and that Circle was encouraged to submit overly optimistic and unachievable savings projections. While some financial and demand risk has been transferred to Circle, the NHS can never transfer the operational risk of running a hospital leaving the taxpayer exposed should the franchise fail.

Neither Trust is financially sustainable in its current form and both will have to make unprecedented levels of savings to become viable. Events at both Trusts reflect poor financial management and the failure of the SHA to exercise strategic control over local healthcare provision and capacity planning. The poor oversight demonstrates that the department has not established a robust system of healthcare planning. All bodies demonstrated an abject failure to accept responsibility for these decisions and their impact on the local health economy. But the local community will have to live with the consequences of these decisions for many years to come, as will the NHS and the taxpayer who will have to foot the bill.

On the basis of two Reports by the Comptroller and Auditor General, the Committee took evidence from the Department of Health, Monitor, Circle, and Peterborough and Stamford Hospitals NHS Foundation Trust on the franchising of Hinchingbrooke and the financial sustainability of Peterborough and Stamford on 10 December 2012. The Committee published its report on 7 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The strategic management of health resources across the East of England SHA has failed. The department is ultimately responsible for establishing systems that protect health service users and taxpayers. But the way that the health organisations involved exercised their responsibilities left gaps and meant nobody looked at the overall impact on the local health economy. The SHA failed to shape the structure of local supply or assess capacity effectively, leading to financial instability across the health economy.

The status of Peterborough and Stamford as a foundation trust did not justify the SHA abdicating their responsibilities in these areas. There were failures of leadership at all levels in relation to the Peterborough and Stamford PFI deal, but ultimate responsibility rests with the department.

The department placed too much reliance on the Trust's board when it had much more experience of PFI schemes itself. Hinchingbrooke was an innovative deal, but the decision to award a contract appears to have been taken in isolation of pressures within the health economy and against the Government's own stated intention to move care out of hospitals.

The department must clearly set out who has responsibility and accountability for the strategic management of health economies.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 From April 2013, the NHS England and Clinical Commissioning Groups (CCGs) will be responsible for purchasing services for NHS patients. NHS England and CCGs are therefore responsible for shaping health economies to ensure that patients have access to the services they need, configured in the right ways, and in the right volumes.

1.3 Alongside commissioners, Monitor and the NHS Trust Development Authority (TDA) are responsible for ensuring that Foundation Trusts (FTs) and NHS Trusts are well governed and financially sustainable. They should ensure that the FT or NHS Trust Board has properly considered the benefits and risks of major strategic decisions such as investing in substantial new facilities or participating in a Private Finance Initiative (PFI).

1.4 Whilst commissioners provide income for services, the Secretary of State provides finance in the form of loans, so that FTs and NHS Trusts can invest in new equipment, facilities or delivery of improvement programmes. He also retains the statutory powers to give guarantees of income as part of a PFI deal. In practice, this means that commissioners and providers should work together in the first instance to determine the services needed for local areas. With regard to major investments and PFIs, the Department would seek commissioners' advice on demand for services and Monitor's or the NHS TDA's advice on the risks for the provider and its financial sustainability before deciding whether to make an investment or guarantee payments.

1.5 The Secretary of State would only make a substantial investment or provide a guarantee of payment if commissioners confirmed that patients required the services and that the investment would not lead to overcapacity or inappropriate configuration of services. In exceptional circumstances, the Secretary of State would only provide financing where Monitor or the NHS TDA agree that the provider should be able to generate the revenues to service the debt or make the necessary PFI repayments.

1.6 The structure of accountability will help ensure the system works well together, with good governance and assurance, nationally and locally. The department has overall accountability for the stewardship of the NHS.

PAC CONCLUSION AND RECOMMENDATION 2

Risk assessment in both business cases was poor. Risk was not effectively assessed in either deal. For Hinchingbrooke, demand risk and some financial risk was transferred to Circle, but in the event of failure, Circle could walk away and service delivery risk ultimately remains with the NHS. In relation to the Peterborough and Stamford PFI deal both Peterborough and Stamford Hospitals NHS Foundation Trust and the Department ignored independent advice from Monitor on affordability and ploughed on with the PFI regardless of these concerns.

The department should review its risk assessment procedures to ensure that risk is assessed on a consistent and realistic basis and ensure that warning signs are acted on.

2.1 The Government agrees with the Committee's recommendation.

Target recommendation date: June 2013.

2.2 The department is in the process of developing the future arrangements for deciding whether to make different forms of investment in NHS Trusts and FTs and whether to give payment guarantees. As part of this work, it is considering how to ensure an appropriate investment appraisal process and a consistent and realistic approach to assessing risk. It is also considering how to increase the level of technical expertise that we bring to these decisions.

2.3 The appraisal process should take account of risk factors, which might alter an FT or NHS Trust's ability to make the payments, such as changes in demand for services or cost overruns. The assessment will also consider whether the FT or NHS Trust would be able to make the investment more efficiently through other financing arrangements and the option value of different arrangements.

2.4 Once this work is complete, the department will publish detailed guidance on the methodology for assessing investments, the criteria for providing different forms of finance or guarantees and the terms and conditions for different forms of finance. The department will also take steps to strengthen governance arrangements.

2.5 The department is required to obtain Treasury approval for investments that exceed its delegated limits or which are novel, contentious or repercussive. It must also obtain Treasury approval before giving a guarantee of payment in relation to a PFI.

2.6 In addition to these arrangements, Monitor and the NHS TDA are responsible for overseeing FTs' and NHS Trusts' governance and finances. For example: Monitor will do so through its risk assessment framework. They have powers to intervene where needed to act on warning signs and manage risks, including helping the department to protect the taxpayer's investment in providers.

PAC CONCLUSION AND RECOMMENDATION 3

There is not enough funding in the local health economy for both trusts to thrive as currently configured, and their financial viability will be further eroded if more care is provided outside hospitals. Hinchingbrooke will need to achieve unprecedented levels of savings to maintain financial viability. In Peterborough and Stamford's case even this may not be enough and the taxpayer is potentially liable for hundreds of millions of pounds of future support at the expense of other much needed NHS expenditure and services. Local commissioners have struggled financially and relationships with Peterborough and Stamford have been strained, which has increased financial pressure.

Commissioners and providers need to work to develop affordable and transparent plans for both trusts that are based on realistic savings targets with mutually understood triggers for further action.

3.1 The Government agrees with the Committee's recommendation.

Target recommendation date: June 2013.

3.2 In the new system, commissioners, Monitor and the NHS TDA will work together to assess local health needs and develop viable plans for local services where needed.

3.3 In Peterborough, Monitor has already appointed a Contingency Planning Team (CPT) to work with commissioners and the FT on a long-term solution for local services. The CPT will report in June 2013 on options for ensuring that patients can continue to access high quality, sustainable services.

3.4 Monitor will consider a range of options for protecting patients' access to services, including triggering special administration if the FT is unable or likely to be unable to pay its debts. Under these circumstances, Monitor would appoint a special administrator to develop recommendations for securing services.

3.5 The department has agreed with Hinchingbrooke and Circle Health, a franchise contract Improvement Programme for a period of ten years, commencing February 2012 to enable it to return to sustainability. The agreement includes key performance measures to ensure deliverability and improvements to deliver substantial productivity improvements while protecting the quality of care to patients.

3.6 If the Trust fails to deliver the expected savings, the NHS TDA and local commissioners would review the contract with Circle, and consider whether additional financial support could be provided. In the event that it was not possible to provide this support, and Circle had exhausted the funds available to it for recovery, the contract could be terminated.

3.7 At this point, the NHS TDA might retender the contract to run Hinchingbrooke (where Circle would need to cover the administrative costs). Alternatively, it might be taken back under NHS management or the NHS TDA might advise the Secretary of State to trigger the Unsustainable Provider Regime if this was in the interest of the health service.

PAC CONCLUSION AND RECOMMENDATION 4

Monitor lacked the power to veto the PFI deal in 2007 and failed to act later on warning signals that Peterborough and Stamford Hospitals NHS Foundation Trust was heading towards a financial meltdown. Monitor raised serious concerns about the affordability of the PFI scheme but these were ignored. In addition, Monitor's financial risk ratings do not take into account concerns about the long-term financial health of a trust beyond the current financial year. As a result, Monitor's internal concerns about Peterborough and Stamford's future financial stability were not reported publicly.

Monitor should:

- ***revise its risk rating regime so that it is forward-looking, transparent and enables risks to be identified and acted upon before they materialise;***
- ***maintain oversight of major financial commitments by foundation trusts and have the ability to stop unaffordable schemes from proceeding; and***
- ***develop a regime of regular, in-depth financial reviews of foundation trusts.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2013.

4.2 Monitor is revising its risk rating system, adding more forward-looking elements in order to enable risks to be identified and acted upon at an earlier stage. A consultation is currently underway to ensure the risk assessment process is wide enough in scope and appropriate for different providers. The final Risk Assessment Framework will be published in October 2013.

4.3 Monitor will be able to take action using its new Continuity of Service and statutory enforcement powers to address significant risks to an FT's financial sustainability if they materialise. If necessary it can appoint a Contingency Planning Team (CPT) to assess the financial and clinical sustainability of an FT and identify provisional options for securing patients' continued access to services. Monitor can, ultimately, makes changes to an FT's Board if there are serious governance concerns.

4.4 Monitor will continue to assess the financial risk represented by transactions and reflect these in its risk ratings and any subsequent action it takes. Where a transaction represents a substantial financial risk to a FT, Monitor may also use its powers to reduce the risk.

4.5 Monitor, along with the Secretary of State, the NHS TDA and commissioners, will also be involved in joint consideration of Trusts facing financial difficulty. This in turn will inform the decision about whether to place a Trust into special administration.

4.6 Monitor will continue to review FTs' annual plans so that it can assess and manage risk for the sector as a whole. It will base this risk assessment on FTs' future plans and update the assessment to take account of in-year changes in FTs' financial positions on a quarterly basis.

PAC CONCLUSION AND RECOMMENDATION 5

Management consultants have been used at great expense to little effect. Peterborough and Stamford Hospitals NHS Foundation Trust's reliance on management consultants, costing some £9 million in the last two financial years, has not resolved its financial difficulties and a further expensive review has now been commissioned. Monitor has announced that a Contingency Planning Team will be asked to develop a plan for ensuring the sustainability of Peterborough and Stamford's services. This exercise will cost the taxpayer £2-3 million but risks duplicating work already performed by the many consultants who have worked with the Trust to establish the causes of its past failings.

Monitor's review should be scoped to include the financial sustainability of the whole local health economy, focus on the future, and be binding on all parties.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: June 2013.

5.2 The department will consider further issues raised by the Committee about gaining best value for money from consultancy spend. The department, Monitor and the NHS TDA are currently in the process of establishing a framework contract for future NHS Trust and FT special administration processes. As Monitor and the NHS TDA experience the process of running special administration, they will also be able to benchmark costs to bring them down.

5.3 Monitor has appointed a Contingency Planning Team (CPT) to assess the sustainability of the Peterborough FT and to identify options for the future provision of its services, consistent with the process already described. The CPT will report in June 2013 and will advise on options to restore the FT's long-term viability and consider whether the appointment of a Trust Special Administrator (TSA) is necessary. The CPT will engage with a range of stakeholders from the local health economy, including clinicians, commissioners and neighbouring trusts. In particular, it will engage with local commissioners to ensure that proposals for the FT are consistent with patients' requirements. The CPT will consider the FT's internal challenges, including its financial sustainability, within the context of the local health economy.

5.4 Monitor does not have statutory powers to make any of the recommendations from the CPT's review binding on any party. However, Monitor can appoint a TSA where necessary. As with the CPT, the TSA would also work with different parties across the local health economy and, providing both Monitor and the Secretary of State accept the TSA's recommendations, these will then be legally binding on the Trust in question.

PAC CONCLUSION AND RECOMMENDATION 6

Successful outcomes for the Hinchingbrooke franchise have not been defined. Stakeholders hold differing views on what success would look like. This makes performance management of the franchise difficult, and offers the franchisee and the SHA the opportunity to paint an overly positive picture through selective use of information. The savings required to make the business model succeed look over ambitious and extremely challenging.

The department should urgently develop a clear and agreed set of indicators covering both clinical and financial performance and clarify whether this includes repayment of the Trust's £39 million accumulated deficit.

6.1 The Government agrees with the Committee’s recommendation.

Recommendation implemented

6.2 The department has agreed with NHS Hinchingbrooke and Circle Health a franchise contract Improvement Programme for a period of ten years commencing February 2012 to enable it to return to sustainability. The agreement includes clear and agreed key performance measures to ensure deliverability and improvements to deliver substantial productivity improvements while protecting the quality of care provided. All staff and assets remain with the NHS.

6.3 The Trust's Board and senior management team are responsible for ensuring that Circle delivers its plans. The TDA will monitor progress and take action if the Trust fails to deliver the plan. The Trust will be subject to the TDA’s Accountability Framework and will continue to be regulated by the CQC. The Trust are subject to the normal commissioner review processes and their contract includes expectations that they meet all key national standards.

6.4 Circle have within the tender submitted initiatives that produce repayment of the historic debt and meet the financial challenges of the Trust over the ten year contract term. These initiatives are agreed with the Trust Board annually and will form an integral part of the cost improvement, which allows for clinical and service improvements. The franchise agreement does not require Circle to repay the £39 million historic debt as a contractual requirement.

Twenty Ninth Report

HM Revenue and Customs

Tax avoidance: tackling marketed avoidance schemes

Committee of Public Accounts report summary

Tax avoidance - using tax law to gain a tax advantage not intended by Parliament - reduces the money available to fund public services and is completely unfair to the majority who pay the tax due. HM Revenue & Customs (HMRC) estimates that in 2010-11 the tax gap due to avoidance was £5 billion. HMRC further estimates that the present total tax at risk from avoidance over time is £10.2 billion. There is a proliferation of contrived schemes which exploit loopholes in legislation and abuse available tax relief schemes. Promoters are currently winning what appears to be a game of cat and mouse with HMRC and deliberately taking advantage of the time lag between the launch of a scheme and the closure of the scheme by HMRC. Promoters and providers sign up as many clients as possible before HMRC changes the law and shuts the scheme. They then move on to a new scheme and repeat the process. Far too much public money is lost through avoidance and HMRC needs a much more robust approach.

HMRC has allowed a system to evolve where the die are loaded in favour of the promoters of tax avoidance schemes. The complexity of tax law creates opportunities for avoidance, there is no effective deterrent to stop people from promoting avoidance schemes, and HMRC is ineffective in challenging promoters who obstruct its attempts to investigate. All too often Government introduces new policies through tax incentives to stimulate economic activity and the design of these policies become an opportunity for tax avoidance providers and promoters to create a new set of schemes. Promoters collect their fees even when the schemes are found not to deliver a tax advantage. Few schemes are covered by mis-selling regulations, even though people might be put off buying them if they fully understood the risks. The Committee welcomes HMRC’s consultation on applying the model of financial services mis-selling to tax avoidance.

Those who promote a tax avoidance scheme are required to notify HMRC of the scheme to comply with its disclosure regime. This has allowed HMRC to act quickly to close some schemes down. However, HMRC does not know how much avoidance is not disclosed but should be and has only issued 11 penalties for non-disclosure of a scheme. A small number of promoters appear determined to avoid disclosure and refuse to engage with HMRC. It is alarming that some QCs’ opinions are being used by promoters as a “reasonable excuse” for non-disclosure which prevents HMRC from applying a penalty.

HMRC could learn from the variety of measures used in other counties to deter and tackle tax avoidance. In Australia, promoters have to get clearance for schemes before they introduce them. An advance ruling system of this type could deter contrived avoidance schemes and increase certainty in the tax system. Australia has also introduced powers to fine those who promote schemes that could not reasonably be expected to work or comply with the advance ruling system. The Committee encourages HMRC to look seriously at whether these and other measures could be effective in the UK.

Government needs to use its influence wherever possible to deter tax avoidance. HMRC needs to consider whether by naming and shaming those who promote tax avoidance schemes, it could harness public opinion and reduce the appetite of companies to promote or use avoidance schemes. Major banks, accountancy firms and leading lawyers all play their part in supporting and advising on tax avoidance schemes. The Government should examine ways to combat this. Government can influence behaviour by refusing to do business with those who promote tax avoidance or fail to pay their fair share of tax. The Committee welcomes the announcement that HMRC and the Cabinet Office will be consulting on how Government should change its procurement rules to deter tax avoidance and evasion, and will watch the outcome closely.

HMRC has a lot more work to do to successfully tackle tax avoidance. It needs to know how much it spends on anti-avoidance work and properly evaluate the effectiveness of its strategy. It needs to get a stronger grip on the large number of avoidance cases it is investigating and find a way to reduce them. The number of cases it litigates is tiny compared to the number of enquiries. HMRC needs to build its capacity and capability to take on avoidance in the courts, especially as we heard from one company that in light of previous successes, having taken and won two cases in the courts, it makes sense for scheme users to litigate. HMRC also needs to investigate cases quickly to deter more people from using them and reduce the advantage to those who do.

On the basis of a Report by the Comptroller and Auditor General the Committee took evidence from HM Revenues and Customs, Tax Trade, Future Capital Partners and Ingenious Media on marketed tax avoidance schemes on 6 December 2012. The Committee published its report on 19 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Promoters of avoidance schemes run rings around HMRC. There are no penalties for promoting avoidance schemes, and businesses make substantial sums of money from doing so. Part of the problem is the UK's highly complex tax law, but simplifying the system alone will not solve the problem of tax avoidance. HMRC told the Committee that the proposed General Anti-Abuse Rule is designed to stop highly artificial schemes, but acknowledged that a wider range of measures is needed to combat tax avoidance. Australia, for example, has successfully applied a system requiring advance rulings on whether a scheme will work, combined with penalties for promoting schemes that don't.

HMRC should assess the effectiveness of the full range of measures available to reduce avoidance, including those used in other countries, and identify the measures it will introduce to reduce the tax lost to avoidance, reporting to us on its progress.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: 1 April 2015.

1.2 The department's anti-avoidance strategy sets out the full range of measures it employs in tackling tax avoidance. The department continually reviews its strategy and looks to identify ways to improve its response to avoidance, although decisions on changes to the law are ultimately a matter for Ministers.

1.3 At Budget 2013, the anti-avoidance strategy was updated[4] to reflect the step change in the department's approach to tackling avoidance in the past two years, with the introduction of a number of new tools and techniques designed to crack down on the minority who seek to use contrived tax avoidance schemes to gain an unfair advantage, and avoid paying what they owe. The Government also announced that it would follow up its proposals in the July 2012 consultation *Lifting the Lid on Tax Avoidance* by consulting on measures to target the hard core of high-risk promoters who persist in selling avoidance schemes that have little or no prospect of success. Proposals for consultation include additional information powers and penalty sanctions if the high-risk promoters do not comply. Legislation will be included in Finance Bill 2014 following consultation over the proposals.

1.4 Around £30million of the Government's £77million investment in the department, as announced in December 2012, will be used to further strengthen risk assessment capability across large business and to speed up the department's work to identify and challenge multinationals' transfer pricing arrangements. This is expected to bring in an additional £2 billion over the five years to 2017-18.

1.5 The department already reviews measures employed by other tax authorities and works with them to share best practice. The department has reviewed the Australian regime and has identified some aspects that may be useful in the UK tax system. It will be consulting on these aspects in the next few months as part of its work on high-risk promoters. However, it should be noted that the Australian clearance regime referred to in the Committees report is voluntary only, and it is discretionary on the part of the Australian Tax Office (ATO) as to whether they provide a ruling. Furthermore, there is no requirement that rulings from the ATO be provided before a product is made available for sale.

1.6 The department plans to formally evaluate its overall anti-avoidance strategy by 31 March 2015, and will share its findings with the Committee.

PAC CONCLUSION 2

There is insufficient transparency about those who market or use tax avoidance schemes. The complexity of avoidance schemes and use of offshore structures makes it difficult to know who is involved. HMRC publicise details of schemes that do not work to deter their uptake, but do not name the companies that market, operate and use schemes, despite evidence that public opinion can have a significant impact on the actions of large companies.

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[4] *Levelling the playing field* - http://www.hmrc.gov.uk/budget2013/level-tax-playing-field.pdf

PAC RECOMMENDATION 2

The Government should consider how to increase transparency by naming and shaming those engaged in the business of tax avoidance and use it to discourage such activity.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: 1 April 2015.

2.2 Following its July 2012 consultation 'Lifting the Lid on Tax Avoidance', the Government will consult in 2013 on measures to target the hard core of high-risk promoters who persist in selling avoidance schemes that have little or no prospect of success. These proposals will include additional information powers and penalties for non-compliance, as well as possible naming of high-risk promoters. Legislation will be introduced in Finance Bill 2014 following this consultation.

2.3 In its anti-avoidance strategy, the department has long recognised the importance of good communications to deter taxpayers from using marketed avoidance schemes. For example: the department already publishes warnings about named avoidance schemes in Spotlights. It also publicises decisions by the tribunals and courts, which puts detailed information about avoidance schemes, their promoters and their users into the public domain.

PAC CONCLUSION AND RECOMMENDATION 3

The Disclosure of Tax Avoidance Schemes (DOTAS) regime has helped HMRC close some avoidance schemes quickly, but does not effectively deter promoters, or penalise non-compliance. DOTAS captures less than half of known tax avoidance. Although HMRC has other ways of detecting avoidance, it does not know how much avoidance is not disclosed through DOTAS but should be. Promoters are able to use a QC's opinion that a scheme does not have to be reported as a "reasonable excuse", preventing HMRC from applying a penalty.

HMRC is consulting on how it could strengthen its disclosure regime, including by raising the hurdle for pleading a reasonable excuse. It should model the impact of the changes under consideration and should design an evaluative framework to measure the effectiveness of DOTAS, including by assessing the level of compliance.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 March 2014**.**

3.2 The Disclosure of Tax Avoidance Schemes (DOTAS) regime was narrowly drawn at its inception in 2004 to provide the department with high-quality information on particular types of tax avoidance. This information is used by the department to initiate legislative changes to close loopholes quickly, and to open enquiries to enable it to enforce compliance with the tax code. The DOTAS regime is kept under constant review. The Government has strengthened DOTAS since its introduction and continues to enhance the regime. The Government set out proposals for further enhancements in the July 2012 consultation 'Lifting the Lid on Tax avoidance Schemes', and announced on 11 December 2012 that legislation would be introduced in 2013 to improve the information collected under the DOTAS regime. Regulations will be made later in 2013.

3.3 Impact assessments published at Budget 2013 set out the likely effects of the changes being introduced. To build on the evaluation of DOTAS undertaken in 2008, the department will re-evaluate the regime by 31 March 2014. This will include an assessment of the impact of changes made since 2008.

3.4 The department is not solely reliant on the DOTAS regime to detect avoidance and has other ways of doing so, including risk assessment of taxpayer returns and intelligence from third parties and informers. The department actively polices the system and pursues potential cases of non-compliance with the DOTAS regime, identified through intelligence from operational and policy teams across HMRC and from external third parties. The department investigates such cases and, where applicable, applies penalties for non-disclosure.

3.5 Consultation announced by the Government at Budget 2013 includes proposals to raise the bar for 'reasonable excuse' in avoidance cases.

PAC CONCLUSION AND RECOMMENDATION 4

HMRC is not doing enough to tackle those promoters who are determined to avoid disclosure, or to prevent promoters from mis-selling schemes. The Committee is not convinced that HMRC is making full use of its powers to tackle promoters who are deliberately obstructive or that are selling schemes which do not work.

It should ensure it is making full use of its existing, or potential, powers to tackle uncooperative promoters and should publicise what it is doing to make clear that it is serious about addressing this problem.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: 1 April 2015.

4.2 The department has been very effective in reducing the number of tax advisers who promote avoidance schemes, and in bearing down on those who persist in this field. It already employs a number of measures to tackle uncooperative promoters. Enquiries into the schemes of the highest risk promoters are project-managed, and the department closely coordinates its response and deploys additional operational resource when necessary. Where the promotion and use of schemes rely on misrepresentation, the department selects the appropriate response, including civil penalties or criminal prosecution where warranted. In late 2012, two promoters who devised a fraudulent tax avoidance scheme to exploit gift aid were sent to jail.

4.3 Following its July 2012 consultation: *Lifting the lid on Tax Avoidance*, the Government announced at Budget 2013 a further consultation on high-risk promoters, which will include proposals to introduce additional information powers for the Department to investigate the promoters and penalty sanctions if they do not comply. The proposals will also include possible naming of high-risk promoters. Legislation will be introduced in Finance Bill 2014 following this consulation.

4.4 The department is also actively looking at the mis-selling and consumer protection rules already employed by regulatory bodies to assess their application to tax schemes and their potential for further development as a tool to use against high-risk promoters.

4.5 In terms of existing powers, the department investigates all cases of potential non-disclosure of avoidance schemes and applies penalties where this is found to be the case. Penalties for non-disclosure were increased in Finance Act 2010 for failures after 1 January 2011 and now carry a maximum penalty of £1 million.

4.6 The department is also working with accountancy representative bodies to build a better understanding of the markets in which their members operate, of information sharing, of their disciplinary codes (to deal with members whose involvement with schemes contravenes their standards) and to improve communication on tax avoidance to their members.

4.7 In terms of publicising its work in tackling promoters of tax avoidance schemes, the department has stepped up its communications strategy for avoidance to highlight the work it is doing and deter those considering avoidance. For example: the department widely publicises litigation successes in avoidance cases, where court decisions include taxpayer and promoter details.

PAC CONCLUSION 5

HMRC does not know how much it spends on its anti-avoidance work, and has not evaluated the effectiveness of its efforts. HMRC does not know the level of resources and costs it commits to tackling tax avoidance and has not evaluated its anti- avoidance strategy. With at least £5 billion lost to tax avoidance each year, this is far too large a part of HMRC's business for it not to know what it spends tackling it, or what return it gets. HMRC urgently needs to know what it spends on combating tax avoidance and the return on its investment. Without this information, HMRC has no evidence that it is delivering value for money from these resources.

HMRC should improve its recording and monitoring of the cost of its anti-avoidance work and set out clearly how it will evaluate its anti-avoidance strategy.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: 1 April 2014.

5.2 The department already actively monitors key components of its anti-avoidance strategy. Specifically, it monitors and evaluates the avoidance market to understand what activity is taking place and the impact of the department's deterrent and counteraction activities. It also monitors the use of avoidance schemes via the Disclosure of Tax Avoidance Schemes regime; through risk assessment, including working with customers in real time; and through other forms of intelligence gathering.

5.3 The department is currently improving the data available to it by introducing a comprehensive avoidance-handling process and is also developing measures that will enable it to evaluate the effectiveness of its anti-avoidance strategy. This includes tracking the number of customers using avoidance schemes, the amount of tax at risk, yield from its compliance work to tackle avoidance and the amount of resource used. The department expects these measures to be in place by 1 April 2014.

5.4 The department also plans to formally evaluate its overall strategy by 31 March 2015. In parallel, by 1 April, 2014, the department will set out how it plans to evaluate its overall anti-avoidance strategy and plans to complete that formal evaluation by 31 March, 2015.

PAC CONCLUSION AND RECOMMENDATION 6

The Committee welcomes the additional resources for HMRC to tackle avoidance but HMRC has a lot more work to do. HMRC needs to make good use of the additional £77 million it has been given to tackle avoidance and evasion in the next two years. HMRC must act more quickly to identify and close down new tax avoidance schemes. HMRC has a good success rate when it takes cases to court but the number of cases it litigates is tiny compared to the overall caseload.

HMRC has committed to strengthening its capability and capacity to litigate more. It should produce a plan showing how it will manage and reduce the stock of open cases, including how it will prioritise its resources to maximise yield, and monitor progress against this at a senior level.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 December 2013.

6.2 The department is actively encouraging customers to settle at the earliest opportunity and uses litigation as a last resort when avenues to settlement by agreement have been exhausted. The department is increasing capability by systematically gathering evidence to a standard which enables them to litigate when necessary. The department is also increasing legal capacity by prioritising activity on the highest impact cases and discouraging taxpayers from delaying settlement, particularly when there has already been a relevant adverse tribunal decision. It is also increasingly asking Tribunals to agree that cases with similar facts should be bound by the outcome of one lead case, which is having some success.

6.3 The department's Avoidance Delivery Plan is building on work already underway to manage and reduce the stock of open cases, whether settlement is by agreement or eventual litigation. By quantifying the number of users of a scheme, how much tax is at stake and identifying the appropriate legal arguments, the department will prioritise resource more effectively. Progress is being monitored by a Steering Group of senior stakeholders which meets monthly.

6.4 In 2013, the department has identified and opened enquiries into previously unidentified Employment Benefit Trusts. This has increased the stock of open cases and has enabled the department to substantially increase settlement numbers. Of the 413 settlements made since April 2011, 393 were achieved during 2012-13. The department expects the number of open legacy cases to begin to fall in 2014-15.

Thirtieth Report

HM Treasury

Excess Votes 2011-12

Committee of Public Accounts report summary

The Committee of Public Accounts scrutinises the reasons behind individual Departments exceeding their allocated resources, and reports to the House of Commons on whether it has any objection to the amounts needed to rectify the reported excesses. The Committee may also make recommendations to Departments concerning the causes of these excesses. In 2011-12, six bodies breached their expenditure limits:

- **The Department for Education** breached its Resource Annually Managed Expenditure Limit by £62.6 million because it was incorrectly accounting for its pension payments through Resource Expenditure and did not anticipate the provision required in its Statement of Financial Position to recognise the associated long term liability of the payments, and arrange sufficient cover in the Estimate.
- **The Department for Energy and Climate Change** breached its Capital Annually Managed Expenditure Limit by £6.2 million because it did not estimate the expenditure it would incur from the unwinding of discounts on its pension schemes.
- **The Department for International Development** breached its Capital Annually Managed Expenditure Limit by £1.6 million because it failed to generate any proceeds from the sale of its forty per cent stake in a fund management partnership by 31 March 2012.
- **Local Government Boundary Commission for England** breached its Resource Annually Managed Expenditure Limit by £47,000 because it recognised a new provision for staff termination benefits in its accounts for which it had insufficient cover in its Estimates.
- **Postal Services Commission** breached its Resource Annually Managed Expenditure Limit of £20,000 because it did not classify the anticipated income provided for in its Estimate for the unwinding of the discount applied to a pension liability, as Annually Managed Expenditure.
- **The Electoral Commission** breached its Resource Annually Managed Expenditure Limit by £5,000 because it did not have sufficient cover in its Estimate for the revaluation of its pension liability.

In addition, **the Ministry of Defence** requires a token increase in its Resource Departmental Expenditure Limit because of a Defence Votes A excess. The Ministry did not have sufficient cover for the maximum number of personnel to be maintained for service with the Armed Forces, within a specific category, though the overall totals were not breached. Similar breaches occurred in Defence Votes A in 2010-11 and 2009-10.

On the basis of the Committee's examination of the reasons why these bodies exceeded their voted provisions, the Committee has no objection to Parliament providing the necessary amounts by means of an Excess Vote. The Committee published its report on 7 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1 to 7

In 2011-12, the Department for Education; the Department for Energy and Climate Change; the Department for International Development; the Local Government Boundary Commission for England; the Postal Services Commission; and the Electoral Commission all breached their Annually Managed Expenditure (AME) limits. Additionally, in 2011-12, the Ministry of Defence exceeded its Votes A maximum numbers of personnel to be maintained for service in the Armed Forces. The department breached the same category in 2011-11 and 2009-10.

Under the terms of the Standing Order of the House of Commons 55(2)(d), the Committee recommends that Parliament provides the additional resources by means of an Excess Vote, as set out in the tables below.

DEPARTMENT	RESOURCE AME		CAPITAL AME	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
Department for Education	62,627,000	**62,627,000**	0	**0**
Department of Energy and Climate Change	0	**0**	6,165,000	**6,165,000**
Department for International Development	0	**0**	1,600,000	**1,600,000**
Local Government Boundary Commission for England	47,000	**47,000**	0	**0**
Postal Services Commission	20,000	**20,000**	0	**0**
Electoral Commission	5,000	**5,000**	0	0
Total		**62,699,000**		**7,765,000**

MINISTRY OF DEFENCE	Excess £	Amount to be voted £
2011-12 Resource DEL	1,000	**1,000**
2010-11 Request for Resources 1	1,000	**1,000**
2009-10 Request for Resources 1	1,000	**1,000**

1.1 The Government agrees with the Committee's recommendation.

1.2 The Treasury agrees that none of the excesses identified by the Committee represent a significant weakness in controls.

PAC CONCLUSIONS AND RECOMMENDATIONS 8 to 10

8: The introduction of the Clear Line of Sight Initiative has increased the risk of departments breaching approved spending limits. However, it is evident from the nature of the breaches in 2011-12 that the main impact of including Annually Managed Expenditure as a Parliamentary Control total has resulted in increased Parliamentary scrutiny of the area of provisions. In addition, the impact of this change can be greater on smaller Supply financed entities which have been less able to manage the unpredictability of annual costs such as provisions and pension valuations.

9: Although none of the excesses identified above represents a significant weakness in controls, given the size of the excess, the Committee expects the Department for Education, the Department of Energy and Climate Change and the Department for International Development to write to the Committee setting out what action each Department has taken to avoid exceeding their allocated resource in the future.

10: The Committee expects HM Treasury, as the UK's Ministry of Finance, to explain, in its reply to the Committee, how they will ensure Supply financed entities operate within their voted provisions, particularly as all the Excesses have occurred within Annually Managed Expenditure, which has not previously been a voted total.

The Treasury should monitor the progress departments are making against their Estimates during the year and, where necessary, take appropriate action to prevent bodies exceeding their provision. The Treasury should also take stock of what lessons can be learnt from the 2011-12 excesses and the effectiveness of the spending controls in place. The Treasury should consider what further pressure it can exert to ensure all Supply financed bodies stay within their control totals and whether more support is needed, particularity for the smaller Supply financed bodies.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: following review of Annually Managed Expenditure (AME) controls in the light of experience in 2012-13.

2.2 The Treasury continues to update and issue guidance, such as the *Consolidated Budgeting Guidance* and *Improving Spending Control*, to emphasise financial management; the importance of maintaining firm in-year control; provide clarification on voted limits; outline consequences of breaches to controls; and promote departmental monitoring and the sharing of spending information with the Treasury.

2.3 A number of reforms were introduced in 2011 (such as the Clear Line of Sight (CLOS) reforms to ensure improvements in the scrutiny of public spending, and the cross-government *Finance Transformation Programme*, which helps finance professionals and others to deliver continuous improvements in departmental financial management).

2.4 In 2012, a new IT system for managing and reporting public spending - the Online System for Central Accounting and Reporting (OSCAR), replaced the Combined On-line Information System (COINS) and the Treasury carried out an internal restructuring to enhance its capability to support financial management. Finance experts working in the Treasury now work alongside policy colleagues, providing them with professional finance input to a range of financial issues including spending control.

2.5 These reforms, together with the introduction of OSCAR, will create a platform providing the necessary support and skills for all government departments, including the smaller Supply financed bodies, to continue to improve financial management to ensure that spending control totals are not breached. Additionally, the changes in parliamentary controls from 2011-12, as part of the CLOS reforms have brought greater transparency and scrutiny of public spending, including AME and provisions. The Government is committed to maintaining the effectiveness of its spending control regime by regularly reviewing and making improvements and, following a post-implementation review of CLOS, the Treasury will look at AME controls for smaller departments in the light of experience in 2012-13.

2.6 The Department for Education, the Department of Energy and Climate Change, and the Department for International Development will separately write to the Committee setting out what actions will be taken to avoid exceeding their allocated resources in the future.

Thirty First Report

Department of Transport

Lessons from cancelling the Intercity West Coast franchise competition

Committee of Public Accounts report summary

On 3 October 2012, the Department for Transport (the department), cancelled its decision to award the InterCity West Coast franchise to First Group due to errors in the procurement process. The department's failure to properly manage the competition will directly cost taxpayers at least £50 million, the majority of which will be spent on compensating bidders. There is also a significant opportunity cost resulting from delays in investment in the franchise. The department spent £1.9 million on staff costs and external advisers to run the franchise competition - significantly less than the estimated £10 million each bidder spent on their bids. The department's attempt to make cost savings in running the competition, for example by not employing external financial advisers, ended up costing the taxpayer tens of millions of pounds. These figures relate only to the West Coast Franchise. It is not yet clear whether other franchise competitions will be affected.

The Intercity West Coast competition failed because the department did not get basic processes right and had failed to learn from mistakes made in previous projects. Recommendations made in the Committee's 2010 report *The failure of Metronet* to prevent a lack of oversight and information were clearly not applied in this competition. The Committee is concerned the department could yet again fail to apply basic processes, which could affect its future projects, including HS2 and Thameslink.

The department made a number of mistakes when identifying the amount of risk capital (called the subordinated loan facility) it required from bidders to balance the riskiness of their bid. It failed to include inflation in its calculation and also applied discretion in deciding the amount it asked from bidders which was not allowed in the stated process. These errors led to the department asking First Group for a lower subordinated loan facility than was needed to protect itself from the recognised additional risk in the bid. A higher subordinated loan facility was requested from Virgin Trains. This opened the department to the risk of legal challenge and ultimately led to the cancellation of the franchise competition.

There was a lack of line management and leadership on the project. This project had no single SRO (Senior Responsible Owner) who was responsible for the project from beginning to end. The department divided responsibility between developing the policy and implementing the competition. Confusion in the handover between the SROs at the policy and implementation stages, which was meant to happen when the invitation to tender was issued, led to a situation where no SRO was in place for three months. Lack of leadership was made worse by the department's unique application by General Counsel and others of anonymity for bidders in the franchise competition. As a consequence, the Permanent Secretary was deliberately not allowed to see the details of the competition and commercially confidential information. Despite warning signs, including from industry, the department's senior management did not sufficiently probe the information provided by the project team. They failed to apply common sense and challenge the outcome of the competition.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Transport on the cancellation of the InterCity West Coast franchise competition on 13 December 2012. The Committee published its report on 26 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION 1

This competition failed because the department did not apply basic processes properly. This is not the first time the Committee has come across this situation. Former Committee recommendations relating to *The failure of Metronet* are relevant to this competition, as they address the need to improve oversight and information to protect taxpayer's interests. The Committee is concerned that the department seems to have ignored the lessons from past failings. The department had documented processes, but staff failed to follow them during this competition.

PAC RECOMMENDATION 1

The department needs to put adherence to basic principles and processes at the core of how it does its business. The Committee expects to see this has been done when the Committee looks at HS2, Thameslink and the other rail franchises.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The issues identified on the West Coast competition have prompted questions about whether they were symptomatic of a wider problem affecting other departmental activity. The department took swift action to review its most significant procurement and modelling activity including for HS2 and Thameslink. This work has found procurement processes, controls and measures consistent with good public sector practice. The evidence shows that the issues identified in Mr. Laidlaw's report are specific to the West Coast competition rather than being a cause for wider concern.

1.3 The department has also taken steps to strengthen processes within rail franchising. A Rail Board has been created as part of establishing the governance and assurance for the new Rail Group. The arrangements for the new Rail Group will be aligned with the principles established for governance and assurance processes to be rolled out across the department. A Procurement Assurance team has been established within the Rail Franchising Directorate to ensure that sound and transparent processes are in place.

1.4 The department is finalising quality assurance and best practice guidelines for modelling in light of the Macpherson Review, which will be a source of information and guidance for all those in the department producing and using analysis. The department is also well on the way to producing a procurement user guide to assist those outside the profession, as well as a comprehensive set of guidelines for procurement professionals.

PAC CONCLUSION AND RECOMMENDATION 2

The department's senior managers failed to apply common sense and missed clear warning signs, including from the industry, that there were serious problems with the competition. The Committee would have expected the department to thoroughly investigate the significant differences in forecast passenger growth, premiums and the subordinated loan facilities of the two leading bids. Instead, the department's decision makers were too reliant on assurances from technical advisers and its evaluation processes.

Senior management should use their common sense and challenge the answers that they get from staff and specialist advisers in order to discharge their ultimate responsibility to protect the taxpayer.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department expects senior managers to challenge staff and external advisors in order to discharge their responsibilities. Alongside this expectation, the department is also putting in place new assurance arrangements as mentioned above to ensure our processes include sufficient challenge. These form part of a wider Governance Review to revisit the composition and constitution of the bodies involved in decision making. This includes considering the department's approach to assurance and the extent and limitations of delegated authority held by committees and individuals. For each procurement, an independent team of procurement professionals will follow the procurement through its lifecycle and provide robust assurance to relevant boards and committees. For example, a procurement assurance team is now in place to provide assurance for the Essex Thameside franchise procurement. This team will advise the Procurement Approval Board and the Rail Investment Board at key stages of the procurement through to contract award.

PAC CONCLUSION AND RECOMMENDATION 3

The department's protection against risky bids failed due to a number of errors. The department began the franchise competition without knowing how it would calculate the level of risk capital (the subordinated loan facility) it would request from bidders to protect itself against risk in bids. It later provided misleading advice to bidders about this process and made errors in how the subordinated loan facility was determined. These errors resulted in the department requesting a significantly lower subordinated loan facility than was required to counteract the recognised risk in First Group's bid and a higher loan facility than was necessary from Virgin.

The department needs a greater understanding of its risk appetite and of risk transfer to the industry, including the likely cost of any risk capital, so that it can identify when it has made errors. It needs to have the tools in place to calculate the risk before starting a competition and to be clear consistent and transparent with the advice given to bidders.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2013.

3.2 The department is undertaking a thorough review of the approach to capitalisation in franchise bidding, in light of these recommendations and the findings of the NAO, Laidlaw and Brown reviews. In future, the department intends to move to a capital requirement which bidders will be able to calculate in advance of bid submission. This will mean that the amount of capital required will be transparent and the calculation will be objective. The department will also test the implications of the level of the risk capital which it requires.

PAC CONCLUSION AND RECOMMENDATION 4

The department's misguided attempt to make cost savings by cutting corners on the competition resulted in significant additional costs to the taxpayer. The department incurred £1.9 million in staff costs and external advisers on the competition compared to bidders who spent an average of £10 million on their bids. Despite the franchise having a value to the taxpayer of £5.5 billion the freeze on the use of consultants meant that it did not use external financial advisers on the competition. The amount the department spent is paltry when compared to the £50 million it will now incur, at a minimum, as a result of cancelling the competition and the significant un-quantified opportunity cost due to the delays in investment on the line.

The Committee was astonished that there was no senior civil servant in the team despite the critical importance of this multi-billion pound franchise. The Committee was also astonished that the Permanent Secretary did not have a detailed understanding and oversight of the competition. The Committee supports the department's commitment to train, nurture and reward staff with the specialist skills it needs.

The department should put in place the right internal resources and external support. Where it needs external support it should robustly argue its case for this with the Cabinet Office. The department must ensure appropriate oversight of major projects by the Permanent Secretary and his management team.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

4.2 Ensuring the department has the right internal resources and external support is an ongoing process which continues to be monitored. The department has completed its corporate planning process for the next financial year and has made a deliberate choice to prioritise rail franchising.

4.3 Each franchise competition has a dedicated Project Director. This is a senior civil service role and will be supported by a discrete team fulfilling finance, specification, procurement and project management activities. The Project Director is responsible for leading the delivery of each stage of the competition. The department has populated the teams responsible for delivering the current live competitions of Essex Thameside, Thameslink, Southern, Great Northern and InterCity East Coast with only one junior role still to be filled. External technical, legal and financial advisors have also been appointed for these competitions. The department is now taking steps to implement a resource plan to support upcoming competitions.

4.4 The department continues to work to ensure each franchise competition has the right mix of skills, experience and knowledge and has conducted a skills review to inform the allocation of resource to each team. This reported in January 2013 to the department's Executive Committee. The department is undertaking a training gap analysis, which will be used to inform the development of a learning and development strategy for rail, with the objective of further developing the capability of the in-house franchising teams. In the meantime, certain core skills gaps are being dealt with by secondments and the appointment of specialist interim staff.

4.5 The reasons for the failure of this project have been examined carefully by the Laidlaw Inquiry, and this did not identify any lack of oversight on the part of the Permanent Secretary or Ministers. Ministers, the Permanent Secretary and the Board Investment and Commercial Committee all asked a wide range of questions about the conduct of the competition but were given information that proved to be misleading. The Permanent Secretary and his management team have oversight of the major projects within the department through its governance arrangements, and are already strengthening governance arrangements further. The department also routinely places on the agenda of its Executive Committee meetings all Internal Audit and Major Project Authority reports that indicate areas of significant concern.

PAC CONCLUSION AND RECOMMENDATION 5

The department's blinkered and rushed approach meant the competition was not run properly. Key risks and issues were not escalated as a result, including the risk of legal challenge. External advisers who flagged these concerns did not have direct communications with the top of the department. The unique way the department applied anonymity in the competition meant that the Permanent Secretary did not know the details of the competition and did not sufficiently probe the information that they were given by the project team, and the new Accounting Officer did not challenge the approach when he arrived in April 2012.

The Committee expects the Accounting Officer to set the tone for the department, establish a strong professional culture and set out clear expectations for the department's leadership team including high levels of accessibility and willingness to hear and act on warning signs.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 In the department's response to the Laidlaw Inquiry, the Permanent Secretary set out very clearly his expectations not just for the leadership team but for the whole department. Following this, the Permanent Secretary and Executive Committee have met with the department's senior leadership team to set the tone and reiterate the importance of hearing and acting on warning signs as they arise. This message has been and continues to be reiterated in communications with the department as a whole and in engagement with staff. The department has also refreshed the cross-departmental policy on risk management, which reiterates the behaviours the department expects and highlights the importance of all individuals raising concerns.

5.3 The department, working with Cabinet Office, has undertaken a review of the policy of anonymisation of bids. This review has concluded that there is no significant advantage in using an anonymised bidding approach, and that there are risks which on balance outweigh the benefits. The department has therefore concluded that it will no longer use bidder anonymity in its contracting activity.

PAC CONCLUSION AND RECOMMENDATION 6

It was a mistake not to have a single person responsible for the project from beginning to end. This meant that no single person had to live with the consequences of delivering their policy decisions. It is unacceptable that for three months no SRO (Senior Responsible Owner) was in place, due to the failure of the department's planned handover between SROs when moving from the policy to the delivery stage. The Committee expects a single individual who will be held accountable to be responsible throughout a project, implementing his or her decisions.

The department should review all its SROs to make sure they have the right seniority, experience and expertise for every project for which they are responsible.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: June 2013.

6.2 The department will review its existing SROs to ensure they have the right seniority, experience and expertise for the projects for which they are currently responsible. The department is also running training for SROs to ensure they fully understand their responsibilities.

6.3 The department will issue a formal delegation letter to those taking up the role of Senior Responsible Owner to explain their responsibilities and set out the department's expectations, as well as the support available to them.

6.4 Continuity in the identity of the SRO is desirable. However there may be practical reasons why this is not right in all circumstances or achievable. For example some projects have very long life-spans (HS2 for example will not be completed to Leeds and Manchester till 2033). In these cases the department will define major stages in the life of the project and seek to have continuity in the identity of the SRO during each stage. There may also be personnel reasons why continuity is not achieved such as resignation or capability issues.

Thirty Second Report

Ministry of Defence

Managing the defence inventory

Committee of Public Accounts report summary

The Committee welcomes the honest acceptance by the Ministry of Defence (the department) of the serious problems it faces in the management of its inventory. The department has recognised that it is wasting significant amounts of public money buying more inventory - its store of supplies and spares - than it uses. Between April 2009 and March 2011, the department purchased 38% more raw material and consumable inventory, such as clothing or ammunition, than it used, at a value of £1.5 billion. The department has also not consistently disposed of stock it no longer needs or does not use regularly. Over £4.2 billion of non-explosive inventory has not moved at all for at least two years and a further £2.4 billion of non-explosive inventory already held is sufficient to last for five years.

The NAO identified the need for the department to improve its management of inventory as long ago as 1991, but the root causes of the problem have not been addressed. The department has failed to provide effective incentives or accountability for those responsible for ordering, retaining, and disposing of inventory. A lack of investment in information systems and professional inventory skills is also limiting the department's visibility of the problems, and its ability to manage its inventory efficiently.

The department accepts it has much to do but told the Committee that it has already introduced its own internal control measures to prevent over-ordering of inventory, some of which are showing early signs of success. The department told the Committee that it is on track to reduce spending on inventory by £300 million in 2012-13, and that it plans to reduce it by £500 million a year within the next three years. It also plans to reduce by 35% the volume of stock it holds to relieve pressure on central depots in advance of the anticipated return of inventory from Afghanistan and Germany.

The department's problems with inventory management are long-standing and past promises of improvement have not materialised. The Committee welcomes the department's honesty in acknowledging the slow progress it has made historically and the need to make sure past mistakes do not continue. The department has established support at senior levels to tackle the problems with its management of inventory and the Committee is cautiously encouraged that it is now starting to get a grip on this long-standing problem. However, if the department is to be successful this time it must also drive change through the inventory management system and address the root causes of ordering and holding excess stock.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Defence on the management of defence inventory on 21 November 2012. The Committee published its report on 28 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The department has made little progress in improving its management of inventory over the last 20 years. The need for the department to improve its management of inventory was identified by the NAO as far back as 1991, but long-standing issues have not been addressed. The department has had no overall inventory management strategy, and its management and accountability structures have failed to provide any incentive for teams to ensure that the right level of inventory is held.

The department should develop an end-to-end approach which addresses the underlying causes of poor inventory management by incentivising the right behaviours across all parts of the process, covering the ordering, storage and disposal of inventory.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: Q2 - 2015.

1.2 The department has a strategy to deliver better Inventory Management and it is being implemented through the Inventory Management Transformation (IMT) project. The first stage, in November 2012, involved external professionals reviewing purchase proposals in targeted DE&S project teams to ensure that the department is only buying what is really needed. This intervention is already achieving encouraging results. An approach to sustainable change is being developed in parallel. The second stage of the project (July 2013 to June 2015) will see the emphasis shift to providing the skills, processes, structures and supportive technologies required to embed sustainable change. Delivery of the end-to-end approach will include measures that reward being accountable and continuous improvement behaviours.

PAC CONCLUSION AND RECOMMENDATION 2

The department has always prioritised effectiveness over efficiency in its management of inventory. The system focuses on having enough stock to supply demand rather than preventing over-ordering. The department's view is that Government accounting policy has not incentivised it to deal with the issue and it is discussing the potential for changes with the Treasury. While these discussions are ongoing it is introducing its own additional internal controls on purchasing which it projects will reduce expenditure on inventory by £300 million in 2012-13 and £500 million a year by 2015.

The department should set targets to reduce unnecessary inventory ordering, and review progress quarterly to establish whether its new controls are working and whether further reductions in unnecessary expenditure are possible.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Under the IMT project the department is reviewing the measures relating to inventory management. The current departmental target for the reduction in the Gross Book Value (GBV) of inventory holdings is £8.6 billion by 31 March 2016. The target for the reduction in spend, on inventory purchases, is £561 million per annum by 31 March 2016. Progress against these new targets will be reviewed quarterly at the 3* level, and areas identified, where improvements are required, will be reviewed more frequently. Planning is underway with DE&S project teams that will deliver a better budget construct for 2013-14, which will demonstrate that DE&S is on a viable trajectory to deliver the targets set out in the Inventory Strategy.

2.3 The intervention work ongoing as part of IMT is already identifying improvements in conjunction with project teams and the department expects to end the current financial year with a material reduction in stock GBV.

PAC CONCLUSION AND RECOMMENDATION 3

The department is holding inventory which is no longer required or is not available for immediate use. With some central non-explosive depots already at 80% or 90% capacity, the department is seeking to free up 83,000 cubic metres of space for stock returning from Afghanistan, and later Germany. The department plans to reduce its inventory holdings by 35% by 2015. It has identified inventory to be disposed of with a book value of £3.4 billion but it is not clear what proportion of this disposal has been carried out.

The department should dispose of the £3.4 billion of inventory identified as being appropriate for disposal, and put in place a system to incentivise and enable teams holding inventory to dispose of it as soon as they identify this treatment is appropriate.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The £3.4 billion of inventory, identified by the NAO as not being required, was disposed of in FY 2010-11 and FY 2011-12. In addition, during the current initiation phase of IMT, the department is carrying out a number of initiatives in targeted operating centres to identify further inventory appropriate for disposal. As part of the future transition phase, systems will be put in place to provide teams with the skills, development and incentives to dispose of inventory appropriately.

PAC CONCLUSION AND RECOMMENDATION 4

The department does not have the information it needs to manage its inventory effectively. Without reliable information the department lacks visibility of the inventory it holds and does not know the true scale of the problem that needs to be addressed. The department is spending £1.1 billion on information systems that should enable improvements in inventory management, but these will not provide the intended benefits unless the information they contain is accurate.

To reduce the risk that current expenditure on new inventory systems is wasted, the department should fully cleanse and reconcile its existing inventory data so that its new inventory management systems hold accurate and complete information.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Q2 - 2013 to Q2 - 2016 (completion of the introduction of the Base Inventory and Warehouse Management Services system).

4.2 The delivery of new capabilities will, through data migration and associated data cleansing activities, create some of the conditions for improved data quality. However, for an enterprise-wide improvement in data and information quality within Defence Logistics Information Systems, it is clear that cultural change is essential. This will deliver improvements at all levels and create an environment where the value of trusted and accurate business intelligence information derived from source logistic data is tacitly understood.

4.3 Accordingly, the department has created a Logistics Process Owner's Data Champion's Action Plan (DCAP), which builds on the work being carried out through data migration. The DCAP seeks to ensure that personnel are aware of the need for data quality, and to establish robust governance over data quality improvements and reviews to ensure that these are being achieved.

4.4 Additionally, DCAP will establish responsibility for data with data owners, policy rules and standards to support data quality and training to enable personnel to maintain data quality. It will identify the risks and costs associated with poor data quality and what is required of the data, as well as establishing quality improvement programmes and processes. In order to ensure that this is achieved coherently, the department will define an authoritative set of definitions that unambiguously define Defence Logistics. Once established, the elements of the DCAP will be underpinned by a continuous improvement programme.

PAC CONCLUSION AND RECOMMENDATION 5

The department is considering outsourcing inventory management but must first establish the true scale and nature of the problem that needs to be fixed. The department has already developed plans for reducing the amount of money it spends on inventory by £500 million within three years and there are likely to be further 'quick wins' within the current system. Proceeding with outsourcing too soon, with insufficient information and ill-defined requirements, is likely to lead to the department paying far more than necessary to outsource.

Before taking a decision on outsourcing, the department should prioritise driving efficiencies within the current system and identify the core information needed to support an informed decision on outsourcing, including credible baselines for comparing different options, one of which must be a realistic public sector comparator.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department recognises the importance of driving efficiencies in the existing system and the fact that it would be undesirable to transfer activities to industry to reap the benefits where it is clear that benefits can be delivered internally or where the requirement is specified in a way that does not reflect potential internal improvements.

5.3 The department is however carrying continuing output risks and needs to explore how industry may be able to both reduce costs and mitigate these risks. It has therefore established the Logistic Commodities & Services (Transformation) (LCS(T)) project which has recently entered its assessment phase. This will involve market testing the capability required alongside a robust and competitive vfm benchmark. Even with this work starting now a final decision on outsourcing will not be taken for at least eighteen months. This will allow credible baselines to be developed, work that is already underway, and internal improvements to be either delivered or factored into any commercial arrangements should it be concluded that outsourcing provides improved value for money.

5.4 In both cases (market testing and the benchmark) the proposal is not to renew existing infrastructure on a like-for-like basis or to make provision for the storage of materiel that may be subject to disposal under the IMT project. The department is committed to developing a realistic and implementable comparator and to continuous improvement and is able to demonstrate that substantial operational efficiencies have been delivered in the past year.

5.5 The department firmly believes that both the immediate driving of efficiencies through the IMT project and existing operational initiatives and, in parallel, the identification and recommendation of a future operating model delivered by LCS(T) and IMT is not only possible, but also necessary if the department is to meet its objectives both now and in the future.

PAC CONCLUSION AND RECOMMENDATION 6

Skills gaps are delaying the department's progress in improving inventory management. Around 20% of inventory management posts are vacant and 13% of those in post do not hold appropriate qualifications for their role. The department also believes civil service recruitment policies and financial constraints are limiting its ability to recruit people with the specialist skills it requires.

The department should identify where skills gaps are delaying progress in improving inventory management, and discuss with the Cabinet Office how to improve its ability to recruit staff with the commercial skills required.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Q2 – 2015.

6.2 Under the auspices of the IMT project the department is undertaking a programme of short term interventions using 40 external consultants to identify potential improvements within project teams. In addition, a pool of professional staff to fill key Inventory Management roles as interims is in place. A key role of these teams is to ensure a transfer of knowledge and skills to existing Inventory Management staff.

6.3 The department is further attempting to reduce the skills gap by undertaking a coordinated bulk recruitment exercise to fill critical posts within the Inventory Management function. More recruitment tranches for Inventory Management will be undertaken in conjunction with the newly formed DE&S / consultant led central recruitment initiative. In addition, the number of Inventory Management personnel mandated to undertake higher level qualification has been increased by 25% in order to ensure that more individuals have a greater depth of knowledge. These additional personnel are already working towards the required qualification. The training and development requirements will continue to be reviewed and updated in response to any needs identified by the IMT project.

6.4 The department recognises the need to develop an improved understanding of its current employees, future skill requirements, and sources of recruitment. It is doing this through increased emphasis on workforce planning using the standard Civil Service recruitment processes. The department identifies its skill base requirements and develops attractive packages accordingly. The department liaises with both Civil Service resourcing and the Cabinet Office throughout its recruitment campaigns.

Thirty Third Report

Department for Work and Pensions

Work Programme outcome statistics

Committee of Public Accounts report summary

The Work Programme was introduced in June 2011 to help long-term unemployed people move off benefits and into sustained employment. It is estimated to cost between £3 billion and £5 billion over five years. In November 2012, the Department for Work and Pensions (the department) published its first set of data on the Work Programme's performance. The Committee's report considers the performance to date and builds on their earlier report, in May 2012, on the Work Programme's design and early implementation.

The Work Programme's performance for its first 14 months of operation - from June 2011 to July 2012 - fell well short of the department's expectations. Overall, only 3.6% of claimants on the Programme moved off benefit and into sustained employment, less than a third of the 11.9% the department expected to achieve, and well below the department's own estimate of what would have happened if there had been no Work Programme running at all. The department had said that 9.2% of the largest group of participants would have moved off benefits and into work with no intervention at all.

Individual Work Programme providers' performance in helping claimants into employment varies widely, but not one of the 18 providers has met their contractual targets. The department does not consider that current labour market conditions are the reason for the Programme's under-performance. The department attributes the differences in performance between providers to their different approaches and different levels of competence. The department must do all it can to examine which approaches are working best and which are not working. Good practice should be identified and shared, but failing providers should be held to proper account.

The difference between actual and expected performance is greatest for those claimants considered the hardest to help, including in particular claimants with disabilities. The department's own evaluation suggests that these claimants have been receiving a poor service from providers. Creaming and parking are clear policy concerns which the Committee shares with the department. Despite assurances that it would do so, the department has not provided the further analysis which would demonstrate whether or not creaming and parking was taking place.

Given the poor performance across providers, there is a high risk that one or more will fail - either they will go out of business or the department will cancel their contracts. Recognising that some providers might fail, the department told the Committee that it has processes to manage the impact on claimants should this happen. The department will need to keep a close eye on which providers are most likely to fail and must manage all consequential risks.

The Committee is concerned about the department's approach to publishing performance statistics. In publishing its data the department did not make clear what level of performance it had been expected or say why performance was lower than planned. Yet it did publish un-validated information on performance produced by a trade body.

On the basis of a commentary from the Comptroller and Auditor General the Committee took evidence from the Department for Work and Pensions on the performance of the Work Programme on 17 December 2012. The Committee published its report on 22 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The first set of data on the employment outcomes achieved by the Work Programme shows that it is performing well below expectations. From June 2011 to July 2012, only 3.6% of people referred to the Work Programme moved off benefit and into sustained employment, less than a third of the level the department expected. None of the 18 providers met their minimum performance targets. Actual performance was even below the department's assessment of the non-intervention rate – the number of people that would have found sustained work had the Work Programme not been running. Whilst the Committee recognises that it is early days for the Work Programme, such poor performance undermines confidence in its long-term success.

The department needs a better understanding of the factors that led to early performance being well below expectations in order to assess whether the longer term targets for the Work Programme are still achievable.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2014**.**

1.2 The department already has a good understanding of the factors that led to early performance being below expectations and has assessed that the longer term targets for the Work Programme are still achievable. It has put in place a comprehensive set of monitoring, analysis and evaluation arrangements that provide regular assessments of performance against expectation and reasons for any deviation. Monitoring, analysis and evaluation will continue over the life of the contracts and beyond but by July 2014 the department will have fully validated data on the performance over two years (the period which the provider has to work with participants) of the first twelve cohorts (the June 2011 to May 2012 cohorts) which give the department a fully rounded view of early performance.

PAC CONCLUSION AND RECOMMENDATION 2

There is substantial variation in the performance of individual providers. The best performing provider moved 5% of people off benefit and into sustained employment, the lowest performing managed only 2.2%. the department has dismissed local economic conditions as the reason for variation; instead it attributes it to the different approaches taken by providers and the competence of their management. The department told the Committee that it is working with providers to ascertain what approaches are working well and which are not.

The department should put in place mechanisms to share lessons learned and disseminate good practice across providers. It should also hold poor performing providers to account.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2013.

2.2 Good practice is routinely shared on the Work Programme. An independently chaired *Building Best Practice* forum is currently being set up to coordinate and encourage the sharing of best practice between Providers, their supply chains, and those external organisations which know how to support claimants into work. The forum will be in place by May 2013.

2.3 The department is already holding providers to account and taking action with providers who are not delivering the standards required. The department has been using all contractual levers possible to improve performance. This was the clear message given to providers from the outset, and particularly when then department published performance data to the end of July 2012 in November 2012. The department, in November 2012, sent formal contract letters to prime contractors delivering the seven poorest performing contracts and instigated an intensive regime including daily contact at working level and weekly meetings at Board level to review progress against plans and challenge slippage. In future the department will use contract termination as required to improve performance. This part of the recommendation is therefore already implemented.

PAC CONCLUSION AND RECOMMENDATION 3

The incentives for reaching the hardest to help claimants are not working. Early evidence suggests that the Work Programme is failing those claimants who are hardest to help, despite the differential payment arrangements intended to incentivise providers not to neglect this group. Results for these claimants (those claiming Employment and Support Allowance) were worse than performance for the easier to help claimants (on Jobseeker's Allowance). The department's own evaluation also suggests that the hardest to help are receiving a poor quality service, with providers focusing on the easiest to help. There is some emerging evidence that those who are hardest to help are being parked with minimum support, and therefore little prospect of moving into work.

The department should identify why the Work Programme's financial incentives are not working as intended and, in its formal response to this report, set out what action it will take to address the problem.

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department remains confident that the payment model designed for the Work Programme is the clearest and most effective possible. It aligns the costs to providers of working with different customer groups with the price the department will pay them for supporting individuals into sustained employment, making it in their interests to support all groups. The statistics and the evaluation evidence, so far, cover the first of five years of referrals, during which providers have two years to support each individual back to work. Therefore, it is too early to make judgements about how effectively the pricing structure is incentivising providers to support different customer groups, particularly given that it is likely to take longer for harder to help claimants to overcome their barriers to work and move into sustained employment. The department continues to monitor the Programme closely and review aspects of the contracts as necessary.

PAC CONCLUSION AND RECOMMENDATION 4

Poor performance to date increases the risk that one or more provider will fail. A provider that continues to underperform may become financially unsustainable and go out of business, or the department may decide to cancel its contract. The department will have a better idea of which providers are at risk of failure when performance data is available up to the end of March 2013, and it can cancel contracts if necessary after June 2013, when providers will have had two years to help their first cohort of claimants. The department told the Committee that it has procedures for identifying and dealing with provider failure and that it has in place a framework contract from which it could appoint a replacement provider.

To facilitate swift and tailored interventions in the event of failure, the department should, in the period up to June 2013, monitor contracts to identify those most at risk of failure and produce contract specific plans for the steps it will take should failure occur.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The department already has a range of risk and business continuity plans in place to identify contracts and providers at risk of failure and plan for the successful management of such failure. The department develops and maintains these plans on an ongoing basis and will do so up to and beyond June 2013.

PAC CONCLUSION 5

The department published performance data on the Work Programme without sufficient context and explanation. The department's failure to publish information on its own expectations of performance, or an explanation of why actual performance was worse than expected, hindered a proper understanding of the Programme's progress. To the Committee's surprise, the department did publish un-validated information from the trade body representing providers. It was also in stark contrast to the department's willingness to make Parliament and the public wait for almost four months, hiding behind National Statistics' requirements, before it published its own data.

In future, the department should release information in a timely manner, and include details of expected as well as actual performance, explaining the differences between the two.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: June 2013.

5.2 The department complied with the UK Statistics Authority's Code of Practice in publishing these official statistics, setting out publicly in advance its intention for publication. The department will continue to comply with the Code and thus release information in a timely manner. This part of the recommendation is therefore implemented.

5.3 Although the department's expectations for performance are set out in the Work Programme Invitation to Tender, the department accepts it would be better to (re)publish details of both expected and actual performance at the time of release and include an explanation of differences between the two. The department will implement this in the June 2013 release.

5.4 The department wishes to note the trade data was published by the trade body.

Thirty Fourth Report

HM Treasury

Managing budgeting in Government

Committee of Public Accounts report summary

The Government needs strong budgetary systems to be able to control and manage public spending and to provide high quality public services that offer value for money to the taxpayer. Departmental spending is approved by Parliament in the annual budget process based on the multi-year budgets set in the spending review. The 2010 Spending Review set a four-year spending total for each department. The Spending Review focused on reducing public spending and delivering the coalition Government's programme.

The Treasury managed the Spending Review by collating bids from departments and challenging submissions. The process built on the experience of previous CSRs and was better managed. However, the Committee continues to have concerns about the capacity of the Treasury to effectively challenge departments, and Government continues to take some decisions which will not ensure best value for money.

Departments and the Treasury failed to take a longer term view on spending, making cuts in those budgets that were easiest to cut. For instance, whilst Treasury improved assessment processes to be able to rank capital projects, the overall level of capital investment was cut from (£57 billion in 2009-10 to a planned £41 billion in 2014-15. Resource expenditure as a whole will increase in nominal terms, albeit at a much slower rate. These decisions may not have been the best to meet the Government's growth objectives.

There were gaps in data which made it difficult to compare options or benchmark spending proposals. There were no incentives for departments to collaborate on cross-government issues. There was no evidence of clear thinking on how one decision to save money in one budget area might lead to an increase in expenditure elsewhere. There was also evidence of game-playing.

Decisions on where to spend or cut rest with Ministers and cannot be divorced from the political process. But these decisions need to be informed by rational analysis. Officials must do more to provide Ministers with reliable and comparable information to help them weigh up the effect of different spending options. The Committee welcomed the Treasury's commitment to follow up the National Audit Office's recommendations for improvement. The Treasury will need to implement the findings of this report in time for its next spending review.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Treasury and the Head of the Civil Service, who also represents the Department of Communities and Local Government on 29 October 2012. The Committee published its report on 8 March 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Political and contractual commitments limit the ability to allocate resources to achieve best value. In the 2010 Spending Review, political commitments to protect certain budgets such as health and international development meant that the brunt of departmental spending cuts had to be focused on just 40% of controllable expenditure. Inflexible programmes and existing contract commitments also limited the Government's ability to make changes.

The Treasury and departments should identify, before each spending review, existing commitments and future funding pressures to make sure overall expenditure plans are realistic and sustainable in the longer term.

1.1 The Government agrees with Committee's recommendation.

Target implementation date: Spending Round 2015-16.

1.2 The Government is committed to its protections of the health and schools budgets, and Official Development Assistance; this commitment was reaffirmed at Budget 2013 for the upcoming Spending Round 2015-16. The Treasury has a longstanding agreement with departments that all commitments to significant expenditure in future Spending Review periods are subject to Treasury approval.

1.3 The Government recognises that protecting expenditure in key areas will increase the savings required from other departments at the 2015-16 Spending Round. However, these protections are underpinned by the Government's commitment to fairness, with distributional analysis illustrating that lower income groups are the biggest beneficiaries of spending in these areas. Spending in protected areas will nevertheless be subject to detailed scrutiny, like all other areas of departmental spending.

PAC CONCLUSION AND RECOMMENDATION 2

The Government does not fully understand the impact of cuts as it focuses on short-term priorities rather than the longer term view. The last spending review cut planned capital spending significantly, from £60 billion in 2009-10 to a planned £38 billion in 2014/15, a decision based partly on what could be cut quickly rather than an assessment of the likely impact of the cuts, for example: on economic growth. The Government subsequently reversed some of these capital cuts, increasing infrastructure spend by £6.3 billion. Other spending cuts were ill-thought through, for example: the UK Border Agency reduced staff too quickly and had to re-hire staff to help with the resulting backlog of immigration case work.

Departments should model the financial and operational implications of different spending options to support their bids for funding in the next spending review.

2.1 The Government agrees with Committee's recommendation.

Target implementation date: Spending Round 2015-16.

2.2 Departments have been issued with resource expenditure planning assumptions for the 2015-16 Spending Round and asked to model how these reductions can be achieved. The Government is also conducting a zero-based review of capital expenditure, with departments asked to demonstrate the economic benefit of their proposed spend, and will take a long-term approach to capital, setting plans out to 2020-21 for the most economically valuable areas of capital expenditure.

2.3 Departmental submissions will be reviewed by the Treasury in the context of the Government's priorities, including growth, efficiency and public service reform, and used to inform final departmental allocations. The Government is extending its efficiency programme into 2015-16, with the expectation of generating a further £5 billion of savings, to ensure a continued a focus on delivering higher-quality services and better outcomes at lower cost.

PAC CONCLUSION AND RECOMMENDATION 3

The Treasury struggled to assess the cost effectiveness of proposed spending. The Treasury's exercise ranking capital spending compared proposals on the basis of cost-benefit analyses, but these covered only 6% of total planned spending and some of the data was of poor quality. Departments often lack information on unit costs or benchmarks and struggle to compare spending options in terms of their value. Therefore, the Treasury could not make meaningful comparisons between spending options because the information required to do so was not available. Such information gaps cannot easily be closed in the brief period of a spending review.

The Treasury needs to enforce requirements for departments to assess the cost effectiveness of their spending; analyse in aggregate how well departmental proposals address key Government objectives such as growth and fairness; and work with the Cabinet Office to make sure current information reforms reflect the need for informed budgeting.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Departments are required to submit business cases for any spending which exceeds their delegated authority limit. As part of the scrutiny that is conducted by the Treasury, these business cases must comply with the five case models. Any assessment of value for money or cost effectiveness must be consistent with the *Green Book* methodology. The Major Projects Review Group (MPRG) also continues to scrutinise and approve Government's largest and most complex projects. MPRG Panels challenge projects on deliverability, affordability and value for money at key points in the Treasury approval process.

3.3 For the 2015-16 Spending Round the Treasury will implement a zero-based approach to capital expenditure, similar to the Spending Review 2010, prioritising the most efficient and high value-for-money spending programmes. Working closely with other Government Departments, the Treasury will consider departmental current spending for the financial year 2015-16 in light of the Government's commitment to delivering higher-quality services and better outcomes at lower cost and the Spending Round themes of growth, efficiency and public service reform, including localism and fairness. As set out at Budget, departments are expected to deliver additional efficiency savings comparable to the £5.5 billion of savings in 2011-12, supported by the Cabinet Office's Efficiency and Reform Group.

3.4 The Treasury is committed to ensuring decisions are as fair as possible, and as part of this, produces distributional analysis of changes to tax, welfare and public spending. This analysis informs Ministerial advice and policy decisions, and has also been published at fiscal events. The Treasury is currently developing and improving the distributional analysis of public spending even further, as part of a dedicated programme of model development.

PAC CONCLUSION AND RECOMMENDATION 4

The Treasury does not promote cross-government budgeting. The budgetary system still encourages departments to focus on their own interests and does not incentivise planning across departmental boundaries. This means that departments can make decisions without considering the cost implications for other departments, for example the higher rents proposed under the Affordable Homes Programme may well impact on the housing benefit bill.

The Treasury, together with Permanent Secretaries, needs to address the technical and cultural barriers to joint working. This will include making sure that the budgetary system does not penalise departments bidding to increase budgets in order to lower overall Government costs; and creating incentives for departments to pursue novel proposals which cross departmental boundaries.

4.1 The Government agrees with the Committee's recommendation to encourage joint-working across departments and will seek to remove impediments to novel proposals on cross-departmental working. However, the Government disagrees with the Committee's recommendation on Departments bidding to increase budgets.

Target implementation date: 2013-14 financial year.

4.2 The Treasury recognises that improvements can be made in cross-departmental budgeting, and has taken steps to ensure this is better implemented across Government. The Treasury is continuously looking at ways for joint-working and has taken significant steps to address this when introducing new policies. There are already a number of spending programmes where cross-government budgeting is in place. One example is the *Whole-Place Community Budgets*, which is currently in pilot phase in four areas across the country. Other examples include the *Conflict Pool*, shared between the MOD, the FCO and DFID and the wider Regional Growth Fund. Going forward, the Treasury will assess how it can encourage and facilitate novel proposals on joint-budgeting within the existing framework, where genuine positive externalities exist.

4.3 In the guidelines set in *Managing Public Money*, a department's Accounting Officer (the most senior official), when assessing the cost-benefit analysis of projects, is required to consider value for money for the public sector as a whole. Also, with the introduction of the Online System for Central Accounting and Reporting (OSCAR), departments now have the resources to work collaboratively on specific cross-departmental budgeting issues.

4.4 The Government remains committed to its fiscal consolidation plans, which it set at Spending Review 2010 (SR2010). The Government recognises that to achieve its objectives for consolidation, it cannot solely rely on reducing Government expenditure. This is illustrated in the decision to exempt Her Majesty's

Revenue and Customs (HMRC) from both the announced reductions in departments' resource DEL budget. This will enable HMRC to contribute to AME savings and tackle tax avoidance and evasion. Furthermore, it was announced at Autumn Statement 2012, that HMRC will receive a further £155 million of additional funding to help increase revenue to the Exchequer (amongst other targets).

4.5 The Treasury has a responsibility to Parliament to keep control of public expenditure, and in order to achieve this, it must impose and adhere to a robust budgeting framework. The Government's objectives will not always permit the Treasury to make concessions to departments, particularly in a period of significant consolidation and where the spending implications are over a number of years. However, the Treasury does, and will continue to, encourage departments to present ideas that have a positive impact on both the public finances and other Government departments.

PAC CONCLUSION AND RECOMMENDATION 5

High staff turnover and lack of commercial skills undermines the Treasury's ability to scrutinise departmental budgets effectively. Staff turnover in the Treasury is too high: 44 of the 52 staff that worked in the Treasury's spending teams covering the five departments the Committee examined had left within 20 months of the Spending Review. On the Department for Energy and Climate Change team only one of the thirteen team members remained. In past hearings on the Private Finance Initiative the Committee has raised wider concerns over the lack of commercial skills in departments and the Treasury. The lack of corporate memory, relevant skills and sector knowledge means that the Treasury is not as effective as it could be in challenging departments - allowing some to engage in game-playing, for example, by deliberately withholding information from the Treasury.

The Treasury should be clear about the skills it needs to be effective in challenging departments on their spending plans and subsequent performance, and put in a place a strategy to secure and retain staff with the appropriate skills and experience.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2013.

5.2 The Treasury recognises that high staff turnover is a serious issue which threatens its ability to retain the knowledge it needs to manage public spending effectively. The Treasury is taking action to remedy this. During 2011-12, staff turnover fell from 28% to 16%; this is within the 15-20% turnover 'corridor' set following the review by Sharon White into the Treasury response to the financial crisis, and indicates that staff retention is improving.

5.3 As part of the Spending Review 2010 settlement, the Treasury has a staffing target of around 1,000 by April 2014. To achieve this, the Treasury has restructured itself to focus on the department's core activities. Contingency plans should ensure that the Treasury is well-placed to handle future crises. Retention is now carefully monitored and to retain specialist knowledge. Additionally, a new grade is being introduced, as is a 'competence' point, rewarding those with 2-3 years successful performance and implementing development at the relevant grade.

PAC CONCLUSION AND RECOMMENDATION 6

The Treasury remains unable to demonstrate how it is enabling departments to learn from past experience to ensure better value for money. There is little or no learning across departments and Treasury has yet to demonstrate leadership in this area. For instance, lessons learnt from PFI were not used to frame the contracts to transmit energy from off-shore wind farms.

The Treasury should consider how it will establish effective mechanisms to enable departments to use previous experience across Government in framing current and future programmes.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Treasury is committed to ensuring key lessons are learned from the introduction of major spending programmes, and encourages these to be referred to when developing new programmes. The Treasury recognises this can be better implemented and is working with colleagues, particularly in the Efficiency and Reform Group (ERG) in the Cabinet Office, to address this.

6.3 There are a number of Treasury backed processes in place to ensure this is better achieved. The major projects review process will look at what key lessons can be taken forward relating to all aspects of implementation of major investment projects across Government. On a smaller scale, ERG is already looking at ways, based upon past experience, to improve the use of commercial resources, with a particular focus on IT. These examples indicate that programmes are in place at both ends of the spectrum; going forward, the Treasury recognises that it is its responsibility to ensure this is applied on a wider scale.

6.4 The Treasury is continuously looking for new and innovative methods to improve existing processes; this includes the assessment of past experiences. In developing 'Private Finance 2', the Government conducted a comprehensive review of the Private Finance Initiative (PFI). There are also a number of programmes being developed by Government departments, with full Treasury support, to help share best practice. One such example is the Commissioning Academy, aiming to improve key commercial skills in the Civil Service, using examples from the most successful and innovative commissioning groups.

PAC CONCLUSION AND RECOMMENDATION 7

There is too little external scrutiny in the budgetary process. Parliament does not examine spending proposals, which would help to drive up their quality. Select Committees could provide more challenge to departmental spending plans but lack the information to do so effectively.

The Treasury should identify what information it could provide to Select Committees to enable them to scrutinise departmental spending plans and discuss with the Liaison Committee what might be done to encourage Select Committees to undertake this work.

7.1 The Government disagrees with the Committee's recommendation.

7.2 The Treasury is required to, and does, provide numerous opportunities for Parliament to scrutinise departmental spending plans for any given financial year. Spending Reviews, which set multi-year departmental settlements, and annual budgets are presented to Parliament, with time allowed for debate. Any key reforms made within either of these documents are subject to legislation and voted on by Members of Parliament.

7.3 Parliament also votes on in-year changes within a Spending Review period. The Estimates process, which occurs twice a year, is where Parliamentary approval is given to Government spending plans. At Main Estimates, Parliament is presented with spending plans for the current financial year; any significant in-year changes are reported at Supplementary Estimates. After year-end, once departmental accounts have been finalised, the accounts are laid before Parliament.

7.4 As part of the Government's commitment to the transparency agenda, many steps have been taken to ensure there is openness and accountability over the use of public resources. Departments now publish their respective annual business plans online. Furthermore, the Treasury has commenced work to look at how annual report and accounts can be simplified and streamlined to facilitate ease of understanding.

7.5 The Treasury has no specific responsibility to any individual Select Committees, in terms of providing information. However, a substantial amount of departmental spending information is already public, for example announcements at Budget. Select Committees themselves are able to request any more detailed information from their respective departments.

Thirty Fifth Report

Ministry of Justice

Restructuring the National Offender Management Service

Committee of Public Accounts report summary

The National Offender Management Service Agency (the Agency) is an executive agency of the Ministry of Justice (the department). The Agency directly manages 117 public prisons, manages the contracts of 14 private prisons, and is responsible for a prisoner population of around 86,000. It commissions and funds services from 35 probation trusts, which oversee approximately 165,000 offenders serving community sentences. For 2012-13, the Agency's budget is £3,401 million.

The Committee was pleased to note that the Agency achieved its savings targets of £230 million in 2011-12 and maintained its overall performance, despite an increase in the prison population. However, the Agency's savings targets of £246 million in 2012-13, £262 million in 2013-14 and £145 million in 2014-15 are challenging. The Agency believes it has scope to make the prison estate more efficient by closing older, more expensive prisons and investing in new ones. The savings plans assume the prison population will stay at its current level and not increase and that no progress is made on reducing overcrowding. Furthermore, the Agency has not yet secured the up-front funding for the voluntary redundancies needed to bring down prison staffing costs.

Unless overcrowding is addressed and staff continue to carry out offender management work it is increasingly likely that rehabilitation work needed to reduce the risk of prisoners reoffending will not be provided and that prisoners will not be ready for transfer to open conditions or release. The Committee was not reassured that the Agency has done enough to address the risks to safety, decency and standards in prisons and in community services arising from staffing cuts implemented to meet financial targets.

The Agency plans to increase the role of private firms and the third sector in probation. The Committee is not convinced that probation trusts have the infrastructure and skills they need to commission probation services from these providers effectively.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from HM Inspectorate of Prisons, HM Inspectorate of Probation and the National Offender Management Service Agency on the Agency's restructure and performance against Spending Review savings targets on 7 November 2012. The Committee published its report on 5 March 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Agency faces increasing challenges over the Spending Review period to deliver its savings targets. The Agency did well to achieve its savings target of £230 million in 2011-12, but its strategy for future savings depends on the prison population remaining stable, something over which it has no control. The strategy also requires significant cuts in staff numbers to bring down payroll costs, but the Agency does not have the resources to fund the voluntary redundancies that will be required.

The Agency should work with the department and the Treasury to develop a funded strategy for delivering future savings.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The Agency has agreed funding from the department to enable the necessary level of staff exits in 2012-13 and 2013-14. This funding covers Voluntary Early Departure Schemes (VEDS) for surplus staff and senior officers in 2012-13, as well as enabling exits relating to the recently announced closures. The agreed

VEDS funding will also enable prison establishments to make efficiency savings linked to the prison unit cost reduction programme in 2013-14. The Agency has achieved its 2012-13 savings target through tight financial management and workforce planning.

PAC CONCLUSION AND RECOMMENDATION 2

There is a risk that cost reductions result in prison staff having to focus solely on security at the expense of offender management, training and rehabilitation. Reduced numbers risk staff being taken off offender management programmes to cover duty on prison wings. The training and rehabilitation activities are important for reducing reoffending after release.

In considering short-term cost reductions the Agency should identify and take into account the potential long-term consequences they could have on the prison population, on recidivism, and on protecting the public and on future costs to the public purse.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Agency recognises the importance of maintaining its work on offender management and the work it does to reduce the risk of re-offending, through accredited interventions, other programmes, work, education and resettlement services. The Agency understands the role interventions play in reducing crime and aims to maintain interventions to support effective rehabilitation whilst making its savings. In implementing its efficiency savings, the Agency will continue to focus on maintaining standards of safety, decency and security in prisons, delivering protection to the public and reducing reoffending.

2.3 Under current plans to reduce the cost of prisons, the Agency is not planning to reduce its specification of services. Savings will be achieved by ensuring each prison delivers the most effective operating model for each individual service. The Agency intends to increase the number of activity hours undertaken by prisoners and specifically to increase the number of hours prisoners are at work. The Agency estimates that it will have increased the number of hours worked by prisoners in 2012-13 by 1.6 million hours and it is confident that it can further increase work hours, and deliver savings, over the rest of this spending review period.

PAC CONCLUSION AND RECOMMENDATION 3

Levels of risk in some prisons have increased as staff numbers have been reduced. The Committee welcomes the Agency's reintroduction of systems to manage risk at the regional level. However, the Committee is concerned about safety and decency in some prisons and the fact that more prisoners are reporting that they do not feel safe. Assaults on staff, self-harm and escapes from contractor escorts have all increased.

The Agency should ensure that savings plans have regard to the potential impact on risks to standards of safety, decency and respect in prisons and in the community.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 At the time of the Committee's hearing, the total number of assaults and assaults on staff had increased.[5] However, more recent statistics show that both have now fallen slightly. The total number of assaults on staff has fallen slightly and the rate of assaults on staff, at 34 per 1,000 prisoners, is at the lowest level since 2000.[6] The number of serious assaults on staff has remained broadly stable over the last ten years, with a reduction in each of the last two years. The total number of self-harm incidents has also decreased over the last two years, driven by a particularly significant reduction for female offenders. The

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[5] Safety in Custody Statistics, Quarterly update to June 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/163351/safety-in-custody-summary-jun-12.xls.xls

[6] Safety in Custody Statistics, Quarterly update to September 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/163345/safety-custody-summary-sep12.xls.xls

level of self-harm incidents for male offenders has increased, although during the most recent quarters this has stabilised.

3.3 The Agency's specifications mandate the standards required to maintain safe and decent prisons. By reducing costs, establishments will be required to deliver these standards and achieve savings. The Agency is aware of the potential risks, and staff reductions will only be implemented where the Agency is confident that the fundamental requirements of safety, decency and security can be reliably and consistently met. The Agency's methodology for determining staffing levels will ensure that the most appropriately skilled staff are deployed in sufficient numbers to operate regimes, which deliver the full range of services effectively.

3.4 The Agency's specifications also mandate the standards required to be achieved in the community by Probation Trusts. Savings have been achieved without compromising service quality or public protection The Agency is confident that the savings allocated for 2013-14 are achievable. In the longer term, the Government's Transforming Rehabilitation reforms will restructure delivery in the community. Managing performance and risk through the transition process is a key priority for the Agency in 2013-14.

PAC CONCLUSION AND RECOMMENDATION 4

Prison overcrowding has become institutionalised and some individuals have to be placed in prisons which do not provide the appropriate rehabilitation programmes to prepare them for release. The Agency is planning to make savings by closing older, more expensive prisons and opening newer establishments which are cheaper to run. These plans are based on the acceptance that it will not be able to reduce prisoner overcrowding from its current level, which is the maximum it considers safe.

Before closing prisons, the Agency should evaluate the consequences of closure on overcrowding, the ability to deliver sentence plans and the capacity to match prisoners to work programmes.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 All prisoners are held in decent and humane conditions, in a safe and secure environment, with access to appropriate levels of interventions, works, education and healthcare. Within the funding available, the Agency is pursuing a strategy of replacing older and uneconomic places with modern capacity that better supports rehabilitation and delivers improved value for money for the taxpayer. Before closing prisons, the Agency conducts a full review on all the implications, including in respect of the delivery of sentence plans and capacity to match prisoners to work programmes.

PAC CONCLUSION AND RECOMMENDATION 5

The department is consulting on plans to put the majority of services currently provided by probation trusts out to competition. But probation trusts do not have the skills they need to support this expanded role in commissioning. The Committee received evidence of poor contracting with the contract for electronic monitoring, which suggests that expenditure in the UK is 60% higher than equivalent expenditure in the USA.

The department should work with the Agency to help probation trusts develop the skills they will require to commission effectively from private and voluntary sectors.

5.1 The Government notes the Committee's recommendation.

5.2 The recommendation to this report has been superceded by the Government's *Transforming Rehabilitation* consultation, which proposes a national commissioning model, rather than devolving commissioning to Probation Trusts.

Recommendation not implemented.

5.3 Further to the consultation on the future shape of probation services in England and Wales, the *Transforming Rehabilitation* consultation sets out revised proposals. The Agency will publish its response in due course. The Government's consultation document proposes a different model which considers the effective commissioning of locally responsive services through a national commissioning function.[7] The revised proposals remove the requirement for Probation Trusts to commission services directly.

5.4 The electronic monitoring contract is currently being retendered and the department will ensure that the new contract offers value for money on the delivery of specified services. The comparisons made between the costs in the USA and the UK under the current contract do not appear to be like-for-like. Those quoted for the USA do not seem to include the full extent of the monitoring and enforcement staff if at all which is by far the most significant portion of the overall cost of electronic monitoring. Furthermore, the UK costs are fully inclusive of VAT and the equivalent taxes in the USA are considerably lower.

[7] *Transforming Rehabilitation*, Ministry of Justice consultation January 2013 https://consult.justice.gov.uk/digital-communications/transforming-rehabilitation/supporting_documents/transformingrehabilitation.pdf pp24-25

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