



HM TREASURY

TREASURY MINUTES

Government responses on the Seventy Fifth, the Seventy Seventh, the Seventy Ninth to the Eighty First and the Eighty Third to the Eighty Eighth Reports from the Committee of Public Accounts: Session 2010-12.



Treasury Minutes on the Seventy Fifth, the Seventy Seventh, the Seventy Ninth to the Eighty First and the Eighty Third to the Eighty Eighth Reports from the Committee of Public Accounts: Session 2010-12

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Seventy Fifth Report

Ministry of Justice (MOJ)

Ministry of Justice Financial Management

Report Summary from the Committee

The Ministry of Justice (the Ministry) has improved its financial management since the Committee's last report in January 2011. Many of the Ministry's processes have improved, including modelling and forecasting, but the Ministry has not achieved significant improvements in the delivery of key financial outcomes and therefore has much still to do.

The most serious issue, which the Accounting Officer recognises, is the Ministry's inability to report its financial affairs on a timely and accurate basis. The Ministry's own resource accounts for 2010-11 were delivered late and there were significant problems with the accounts produced by two of its major arm's length bodies. The Legal Services Commission was again unable to produce accounts sufficiently free from error to gain a clear audit opinion and the Ministry could not produce auditable data to support HM Courts Service's Trust Statement, produced for the first time in 2010-11.

The Ministry faces significant accounting challenges for the 2011-12 financial year, due to the more demanding requirements of the Clear Line of Sight initiative which requires earlier publication of the accounts. The Ministry has acknowledged that it might not be possible to produce its accounts in time for them to be certified before the end of June 2012 deadline. It needs to break the cycle of continuing failure to produce accurate and timely accounts.

The Ministry also faces considerable challenges in meeting its tough spending review commitments given the demand-led nature of its business. Although the Ministry has advanced its work on costing since our last report, it is still not complete. Without a full understanding of its costs, the Ministry risks unnecessarily cutting frontline services, which are critical to the poorest in the community, rather than ensuring savings are achieved through genuine efficiencies.

Maximising the income it obtains will help the Ministry deal with the current spending constraints, but it has not made enough progress in this area. Fine collection is improving, but it is being outpaced by the growth in fines outstanding. No progress has been made in improving fee recovery levels in the courts. Substantial sums of money are outstanding under confiscation orders and it is not clear how much of this money can really be recovered. The Ministry has recognised the need to improve its joint working with the Home Office on this issue and the Committee welcomes the creation of the joint Ministerial-led board to address confiscation orders.

Excellent financial management is critical to the Ministry's future success as it seeks to achieve significant efficiency gains while coping with workload pressures, such as increases in the prison population, that are largely outside its control.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Justice on its progress in improving financial management.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee acknowledges the improvement the Ministry has made in its financial management, particularly in modelling and forecasting, since we last reported.

However, the Ministry must make further improvements if the public is to have confidence in its decision making, especially given the considerable challenges it faces with a demand-led workload and the need to make savings of £2 billion per year by 2014-15.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: to have successfully delivered the Finance Improvement Strategy by the end of the 2014-15 financial year.

1.2 The Department developed a Finance Improvement Strategy, in 2010, bringing together plans across the Department, its agencies and arm's length bodies (ALBs). The strategy supports the Department in meeting the challenges of the 2010 Spending Review period and beyond; to be able to forecast and plan for demand; and to deliver services in new ways. The strategy is delivered through a Finance Improvement Programme (the Programme). The Department's Director General Finance and Corporate Services chairs the Programme Board, which includes lead Finance Directors from across the business.

1.3 The Department's aim is to achieve an overall maturity level of four, during 2013 (when the Department's Shared Services programme is implemented). To assess its progress in improving financial management, the Department has conducted two self-assessments against the National Audit Office's Financial Management Maturity Model (FMMM). Undertaken in 2010 and 2011, these covered the Departmental headquarters, National Offender Management Service (NOMS), HM Courts and Tribunal Service (HM Courts and Tribunals Service), the Legal Services Commission (LSC) and other ALBs as appropriate. The Department concluded that progress was evident in a range of areas to the extent that, despite the challenges that it was dealing with and areas still to be improved, it was well on the way to achieving Level 4 maturity overall.

1.4 In January 2012, the Department reviewed its strategy, refocusing, for 2012-13, on:

- Culture – putting financial and resource considerations at the heart of how the Department operates its business.
- Capability – increasing the commercial acumen and financial awareness of all staff; and further developing the Departments finance professionals to support the business.
- Costings and Management Information – ensuring that the right information to support strategic and value-for-money decision-making at every level.
- Control – the right systems, structures, controls and compliance to support good financial management.

1.5 The senior Finance Directors have set out their improvement priorities for their areas for 2012-13, which include: leading on embedding improvement in their areas; and reporting to the Programme Board on progress against plans to deliver these priorities. The Programme will provide central support and co-ordination, where necessary, to ensure that these plans keep the Department on track to meet FMMM maturity Level 4 during 2013.

PAC CONCLUSION AND RECOMMENDATION 2

The Ministry again failed to deliver its departmental accounts on time and the Legal Services Commission's annual accounts and HM Courts Service's Trust Statement did not receive unqualified audit opinions. This is unacceptable and undermines public confidence in the Ministry's stewardship of funds. The Accounting Officer was not willing to commit to meeting the Government timetable for 2011-12 accounts, or even those for 2012-13. Whilst the Committee welcomes his candour, this is not a tenable position.

The Ministry must find a way to break the cycle and account to Parliament on a timely basis. The Ministry should develop a comprehensive project plan for delivering the resource accounts on time which includes key interdependencies and milestones. This should be robustly challenged by its audit committee on a continuing basis. The Ministry should also set out a clear plan to reduce errors in legal aid payments and remove the disclaimer on the Trust Statement account.

2.1. The Government agrees with the Committee's recommendation.

2.2. There are three elements to the Committee's recommendations – the Departmental accounts, the LSC accounts, and HM Courts and Tribunals Service Trust Statement. For clarity, the Government's response is separated into those three elements.

Target implementation date: the Department's resource accounts for 2011-12 were laid in Parliament pre-recess; having successfully reduced the error rate in legal aid payments in 2010-11 and 2011-12, the LSC has set out a clear plan to continue to reduce errors further still in future; HMCTS plan to have removed the NAO's disclaimer on the Trust Statement account by July 2015.

Departmental Accounts

2.3 The Department was unable to lay its 2010-11 annual report and accounts before Parliament prior to summer recess in accordance with the Treasury's timetable for central government bodies. Each of the Department's agencies laid their 2010-11 accounts prior to 2011 parliamentary summer recess, which represented an improvement over 2009-10. However, the primary reason for the Department's non-delivery was that the NOMS accounts were delayed to the extent that the Department was left insufficient time to complete the consolidation of the Department's group accounts, and have them audited, prior to the summer recess.

2.4 The Department commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake an independent review of the annual report and accounts 2010-11 production process to understand better the causes and issues underlying the failure to meet the deadline. This review concluded that there was no simple or single reason for the delay, but rather a combination of organisational, staffing and technical factors. However, the report did note that a significant factor was the late production of the NOMS accounts and the Department is confident that the factors contributing to this problem have since been addressed by NOMS management.

2.5 As part of the Clear Line of Sight (CLOs) reforms agreed with Parliament in 2010, there is an end June target date for Departments to publish their 2011-12 Annual Reports and Accounts. The Department will be unable to meet this deadline this year, but is aiming to publish its accounts prior to the 2012 Parliamentary summer recess on 17 July. The delay is primarily due to the need to consolidate an additional ten non-departmental public bodies (NDPBs) within the Departmental group. The largest NDPB being consolidated is the LSC. To enable the Department to achieve its target of laying its 2011-12 accounts before Parliament pre-recess, the LSC will need to complete its accounts four months earlier than in 2010-11.

2.6 To help achieve this objective, and as part of its wider Finance Improvement Programme, the Department has re-designed its finance structures to make sure the right people are in place to meet future reporting requirements and timetables. This restructuring process has identified additional resourcing requirements in finance teams across the Department, which are being addressed through a combination of interim support and permanent recruitment.

2.7 A revised accounts production timetable was agreed with the NAO targeting a pre-summer recess lay date, which both parties agreed gave a realistic opportunity to lay the Department's 2011-12 accounts. To produce the timetable, the Department reviewed key activities in the accounts production process to identify any activities that could be streamlined or any areas where a more efficient approach could be undertaken. For example, on the consolidation process, the Department rebuilt its consolidation model and changed the approach to preparing the consolidation. At quarter 3, when this revised approach was tested, there was a significant reduction in the time taken to prepare the consolidated accounts and the quality of the accounts produced.

2.8 In accordance with the agreed timetable, the entire Department's reporting bodies have submitted final accounts to the NAO and substantive clearance has been received for key bodies. This has enabled the consolidation process to commence on schedule, and therefore the Department remains on track to lay unqualified accounts in Parliament prior to summer recess in line with its original timetable.

Legal Services Commission

2.9 The LSC has continued to strengthen its controls and reduce error levels through its ongoing programme of Financial Stewardship activities. The NAO acknowledged that the LSC had made "significant improvements" in reducing the level of reported error in its accounts for 2010-11. The LSC has delivered further improvements in its 2011-12 accounts, reducing further the level of reported error, cleansing debt balances and bringing their accounts production timetable forward by four months. The LSC remains committed at all levels of the organisation to continuing to improve its financial and operational controls.

2.10 The LSC has undertaken considerable work to analyse the causes of errors across all its legal aid schemes. The LSC has used this analysis to target work to improve its controls and to recover overpayments made to legal aid providers. The LSC's Provider Management Strategy provides profiles of risk, enabling the LSC to target areas of greatest concern and to improve performance through an ongoing programme of engagement and audit testing, including guidance and training and the use of contract sanctions.

HM Courts and Tribunals Service Trust Statement

2.11 The Trust Statement was a new financial reporting requirement in 2010-11 and required the Department to prepare a set of financial statements reporting the balances associated with the imposition and collection of revenues of fines, confiscation orders and penalty notices by the courts service. The Department was unable to provide a sufficiently detailed transaction listing to support the Trust Statement last year and consequently the Comptroller and Auditor General (C&AG) disclaimed his opinion for 2010-11. The primary reason was the limitations in legacy case management systems.

2.12 HM Courts and Tribunals Service has put in place steps to reduce the uncertainties surrounding the Trust Statement and progress towards removing the disclaimer. These include:

- setting up a Trust Statement Management Board has been implemented to monitor the progress of the preparation of the 2011-12 Statement and to work towards resolving the issues that resulted in the disclaimer. This is attended by selected individuals, who are key to the preparation of the Statement and the monitoring and enforcement of fines and penalties within the Courts and Tribunals Service;
- setting in place a timetable for the completion and audit of the 2011-12 Statement is in place that has been agreed with the NAO. This will see the Statement laid before Parliament in September, immediately after summer recess. It is planned that future Trust Statements will be laid following a pre-recess timetable. However, this will be confirmed after completion of the 2011-12 Statement;
- completing extensive work with the supplier of the case management system, which records fines and confiscation orders enabling the Department to produce more robust evidence to underpin the figures in the Trust Statement.

2.13 There are more fundamental challenges in providing the same quality of information for fixed penalties, not least because the end-to-end imposition and payment systems reach deep into police constabularies and far beyond the level of the Department's control. A new system (Pentip) due for

implementation into all police forces this financial year will significantly improve the visibility of the audit trail supporting these balances.

2.14 The creation of the Criminal Finance Board brings together those jointly responsible for the enforcement of confiscation orders, notably the Crown Prosecution Service (CPS) and Serious Fraud Office (SFO) and HM Courts and Tribunals Service. The Department will continue to work with these organisations to encourage joined up enforcement.

PAC CONCLUSION AND RECOMMENDATION 3

The Ministry does not have a proper basis for its current fee structure in the civil courts. It continues to under recover costs in the family courts and over recover probate fees. The Committee welcomes steps the Ministry is taking to rationalise the fee structure as it seeks to achieve full cost recovery by reducing costs through efficiency savings and raising fees in line with inflation. Increasing fees, particularly in the family law area, may impact on people's access to justice.

In developing a new fee structure designed to move to full cost recovery, the Ministry should monitor the impact on access to justice and ensure it maximizes efficiency savings within the organization before increasing fees for individuals who need to use the courts.

3.1. The Government agrees with the Committee's recommendation.

Target implementation date: move to a new fee structure in 2014-15; steps to improve user data by April 2013.

3.2 The Department's approach to achieving full cost recovery involves both reducing costs through efficiency savings and changing fee levels. The Department is committed to providing a sustainable model for civil, family and administrative justice, which balances spending and income by supporting the development and implementation of Transforming Justice¹ and related policy changes. For example, those resulting from the Family Justice Review² and from the Government's response to: *Solving disputes in the county courts: creating a simpler, quicker and more proportionate system.*³

3.3 The Department is working to achieve economies of scale by centralising and standardising administrative processes in national back offices and by building a contact centre network to provide customers with a single point of contact for queries related to centralised processes. The Department will ensure that as efficiencies are achieved, any fee changes will take into account the changing cost base as well as the guidelines set out in *Managing Public Money*.

3.4 The Department is mindful that not all individuals may be able to afford court fees and is committed to the provision of a remission or fee waiver system to ensure that those individuals remain able to access the civil and family court system. In addition, the Department recognises the need for a clear understanding of the characteristics of courts users and their responsiveness to fee changes, and is currently considering how best to improve its data in this area.

PAC CONCLUSION 4

Amounts owed under confiscation orders have risen dramatically and the Ministry acknowledges that up to 60% of these sums may never be recovered. No one body has overall responsibility for overseeing collection of confiscation orders but all the sums are accounted for in the Ministry's financial statements. Compared to the other enforcement agencies involved, the Ministry has a better rate of success in collecting these amounts, albeit this in part reflects the fact that it is not responsible for obtaining larger more complex assets. Under the Proceeds of Crime Act 2002 amounts owed cannot be written off and therefore these balances will continue to grow.

¹ <http://www.justice.gov.uk/about/justice/transforming-justice>

² <http://www.justice.gov.uk/about/moj/independent-reviews/family-justice-review>

³ https://consult.justice.gov.uk/digital-communications/county_court_disputes

PAC RECOMMENDATION 4

The Ministry, through new cross-Government board, should take steps to set responsibilities for raising, collecting and accounting for confiscation orders to incentivise collection agencies to maximise sums collected.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: this will be determined by the Ministerial Criminal Finance Board, once the work programme has been evaluated and agreed.

4.2 As at 31 March 2012, the asset recovery agencies involved in enforcing court confiscation orders achieved their best performance ever by securing £117.5 million from criminals. This represents an 8% increase over the previous financial year, returning a record £22.3 million to the victims of crime, up £5.3 million on the previous year.

4.3 As the department responsible for confiscation policy, the Home Office has agreed that the ministerial Criminal Finance Board, formerly the Asset Recovery Board, will take the lead on taking forward performance improvement. To ensure the right level of focus and leadership is provided, the Board is chaired by a Home Office Minister, with senior officials representing the Department and the other asset recovery agencies.

4.4 Consequently, the Minister for HM Courts and Tribunals Service has written to the Home Office, Minister who chairs the Criminal Finance Board, to bring to his attention the Committee's report suggesting a number of areas the Board should consider taking forward. These include a review of the Proceeds of Crime Act 2002, as the landscape is significantly different to when the Act was introduced, and should include developing a policy for cancelling orders in certain circumstances; for example, death of the defendant, and the circumstances of when interest should be applied to outstanding balances.

4.5 The Minister also suggested that there should be a fundamental review on the current IT system, which is neither a case management, nor an accounting system, and a review of the Asset Recovery Incentive Scheme. The scheme should incentivise agencies to increase the amounts they collect. As HM Courts and Tribunals Service is responsible for enforcing only 18% of the total value of all confiscation orders imposed, accounting arrangements for confiscation orders should also be reviewed, with the relevant debt transferring to the balance sheet of the lead agency responsible for its collection, rather than the total outstanding debt (£1.2 billion) sitting on the HM Courts and Tribunals Service balance sheet. As part of the Criminal Finance Working Group, which supports the ministerial Criminal Finance Board, the Department will work with officials in the asset recovery agencies to implement the Committee's recommendations.

PAC CONCLUSION AND RECOMMENDATION 5

Over the last five years, whilst the Ministry has increased the monies collected through fines, the amount outstanding has increased even more.

HM Courts and Tribunals Service needs to improve its collection rates and should focus in particular on the timeliness of collection given that it is easier to collect fines nearer the time of imposition.

5.1 The Government agrees with the Committee's recommendation

Target implementation date: December 2013.

5.2 Over the last five years, the Department has increased the amount of money collected in respect of fines – a record £282 million was collected in 2010-11. This was achieved by implementing the compliance and enforcement blueprint, launched in 2008, by directing resources to early compliance actions; targeting specific groups of defaulters in targeted blitzes in joint operations with the police; piloting the recovery of 'aged debt' with external agencies; and piloting the accelerated use of distress warrants for HM Courts and Tribunals Service.

5.3 Over the next 18 months, HM Courts and Tribunals Service will continue to increase the amount of cash collected in respect of financial impositions; improve the timeliness of collection, with a greater number of fines being collected closer to the date of imposition; and will work to prevent any further increase to the outstanding balance – recognising however, that the proposed extension of the victim surcharge to all sentences will impact the outstanding balance, as the surcharge cannot be cancelled even if uncollectable. As a result, HM Courts and Tribunals Service will monitor the effect of victim surcharge on the overall outstanding balance from the point the extension of the scheme comes in to force.

5.4 The performance improvements will be achieved by a continued focus on targeting offenders at an early stage, by use of specific chasing methods, use of intelligence tracing tools, targeted application of enforcement sanctions, as outlined in the Criminal Compliance and Enforcement Services Blueprint, and strict adherence to the cancellation policy. HM Courts and Tribunals Service is developing a national structure and standardising enforcement processes across England and Wales, taking the best business practices and sharing them across all regions.

5.5 HM Courts and Tribunals Service is also working across Government to maximise the opportunities to share information about debtors and defaulters, which will assist in the tracing of offenders and identification of the most appropriate application of enforcement sanctions. HM Courts and Tribunals Service are looking at the future strategy for fines collection, with the preferred option to form a partnership with a commercial company.

PAC CONCLUSION AND RECOMMENDATION 6

The Ministry maintains that it has followed Government guidance in producing its impact assessment for proposed changes to legal aid, but admitted that in some areas where there were insufficient data, potential impacts could not be quantified. The impact assessment has not identified the behaviour changes which may arise from the new legal aid arrangements, and should do so.

The Ministry should arrange for the National Audit Office to review the impact assessment to ascertain whether the assumptions are sound and uncertainties have been clearly acknowledged.

6.1 The Government disagrees with the Committee's recommendation.

6.2 Following discussions with the Treasury, the Government considers that the NAO's accepted remit is to consider value for money retrospectively, once policies have been implemented. Whilst the NAO has previously reviewed the quality of Impact Assessment (IAs) this has been to consider adherence to the Government's IA guidance and processes, rather than to review particular policies or to consider the detail of specific assumptions and how clearly particular uncertainties have been acknowledged.

6.3 The legal aid IA follows Treasury *Green Book* investment appraisal guidance in assessing the impacts qualitatively, where evidence is not robust enough to provide an accurate quantitative analysis. This approach has been taken in previous published Government IAs. Going forward, the Department is considering how evidence gaps may be addressed. Final Royal Assent stage IAs were published on the Department's website (www.justice.gov.uk) on Friday 13 July. Some research has already been commissioned and other options are being explored. Additional evidence should feed into future policy considerations when it becomes available.

Seventy Seventh Report

Cabinet Office

Reorganising central Government bodies

Report Summary from the Committee

Under the Public Bodies Reform Programme (the Programme), the Government is reducing the number of its arm's length bodies from 904 to between 632 and 642 by the end of the current Spending Review period. The closure of at least 262 bodies across government is the largest restructuring of public bodies for many decades, and will have a substantial and lasting impact on how public money is spent. The Cabinet Office is the department responsible for overseeing the Programme, and the main statute governing the abolition and reorganisation of bodies is the Public Bodies Act 2011. The Programme is intended to improve accountability for functions currently carried out at arm's length from Ministers and make spending on those activities more accountable to Ministers. It is also designed to result in substantial net financial savings of £2.6 billion in administrative spending by 2015.

The Cabinet Office told the Committee that it was on track to make £2.6 billion of administrative savings. However, the Committee has substantial reservations about the robustness of the claimed £2.6 billion savings figure. It is based on incomplete and imprecise estimates from departments of the savings and costs they expect to result from closing arm's length bodies. The Committee's key concerns are that:

- there is a risk departments are claiming savings which are actually cuts to services, when they should be including only genuine savings arising from administrative reorganisations;
- estimates of transition costs such as redundancy and pension costs are incomplete;
- the savings estimate does not fully take account of the ongoing costs to other parts of government of taking on functions being transferred from abolished bodies; and
- some departments have wrongly included wider savings from bodies being retained, rather than just administrative savings from bodies being abolished or substantially reformed.

The Cabinet Office has accepted that its savings estimate needs to be reassessed, and the Committee welcomes its undertaking to 'rebase' its estimates in order to provide the Committee with a revised administrative savings figure in April 2012. The Committee will expect the revised savings estimate to address the concerns outlined above.

The Committee acknowledges that the Cabinet Office and Departments have put much effort into getting the Programme up and running. They have made good initial progress, in particular by ensuring the successful passage of the Public Bodies Act and reviewing over 900 bodies in order to decide which need to be reorganised. This means the Programme is on course to bring spending closer to Ministers and deliver significant cost savings. However, the Cabinet Office now needs to focus on managing the Programme effectively to ensure progress is maintained. It needs to give departments a clearer lead on issues common to all reorganisations, especially complex matters such as transfers of pension liabilities, and to challenge departments on their progress in managing costs and realising the asserted benefits of reorganisations.

Departments have decided on the form of individual reorganisations themselves without clear direction from the centre, leading in some cases to inconsistent treatment of bodies with similar functions. There needs to be greater coherence in how future reorganisations are conducted and clear criteria to guide decision making about the structures that bodies should adopt.

The Committee is concerned that Departments may not be getting the best value for money from the sale or transfer of assets of bodies being abolished. Some of these bodies, such as the regional development agencies (RDAs) and British Waterways, have significant asset holdings and it is vital that maximum value from the disposal of such assets is secured for the taxpayer.

The Committee's examination of the Programme has taken place early in its implementation, and the Committee will revisit it to see if savings have in fact been made and other objectives achieved. However, before then the Cabinet Office will need to develop a clear set of measurable objectives, supported by reliable information, against which the actual impact of the changes can be evaluated. Without these, it is difficult to see how the Committee or the Cabinet Office will be able to judge the overall effectiveness of the Programme.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Cabinet Office, the Department for Business, Innovation and Skills and the Ministry of Justice on changes to arm's length bodies across Government.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee has substantial concerns about the robustness of the Government's claimed £2.6 billion administrative savings figure. The Cabinet Office told the Committee that it was on track to make £2.6 billion of administrative savings from closing bodies by the end of this Spending Review period, and to lower administration costs by £800 million to £900 million annually in subsequent years. However, the Cabinet Office also recognised that it needs to 'rebase' its administrative savings estimate and we welcome its commitment to provide us with a revised savings figure in April 2012. The Cabinet Office must ensure that this rebasing exercise provides more complete and accurate estimates of expected savings and costs in the following areas.

- *Departments should include only genuine savings arising out of administrative reorganisations in their revised savings estimates, to avoid claiming savings which are actually cuts to service levels.*
- *Departments need to provide more complete estimates of the transition costs associated with closing bodies, such as redundancy and pension costs. The Cabinet Office accepts that transition costs could be as high as £900 million, but it needs to ensure more work is done to identify and account for them fully.*
- *The administrative savings estimate needs to account for the ongoing costs to other parts of government of taking on services or functions previously performed by the abolished bodies. Some £400 million of the claimed £2.6 billion administrative savings have not taken into account the costs of functions being transferred to other organisations, because departments have not yet estimated these costs.*
- *Departments should count only administrative savings that come from reorganising bodies, and not wider savings from bodies that will continue to exist. Around £500 million of the £2.6 billion savings has been wrongly classed as savings under the Programme, as it relates to savings from bodies being retained without substantial reform.*

1.1 The Government disagrees with the Committee's recommendation that Departments should count only administrative savings that come from administrative reorganisations, but agrees with the remainder of this recommendation.

Recommendation implemented

1.2 The Cabinet Office requested that Departments verify their original savings estimates, paying particular attention to the cost of delivering transferred functions, and the costs associated with reform. The Cabinet Office will continue to work with Departments to refine estimates of the costs of reorganisations, as further progress is made in implementing reforms.

1.3 The Government is committed to ensuring that work continues in relation to the savings that will flow from public bodies over the course of the 2010 Spending Review period. The Department has always been clear that the £2.6 billion figure is an overall reduction in administrative cost of all public

bodies, including wider efficiencies, in addition to the reductions related primarily to reforms. The majority of the £2.6 billion is directly attributable to structural changes, as a result of the public bodies reform programme. Other Government Departments have given their assurance that this figure is accurate. The Government has never claimed that all savings are directly attributable to administrative reorganisations, focussing instead on the total reduction in the administrative cost of public bodies, which is estimated to be at least £900 million by the final year of the current Spending Review period (2014-15).

1.4 The Government welcomes the Committee's acknowledgment that some reforms are still at an early stage and agrees that ongoing work to refine initial estimates for the cost of reform should continue. For reforms that are complete or are nearing completion, in many cases, Departments have already provided the Cabinet Office with detailed estimates of the costs associated with administrative reorganisations. This information is factored in to the Cabinet Office's headline estimate that structural reforms will cost between £600 million and £900 million. As more reforms near completion and Departments make further progress towards completing their reorganisations, the Cabinet Office will refine its estimate further.

1.5 In line with the Permanent Secretary and the Senior Responsible Officer's commitments at the hearing, the Cabinet Office asked Departments to undertake further assurance work to verify the Government's original estimates and work through the issues raised by the Committee. This work requested Departments to confirm that consistent methodology had been applied and more specifically, that where a function has been, or will be, transferred elsewhere in Government, the Department has adequately accounted for this cost in its savings estimates. Following assurance from Departments, the Cabinet Office are now in a position to confirm that the headline administrative saving estimate of £2.6 billion does adequately account for the costs of functions being transferred to other organisations.

1.6 However, the Government disagrees that Departments should count only administrative savings that come from reorganising bodies, and not wider savings from bodies that will continue to exist. The public bodies that will remain following the implementation of the Government's reforms play an integral part in the delivery of a wide range of services. Even where a body is not subject to abolition or merger, it will still be subject to the same necessity to drive up value for money, because the Government is determined to deliver a more efficient and effective public bodies landscape.

1.7 It is important that the Government's headline savings figure for the administrative cost of public bodies reflects all those public bodies that were in scope of the Public Bodies Review⁴ in 2010. In addition, it is also not possible in some instances to disaggregate accurately particular elements of the Government headline estimate and attribute specific savings to different categories of reform. This would make any attempt to do so at this stage inherently inaccurate compared to the aggregate savings estimate.

PAC CONCLUSION AND RECOMMENDATION 2

Departments have been left to decide on the form of individual reorganisations without clear central direction, at the expense of overall coherence across government. Some reorganisations of individual bodies have led to anomalies in the treatment of bodies with similar functions. For example, the General Teaching Council for England is becoming an executive agency responsible to Ministers, while two other education regulators will remain at arm's length from Ministers. Decisions on closing or reorganising bodies need to be more consistent.

The Cabinet Office should in future give a stronger lead to departments and set out defined criteria which clarify the appropriate structures to be adopted for bodies with particular functions.

2.1 The Government disagrees with the Committee's recommendation.

2.2 The Government believes that the current approach, whereby the Cabinet Office plays a dual coordination and scrutiny role with Departments responsible for individual proposals and detailed

⁴ http://www.cabinetoffice.gov.uk/sites/default/files/resources/Public_Bodies_Reform_proposals_for_change.pdf

implementation, strikes the correct balance. As such, the Government does not agree that the Cabinet Office should be taking a stronger role than is currently the case. The advantages of the existing arrangements is that the Cabinet Office is able to ensure consistency and coherence across the public bodies landscape, while Departments have genuine ownership and accountability for the structure and management of their public bodies

2.3 The Cabinet Office used this approach in playing a leading role in the original review of public bodies in 2010, which it continues to coordinate and drive from the centre. Decisions on individual reforms were made by Secretaries of State in conjunction with the Minister for the Cabinet Office – each one being based on carefully and consistently applied tests to determine whether a body needed to continue to operate at arm’s length from Government.

2.4 In addition, guidance on non-departmental public bodies (NDPBs) is coordinated by the Cabinet Office and rigorously applied whenever the structure of a body or group of bodies is under consideration. If a Department proposes to establish a new NDPB, they must first secure the approval of the Minister for the Cabinet Office and, where there are spending implications, the Chief Secretary to the Treasury. This provides a very real check on the creation of new NDPBs and ensures that the centre is able to scrutinise any potential additions to the public bodies landscape.

2.5 Following on from the 2010 review of public bodies, NDPBs are subject to regular, triennial reviews. These reviews test whether the body should continue in its current form, and, if it should continue, whether its accountability and governance arrangements are appropriate. This process is coordinated by the Cabinet Office and is underpinned by published guidance.

2.6 For larger and more significant public bodies, each review will be supported by an independent group who will challenge the department’s conclusions and make sure that the criteria for retaining public bodies has been applied rigorously and consistently. These challenge groups will include representation from the Cabinet Office and a Government Non-Executive Director (NED). In line with the handling of the 2010 review, the Government believes that this approach already strikes the correct balance between delivering consistency and ensuring that the structure for specific bodies is appropriate.

PAC CONCLUSION AND RECOMMENDATION 3

The Cabinet Office has not fully got to grips with managing the overall Programme, including key risks common to all departments. The Cabinet Office’s main focus to date has been on getting the Public Bodies Act passed, but it needs to improve its coordination and management of the overall Programme now that the legislation is in place. The Cabinet Office recognises it must get on top of common issues affecting all reorganisations, such as pension transfers and managing the costs of closures effectively.

The Cabinet Office should provide clear guidance to departments on handling important common risks and issues and take a more active role in challenging departments on their progress in controlling costs.

3.1 The Government agrees with the Committee’s recommendation.

Recommendation implemented.

3.2 The Cabinet Office, via the Public Bodies Strategy Board and Working Group, routinely share risk registers and discuss mitigating actions with departments, on risks such as pensions, costs of reform and workforce issues.

3.3 The Cabinet Office is committed to sharing best practice between Departments. This commitment is ongoing and will increase now that Departments are shifting their attention to delivering the reforms following Royal Assent of the Public Bodies Act 2011. The Cabinet Office and Departments regularly come together to establish common approaches to shared issues at both the Public Bodies Strategy Board and Working Group and the management of key risks has been a priority throughout the implementation of reforms. For example, the Cabinet Office convened a workshop to discuss pension liabilities in March 2011 and established a peer group on the issue with Departments in summer 2011 which included securing expertise from the Government Actuaries

Department. This has also been supported by a specific project with dedicated resource from March 2012.

3.4 Beyond this, the Cabinet Office has also established sub-groups on specific issues (such as pensions and sponsorship) and facilitated workshops at key points in the programme, for example on HR and workforce issues. The Cabinet Office has published an implementation checklist, which draws upon the experiences of delivering complex reforms to public bodies and provides comprehensive advice for Departments. This was developed in collaboration with Departments and has been positively received by stakeholder groups such as the Public Chairs Forum. The Cabinet Office also monitors progress for the reforms through monthly bilateral meetings with Departmental officials where individual reforms are discussed in depth.

PAC CONCLUSION AND RECOMMENDATION 4

Departments must secure the best value for money from the sale or transfer of abolished bodies' assets. Some of the bodies being abolished, in particular the eight regional development agencies (RDAs), have significant assets which need to be disposed of in a way that results in maximum value for the taxpayer. The disposal process can be long and complicated. For instance, it may involve transferring assets to another body before final sale or, as in the case of British Waterways, transferring them indefinitely to a charitable trust with arrangements to secure continuing benefits to taxpayers. However, we are concerned that departments are not following the whole asset disposal process through to ensure that best value is being realised from the sale or transfer of assets.

The Cabinet Office must set out in more detail what actions it is taking to ensure departments extract the best value for money from all asset disposals; and departments must provide clear information on the proceeds of asset sales arising from closures of bodies, including the gains and losses ultimately made, so that we and others can assess in a transparent way whether best value has been secured for the taxpayer.

4.1 The Government disagrees with the Committee's recommendation.

4.2 Clear guidance for Accounting Officers on securing best value for money on the sale / transfer of assets is already in place and the Cabinet Office should not duplicate this.

4.3 All central government bodies are required to comply with the Treasury guidance, *Managing Public Money* (MPM). Therefore, assets transferred between bodies as a result of the reorganisation programme will be subject to the same guidelines and Treasury oversight will be maintained. For example: the portfolio of land and property assets transferred from the Regional Development Agencies (RDAs) to the Homes and Communities Agency (HCA) will, after further investment over a 10-year period, be sold by the HCA at market value in line with the requirements of MPM. This 'stewardship' model was rigorously evaluated and shown to be the best on a value for money basis by the Department for Business Innovation and Skills (BIS) Accounting Officer before the transfer was agreed. In the small number of cases, where assets have transferred to local government, they have done so by means of sale at full market value.

4.4 Where assets transfer between bodies staff may transfer at the same time under Transfer of Undertakings Protection of Employment (TUPE) / Cabinet Office Statement of Practice (COSOP) arrangements. This preserves critical knowledge, providing further comfort that best value will be realised from the assets. 94 staff transferred from the RDAs to the HCA with the RDAs' land and property assets. Departments often maintain an interest in assets after they have transferred. BIS is represented on Stewardship Boards that oversee the development and sale of the former RDA assets by the HCA. Clear information on the proceeds of asset sales is published in the annual reports and accounts of public bodies. For example, the HCA will provide information on the proceeds of sales of former RDA assets in its accounts, allowing taxpayers to check that best value has been secured.

4.5 The Cabinet Office's implementation checklist clearly states that departments must seek best value for money in terms of existing contracts and managing assets across the Departments and public bodies. The Cabinet Office does not believe it is appropriate to duplicate existing processes and requirements that SROs must already follow when managing closures or mergers. However, in line with the Government's approach to all common issues faced by Departments, the Cabinet Office has

developed strong relationships with departments and ensures good practice, the correct guidance and support are shared with them as they deliver their reforms.

PAC CONCLUSION AND RECOMMENDATION 5

It is not clear how the Cabinet Office or others will be able to judge the overall effectiveness of the Programme. Departments have not set out how they will assess the effectiveness of changes made to their bodies and the ongoing effectiveness of services transferred to other organisations, including whether asserted benefits such as improved accountability to elected representatives are being achieved.

The Cabinet Office should develop and publish a clear set of measurable objectives against which it and others can assess the impact and effectiveness of the Programme, and of moving services to other organisations. It should incorporate those objectives into the evaluation criteria for its triennial reviews, so that changes made to individual bodies also have clearly defined objectives against which the actual impact of those changes can be assessed.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2012.

5.2 Work is already underway to identify all potential benefits arising from the reform programme, and the Cabinet Office plans to publish a benefits realisation framework which will enable departments to define, measure and optimise all forms of value created in a consistent and credible way. It will also mean that Departments can ensure that their own reforms are clearly aligned to the overall objectives of the reform programme and that individual reforms contribute to programme-wide benefits.

5.3 Where NDPBs have been retained and reformed through the Public Bodies Reform Programme, the Government believe that the triennial review process will be sufficiently comprehensive to ensure that the intended benefits of reforms are reflected in the review. When a Department undertakes a review of a particular NDPB, they will consider the full range of functions for which the body is responsible. In doing so, the Cabinet Office would expect Departments to consider whether any intended benefits had materialised, in the same way that future rounds of triennial reviews should consider the impact and implementation of recommendations made during the current round of triennial reviews. The Government therefore believes that the Committee's recommendation is already accounted for in the existing triennial review process, which itself contributes to the Government's overall benefits realisation work.

Seventy Ninth Report

HM Treasury (HMT)

Accountability for public money

Report Summary from the Committee

This report is a follow-up to the Committee's report on *Accountability for Public Money*¹ – an issue at the core of the relationship between Parliament and government. The Committee recognises that departments face a significant challenge in developing appropriate accountability arrangements for localised services. Accounting Officers remain accountable to Parliament for funds voted to their departments, but the policy intention is that local bodies will have significant discretion over the services they deliver. The Committee's previous report considered the implications of devolving greater responsibility and funding for public service delivery to local bodies, and set out the fundamental principles of accountability.

The Government's response was set out by Sir Bob Kerslake in *Accountability: Adapting to Decentralisation*². In this Report, Sir Bob drew a distinction between those services that government delivers directly and those that it may fund but are delivered in more decentralised arrangements. He proposed that Accounting Officers set out, in Accountability System Statements, the arrangements they have in place to provide assurance about the probity and value for money of funds spent through devolved systems.

So far, the Committee has seen draft System Statements from the Department for Communities and Local Government, the Home Office (for policing and crime reduction), the Department for Education and the Department of Health. All departments are expected to produce Statements by summer 2012. Departments have made a genuine effort to develop arrangements which reconcile accountability and localism but the Statements are unwieldy and considerably more needs to be done to improve their clarity, consistency and completeness. The Statements also show that, in general terms, Accounting Officers will rely on a mix of local accountability mechanisms, information systems, and inspection and oversight bodies to gain the necessary assurances. However, further definition is needed on how local accountability mechanisms will work in practice; the quality and breadth of the information available to support accountability frameworks; and the role, capacity and capability of oversight bodies.

The Committee is concerned that accountability frameworks must drive value for money and, critically, are sufficiently robust to address the operational or financial failure of service providers. Departments are placing increasing reliance on market mechanisms such as user choice to drive up performance and value for money, but there are limits to what these mechanisms can achieve. Departments must show how the different mechanisms they put in place will pull together to do this.

The Committee is pleased to note the constructive responses to its previous concerns, but these now need to be applied consistently by all departments. The Treasury needs to take ownership of the system as a whole and ensure that the Comptroller and Auditor General has the necessary powers and rights of access to examine the value for money of funds spent through devolved systems. The Committee will continue to pursue with individual departments how specific concerns are addressed in practice, and the Committee intends to revisit the government-wide issues next year.

The Committee took evidence from the Permanent Secretary of the Department for Communities and Local Government, who is also Head of the Home Civil Service, and from the Permanent Secretary of HM Treasury. The Committee also considered written evidence in the form of draft Accountability System Statements submitted by the Department for Communities and Local Government, the Department for Education and the Department of Health.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The overall approach to accountability for localised services lacks coherence and clarity. The arrangements the Government puts in place will enable Parliament to hold departments to account for their use of taxpayers' money. But discussions about the arrangements must be brought to a swift conclusion as devolved spending is already happening in many areas. Accountability System Statements have come some way to address the Committee's concerns, but they are all long and unwieldy. The Government, as a whole, needs to strike a better balance between leaving systems to the discretion of each Accounting Officer and driving a consistent approach that meets Parliamentary and other stakeholder concerns.

In order to achieve a greater level of consistency, particularly around how each system drives value for money, the Treasury should take the lead in preparing guidance on System Statements and, for cross-cutting programmes, monitoring how they work in practice. Guidance should require System Statements to set out funding and accountability flows for each spending stream, what datasets will support the system, failure and intervention regimes, whistleblowing arrangements and audit arrangements.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The Government agrees that Departmental Accounting Officers should continue to be accountable for the deployment of all the resources controlled by their Departments, including grants passed to local authorities and others at local level to further the Government's objectives. Parliament has a right to be satisfied that the monies it votes will be spent to the standards expected of the public sector. These include value for money. Achieving these standards is compatible with handing power back to communities. The Government is confident that its actions to strengthen local accountability will deliver more responsive services for users and better value for money for the taxpayer.

1.3 It must be for Departments to take the lead in demonstrating that they do achieve the necessary standards. The responsibilities of the Accounting Officer are, and should continue to be, personal obligations, because this is the most effective way that Parliament can hold Accounting Officers to account for the activities of their Departments. The Treasury cannot take the lead responsibility, because it would rob Accounting Officers, in the Departments concerned, of any ownership of the control and management issues. In those circumstances, Parliament would find that localised services were even harder to penetrate.

1.4 However, the Treasury agrees that it should take a lead in arranging for Departments to shoulder their responsibilities for localised services. This is exactly what happens for standards in public services generally. The Treasury publishes, and keeps in good order, guidance on this important subject in *Managing Public Money*⁵. As part of the current updating process, there is now a new section⁶ setting out in general terms how system statements should be put together. The Treasury plans to review this from time to time and to keep it up to date, reflecting best practice.

PAC CONCLUSION 2

Confidence in the success of localism will depend on having robust information flows which serve the needs of all stakeholders, including taxpayers. Effective accountability to government, to local communities and to service users requires carefully specified performance and management information prepared by service providers on a consistent basis to clear data standards which enables comparisons to be made. The Committee is concerned about the quality of data in government generally. The System Statements recognise the need for clear information, but do not specify what datasets are important or highlight how departments will identify and understand outliers in local performance.

⁵ http://www.hm-treasury.gov.uk/d/mpm_whole.pdf

⁶ http://www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

PAC RECOMENDATION 2

Departments need to develop specific data strategies to support their Accountability System Statements. These strategies should specify core datasets; they should have arrangements to quality-assure these data regularly to ensure integrity, relevance and comparability (including for local stakeholders); and, most importantly, each System Statement should explain how the department will use the data to monitor the overall performance of the system and when it will intervene.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The Government agrees that robust and accessible information, in particular for service users and taxpayers, is essential for effective accountability. That is why the Government has made transparency a priority opening up unprecedented amounts of public data to scrutiny including local and central government spending. The Government also remains committed to reducing bureaucratic burdens and monitoring on local government and front line services deliverers, for instance through the introduction of the Single Data List for local government.

2.3 Accounting Officers will want to consider whether they need a separate data strategy to underpin their System Statement or if it should cross refer to existing strategies and systems if they consider them to be sufficient. Whichever approach they take Accountability System Statements must be clear on the core data and information flows that the system it describes will rely on. An understanding of these core data requirements should be developed collaboratively with local service providers and users so as to meet the need for effective accountability locally and nationally.

2.4 The systems supporting these data flows should ensure that new data requirements can be identified and set in place when required, but such decisions will need to take full account of the burden they place on the front line in collection, and the potential for central monitoring to distort local behaviour and introduce inefficiencies.

2.5 Departments must be clear on what considerations will apply in deciding when they will intervene in response to, or to pre-empt, unacceptable local performance and the basis (for example: the legal powers) on which any intervention will take place. Accounting Officers will of course have to satisfy themselves that they will have the necessary information to identify such cases and to take robust decisions.

PAC CONCLUSION AND RECOMMENDATION 3

Local accountability mechanisms are immature and value for money may not be their most pressing concern. The Committee believes that local accountability can work, but further work is necessary to ensure that the mechanisms will work in practice – especially in sectors where local accountability is new and untested – and how effective they will be in driving value for money. For example, Ofsted focuses on the quality of teaching in schools, the Department for Education on schools' funding, and parents on outcomes: no-one focuses on value for money.

Much weight is placed on local bodies being better able to reflect local needs but much depends on their having appropriate skills and comparative information. There may also be cases where the interests of local delivery bodies conflict with the needs of service users, particularly for those with highly specialised needs, for example, in health or education. There is a lack of clarity about what happens in such circumstances, who is responsible and accountable, and how complaints will be resolved.

Departments need to demonstrate in their System Statements how local accountability mechanisms should work in practice, supported by clear terms of reference, a mandate to drive value for money, obligations in respect of information and transparency, clear arrangements for training and development of those involved and robust complaints processes.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

3.2 In developing draft Accountability System Statements departments have been clear that the systems they describe will evolve in response to practical experience and scrutiny from Parliament and the public. The government welcomes the Committee's highlighting of the progress that already has been made. It should also be recognised that in many cases reformed systems build on models, such as academy schools or NHS Foundation Trusts and in particular local government, which have been in place for a number of years.

3.3 The Government is committed to delivering good value for the taxpayer, and believes that strengthening local accountability for public services will achieve this. All public sector organisations have a duty to secure value for money. This has not changed. Local decision makers' need to balance competing pressures on limited resources and the interests of different groups has also not changed.

3.4 A more decentralised and open approach to public services will allow them to respond to these demands flexibly and in the way that best fits the needs and priorities of their users and local communities. However, this must be matched by effective local accountability mechanisms so decision makers are responsive and secure value for money. These may include mechanisms for users to seek redress in cases of underperformance. Setting out how these local systems work and how Department's will ensure that they are operating as expected is the core purpose of Accountability System Statements.

PAC CONCLUSION AND RECOMMENDATION 4

Greater confidence is needed in the capacity and skills of oversight bodies. Where decision making is devolved to the local level, to the bodies directly providing services, there needs to be a clear and appropriate structure for the regulation and review of the performance of those local delivery bodies. Most System Statements place reliance on oversight bodies – such as regulators, inspectors or funding bodies – to carry out this function, but their mandates are often unclear and their responsibilities are growing while funding is reducing. For instance, the Committee's recent review of the Care Quality Commission has shown that there is still a lot of work to be done to ensure that the body is fit for purpose.

Departments must ensure that each oversight body is given a clear mandate in respect of its responsibilities for localised services, including ensuring value for money, and that they are resourced appropriately. Accountability will ultimately remain with Accounting Officers and they will need to convince the Committee that value for money is being secured for public spending, wherever that spending takes place.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The Government agrees that where regulators or other oversight bodies are part of an accountability system their remit and how it fits into the wider system must be clear, and they must be properly resourced to perform their functions.

4.3 Not all regulators focus on value for money, for instance the Care Quality Commission rightly concentrates on standards of care; and Ofsted on academic attainment. Where this is the case there must be other elements that will ensure that the system delivers value for money. All public bodies have a duty to ensure that they secure value for money in their own activities.

4.4 The Government remains committed to the principle that accountability for public funds ultimately rests with the Accounting Officer. They will continue to need to be able to demonstrate that the system they are accountable for is operating effectively, secures value for money, and responds to unacceptable performance, but the mechanisms for securing these assurances will reflect the Government's policy to strengthen local accountability and reduce bureaucracy.

Eightieth Report

HM Treasury (HMT) and Cabinet Office

Cost reduction in central Government: summary of progress

Report Summary from the Committee

After the 2010 election, the incoming Government reduced Departments' budgets for the 2010-11 financial year by a total of £6 billion. Departments successfully lived within these reduced budgets in 2010-11 and reduced spending within their control by 2.3% in real terms compared to 2009-10. The Committee welcomes this successful implementation of policy. Most Departments now face a more significant challenge: to reduce spending by a further 19% over the next four years with the prospect of further savings being required thereafter.

The bulk of the spending reductions must be delivered by individual spending departments and their arm's length bodies. Departmental financial planning has not yet made it clear how these cost reductions will be achieved. Departments lack clear information on costs which, when coupled with the difficulty of linking inputs with outputs, raises the risk that future spending cuts may not maximise efficiency in delivery and may have a greater than intended impact on frontline services.

There is an essential role for the central Departments to lead a more structured cost reduction programme across Government, so that spending is reduced, as far as possible, by improving value for money, not cutting services. The Treasury and Cabinet Office do not yet have a firm enough grip on the cost reduction programme as a whole and need to set out exactly what they expect of Departments in planning for, and reporting on, cost reductions.

Accounting officers are responsible for achieving cost reductions while securing value for money. In the past, the failure to achieve value for money has had no apparent consequences for senior civil servants. Accounting officers must be held accountable for the successes and failures of their Departments not just to reduce spending in absolute terms, but to deliver more with less.

The Committee took evidence from the Cabinet Office and the Treasury on the basis of a Report by the Comptroller and Auditor General, on recent progress made with cost reduction by central Government Departments and planning for the current spending review period from 2010 to 2015.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

It is commendable that Departments delivered the spending reductions required in 2010-11. As their budgets were reduced after the start of the financial year, a 2.3% fall in spending in year one was a good start to making the reductions needed over this Parliament. The challenge set by the Spending Review that is facing most Departments, of reducing spending by 19% over the next four years, will be difficult to meet. Furthermore, the need for cost reductions will continue into the next Spending Review period extending the time over which savings will need to be found to at least eight years. Living through a longer period of austerity demands a radical approach by Departments.

An informed lead should be given by the centre if arbitrary cuts are to be avoided.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The primary purpose of the Efficiency and Reform Group (ERG) is to help departments to identify and deliver efficiency savings. ERG will continue to seek out areas for further efficiencies and develop reform programmes, including shared services, delivering services digitally or through mutual joint ventures.

PAC CONCLUSION AND RECOMMENDATION 2

Most Departments cannot link costs to outputs to identify the consequences of changes in spending. This lack of basic management information is a serious impediment to making sustainable cost reductions that minimise the impact on frontline services. An understanding of how spending relates to key outputs is a necessary prerequisite of good decision-making and is essential if Departments are to understand the impact of changes in spending.

The Committee expects Departments to have management information in place within a year that enables them to link costs to their key priority outputs, and to use that information to drive efficiency savings, where possible, before making cuts.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 As part of the Civil Service Reform Plan, the Government is committed to putting in place a robust cross-government management information system that enables departments to be held to account by their Boards, Parliament, the public and the centre of government by October 2012.

2.3 The Government recognises the benefit to be gained by departments using and regularly reporting good quality management information. The Cabinet Office and the Treasury will continue to engage with departments to identify further areas where efficiency savings can be made.

PAC CONCLUSION AND RECOMMENDATION 3

The Centre does not yet have a firm enough grip on departments' ability to make the cost reductions required, on understanding how these reductions will be achieved, and on monitoring the progress being made. Departments' plans are at different stages of development and key legislation required to make some financial savings is still under consideration.

Central coordination is required to identify and manage interdependencies between Departments' individual plans so that cuts in one Department do not lead to increases in spending in another Department. It is also important for the centre to monitor whether short-term cuts will not lead to increases in expenditure over time. Further, the centre must monitor Departmental performance if it is to identify outliers and instigate early remedial action.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The Chief Secretary to the Treasury announced new and tougher rules on spending control in April 2012. The *Improving Spending Control* document⁷ requires departments to monitor and manage information on spending more effectively and share that data with central departments and Parliament. The Treasury spending teams will use the information to monitor whether savings are being delivered on time; are sustainable; and if they would lead to higher spending elsewhere or in the future. The Chief Secretary reviews whether departments are on track to deliver their savings, and the top risks across public spending, on a monthly basis. Where he has concerns about a department's performance he will hold a bilateral with the relevant Secretary of State.

3.3 The Efficiency and Reform Group will offer relevant briefing on areas within the Cabinet Office's purview in advance of these bilaterals. Departments are expected to have identified 5% of their budget, which they could reprioritise to fund unforeseen pressures, and are expected to offset any costs to other departments from within their budgets.

⁷ http://www.hm-treasury.gov.uk/improving_spending_control.htm

3.4 The Quarterly Data Summaries (QDS) allow both the centre and Departments to assess operational performance including on efficiencies. The metrics and information contained in the QDS are being improved to generate a common set of consistent and comparable data across all Departments, and over time.

PAC CONCLUSION AND RECOMMENDATION 4

The Committee expects the Treasury and the Cabinet Office's Efficiency and Reform Group (ERG) to drive a structured cost reduction process across departments, not just to monitor piecemeal changes.

The Treasury and the ERG must develop an overarching strategic framework which sets out:

- ***specific actions and milestones for individual departmental strategies to allow the centre to assess progress and identify outliers;***
- ***how major legislation and policy developments impact on the programme;***
- ***how wider reforms such as those in the health, education and justice sectors will contribute to the delivery of real net savings by the end of the Spending Review period;***
- ***the high level risks and the key interdependencies between departments;***
- ***the impact of cuts in one department on other departments***
- ***the long-term effects of short-term decisions***
- ***how the centre will assess the capacity and capability of departments to deliver savings; and***
- ***contingency plans in the event that departments fail to deliver their targeted savings.***

4.1 The Government believes that the Committee's objectives are best achieved within the existing frameworks, and is strengthening these in specific areas.

Recommendation implemented

4.2 The Government has taken a strategic approach to cost reductions. The Spending Review considered how wider reforms would contribute to savings and efficiencies, with major reviews in a number of policy areas. Overarching strategic frameworks are already in place covering policy agenda (led by the Minister for Government Policy), and efficiency and reform (led by the Minister for the Cabinet Office and the Chief Secretary to the Treasury). Specific actions and milestones for reforms are set out in departmental business plans, and performance data is monitored through the QDS. However the Government is strengthening these frameworks in specific areas.

4.3 The Chief Secretary published the Improving Spending Control document to ensure a consistent and robust approach to spending control. As mentioned under Recommendation 3, this includes among other things a requirement that each department should have a 5% contingency. Under the new framework, the degree of central Treasury control will depend on performance, so that departments who demonstrate excellent financial management are rewarded with greater freedoms to manage their own resources.

4.4 ERG has in place a strategic framework to support departments in living within their budgets through measures including spending controls and assurance of major projects. As part of this work, ERG will shortly publish a shared services implementation plan. ERG and HMT have also begun a further programme of one-on-one engagement with departments on the Efficiency and Reform agenda, including joint meetings with individual Permanent Secretaries. Non-Executive Directors also have a significant role to play in good management within departments including strengthening

spending control through supporting and challenging the executive's decisions around the management of the department's business.

4.5 Sir Bob Kerslake has asked all Permanent Secretaries to include an objective for 2012-13 to 'secure the effective delivery of the agreed Efficiency and Reform action plan'. These plans set out the specific actions for each Permanent Secretary relating to policies collectively agreed by Ministers through the PEX(ER) committee. The action plans have now been issued to all Permanent Secretaries.

4.6 To reinforce this framework, the Minister for the Cabinet Office and Head of the Civil Service have agreed an additional mechanism for translating collectively agreed efficiency mandates into specific actions for each Permanent Secretary. These objectives will be published online.

4.7 The Permanent Secretaries Public Service Reform Group (chaired by Sir Bob Kerslake), meet to build the Government's understanding of the risks and impacts between departments ensuring support for the overall principles and approach and discussing cross-cutting issues.

4.8 The Government is committed to replacing existing capability reviews with departmental improvement plans⁸, which will be assessed annually and led by departmental boards, calling on other external advice. The plans will be based on performance, efficiency, innovation, capability, strategic risk, and change leadership. Assessments of performance will include progress, outcomes, and the ability to provide, and use, rigorous and accurate management information.

PAC CONCLUSION AND RECOMMENDATION 5

Accounting Officers are responsible for financial management and value for money in their Department, but there is no evidence that they suffer any consequences for failure in practice. The Treasury is accountable for delivering the overall cost reduction package and the ERG for ensuring cost savings are achieved through efficiency and reform measures, rather than arbitrary cuts. The Accounting Officer of each Department is responsible for delivering cost savings within their spending area.

Accounting Officers must be held accountable for achieving the required cost reductions and be rewarded for success or penalised for failure.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The Government remains committed to the principle that accountability for public funds ultimately rests with Accounting Officers. Each must be able to demonstrate that their organisation is operating effectively, secures value for money, and responds to unacceptable performance.

5.3 The existing model of Civil Service accountability, whereby civil servants are accountable to Ministers, who are in turn accountable to Parliament, is well established and underpins the effective working of Government. In future Accounting Officers will be required to sign off implementation plans for major projects throughout the development and delivery of a project.

5.4 Following publication of the Government white paper *Civil Service Reform Plan*⁹, the SCS appraisal system will identify the bottom 10% of performers, who will undergo performance monitoring and improvement planning. With shorter time frames and clearer guidance, this will enable poor performance to be tackled more quickly and effectively. For any staff remaining in the bottom 10%, without improvement and still not meeting the required standards, a decision will then be taken over whether they should leave the organisation. The same model will be used across the Civil Service.

⁸ <http://www.civilservice.gov.uk/reform>

⁹ <http://www.civilservice.gov.uk/reform>

PAC CONCLUSION AND RECOMMENDATION 6

It is not enough to deliver the required spending reductions by cutting annual budgets in real terms without considering the impact on services. The cash savings that have been achieved in the first year are commendable, but they are only a first step.

Departments' performance reports must distinguish between what has been saved through efficiencies and reducing waste, and which services have been affected. These statements must be capable of withstanding robust scrutiny.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

6.2 The Government recognises the importance of the principles of tracking performance and services. Departments performance reports should be clear on what savings have been made. They should set out clearly their desired outcomes and progress against this. Although Government would like to understand better the links between inputs and outcomes, in many instances, the data or evaluation evidence to draw strong conclusions, is not available. By keeping track of outcomes, any positive or negative impact on services can be seen, but this is not directly attributable to the spending reductions made.

PAC CONCLUSION AND RECOMMENDATION 7

There is tension between the drive for efficiency savings and the localism agenda that results in a lack of clarity about the best procurement route. The centre can contribute to cost reduction by making economies of scale through coordinating activities, for example in procurement. There needs to be greater clarity and transparency on where localism will prevail and where Government will seek economies of scale through centralised activity. The Cabinet Office is centralising procurement of common items while localising commissioning of local services. There is still a gap, which could impact on value for money.

For example, high-value medical equipment and PFI schemes will continue to be procured locally although the Committee's reports demonstrate that better value could be secured by a more centralised approach. In the Committee's recent report on the Efficiency and Reform Group, the Committee stresses the need for the Cabinet Office to lead procurement across the public sector to maximise public sector purchasing power.

The centre should have the option of mandating actions to secure best value.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

7.2 In March 2011, the Cabinet Office launched *Government Procurement* and mandated a new centralised procurement model for Central Government Departments. Departments are now mandated to buy their common goods and services through a suite of centralised commercial deals.

7.3 Last year, through the centralised procurement model, the Cabinet Office reported 2010-11 savings of £360 million and expects to exceed that total when it reports its 2011-12 savings. The Cabinet Office has also mandated the use of LEAN procurement techniques across Government. Central Government Departments should now complete all but the most complex of procurements within 120 days.

7.4 Whilst the Cabinet Office has no authority to mandate the actions of wider public sector organisations, Government Procurement Service (Government's buying organisation putting in place the new centralised deals) channel around £5bn of their spend through their organisation.

Eighty First Report

HM Treasury (HMT)

Equity investment in privately financed projects

Report Summary from the Committee

The Private Finance Initiative (PFI) model has been used by governments in some 700 projects over the last 20 years. Under the present Government, contracts for 41 projects have been concluded and over 30 projects are currently being negotiated. This Committee has often reported on defects in the PFI model, including failures to demonstrate the value for money case satisfactorily, the use of long inflexible contracts and the costly contracting process. The increased costs of using private debt finance since the global financial crisis and now further evidence of inefficient pricing of equity have made continuing with the current model unsustainable.

The Treasury has recognised that the time has come for a radical rethink and is currently reviewing the PFI model. It needs to address the intrinsic flaws in the current model by improving flexibility in the way that private finance is used, establishing quicker and more efficient procurement procedures and achieving a better balance between investors' risks and their rewards.

It is essential that the case for using private finance, in whatever form, is properly tested at the outset. Private finance should only be used where it secures real value for money for the taxpayer, not because of definitional statistical incentives to use it to get projects done. Such incentives persist because, despite recent changes to accounting rules which require most PFI projects to be accounted for on departments' balance sheets, under separate European statistical rules PFI is still rarely scored against scarce departmental budgets. So at a time of public expenditure constraints incentives still exist to use PFI models to provide public assets and services. Only some 20% of long term PFI liabilities are recorded as debt in the national accounts.

Business cases must be an unbiased assessment of the best form of procurement for the particular project being undertaken, taking account of expected tax receipts from alternative options and not adjusting assumptions to bias the outcome of the assessment. Where private finance is to be used business cases should be clear on the reasons for doing so and why the particular form of private finance proposed is better than alternatives. This requires much broader thinking about the ways of using private finance than the previous focus on a standard PFI model. For example, it is not clear that committing to 30 year service contracts at the outset is sensible if this locks authorities into inflexible prices which can only be reduced by service cuts or services that are required today but will cease to be a priority in future years.

The Treasury needs to collect data on investors' experiences and use this information to assess and challenge investors' returns which in many cases appear difficult to justify. There needs to be greater transparency over the pricing of contracts to clearly demonstrate that the rewards to those providing finance are in line with the risks they bear. Inefficiencies which add to the cost of private deals, such as long procurement times, need to be addressed.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Treasury and parties involved in investing in and analysing the PFI market on the risks and rewards for private equity investors in government private finance projects.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee's past reports on the use of the PFI model have often criticised the value for money case, the inflexibility of the contracts and the costly procurement process. In December 2010, the Committee reported on the increased costs of using private debt finance since the global financial crisis which have made it difficult to sustain a value for money case for using PFI. In that report the Committee also expressed concern on whether investors were systematically realising gains on share sales.

1.1 The Government welcomes the Committee's report and its findings.

PAC CONCLUSION AND RECOMMENDATION 2 and 3

2. The excessively high returns being made by private investors in PFI projects are further evidence that the previous emphasis on using PFI is inappropriate for the future. For many years most public sector infrastructure projects have been undertaken using the standard PFI model as the funding involved does not count as part of national debt or a public authority's capital budget. This has incentivised authorities to treat a typical 30 year PFI deal (including bundled services) as the only feasible procurement route for a new project and very few conventionally procured projects are now undertaken which could provide comparators.

To correct the previous emphasis in using PFI, the Treasury should ensure that all new business cases:

- *demonstrate whether private finance is being used because it is better than a conventional procurement and not because it is the only financing alternative;*
- *in cases using private finance, demonstrate that the particular method proposed is optimal; and*
- *take account of tax issues in the comparison between PFI and other procurement options, based on actual tax experience in past projects.*

3. The Treasury should also undertake regular reviews to ensure that the standard of business cases is satisfactory and those assumptions, for example on the benefits of risk transfer, are robust and empirically based.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Sponsoring departments of PFI projects that exceed delegated limits are required to submit for Treasury approval business cases that demonstrate better value for money from using private finance over conventional procurement and that take account of tax issues in the comparison between PFI and conventional procurement.

2.3 The Treasury will update the current value for money guidance used by project authorities in the preparation of their business cases once decisions have been taken on reforms to the PFI model to be implemented for future projects.

PAC CONCLUSION 4

There is restricted access to data and insufficient transparency over the amounts the public sector pays for equity and the returns that investors make. The lack of full transparency on financial performance and returns to investors has hampered proper evaluation. Public confidence in privately financed projects has been eroded by a perception that PFI deals are expensive with high returns to investors. Building public trust is essential to any future procurement model that relies on private finance. Contracts should set out the levels of on-going disclosure required from investors to enable full evaluation of all costs and benefits of privately financed schemes.

PAC RECOMMENDATION 4

The Treasury and Cabinet Office must also reconsider how private companies providing public services, whether or not in the form of PFI, can be bound by the provisions of the Freedom of Information Act.

- 4.1 The Government disagrees with the Committee's recommendation.
- 4.2 The Government is committed to increasing transparency and accountability in its spending and in its procurement processes.
- 4.3 The Freedom of Information Act (FOIA) provides an exemption for information if any harm would, or would be likely to; arise from its disclosure, to the commercial interests of any person including the public authority holding it. This is subject to a public interest test. Where a member of the public considers that information has been withheld inappropriately, those decisions may be challenged to the Information Commissioner and beyond. It is not for the Treasury, but for case law and the Information Commissioner, to interpret the intention of the FOIA in respect of the exemption for commercial interests.

PAC CONCLUSION AND RECOMMENDATION 5

Not all services included in PFI contracts need to be priced at the outset, and some could be the subject of a separate contract. PFI contracts for constructing assets have typically included a range of services, at a contracted price, for periods of around 30 years. Fixing the service provision in this way has limited public authorities' recent attempts to make operational savings.

The Treasury should consider, separately, the procurement process for building the asset from that for providing a service to ensure that operation and maintenance services are based on actual requirements.

- 5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

- 5.2 As part of the ongoing reform of PFI, the Treasury is considering a range of issues to support the development of new delivery models that are cheaper, access a wider range of private sector financing sources, and strike a better balance of risk between the private and the public sectors. This includes the consideration of separating the procurement of operational and 'soft' maintenance services from the procurement of the asset and of 'hard' and 'lifecycle' maintenance.

PAC CONCLUSION 6

The PFI procurement process takes too long, costs too much and restricts the market. The time and cost involved do not serve investors or taxpayers well. The scale of procurement costs constitutes a barrier to market entry for financial investors such as pension funds and smaller contractors. Successful bidders recover their procurement costs in the contract price which means the taxpayers foot the bill. Those negotiating contracts for the public sector too often lack the appropriate commercial and financial skills. The growing emphasis on localism makes this skills problem worse as all too often inexperienced local bodies undertake complex negotiations with experienced private sector counterparts.

The Treasury, in consultation with investors, should identify and address the sources of cost and delay in the procurement process. The Treasury should consider whether best value would be secured by greater centralization of the procurement of PFI projects.

- 6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 Through a call for evidence conducted on PFI reform, the Treasury has sought stakeholder input on options for streamlining the standard PFI procurement process and reducing costs, while meeting wider objectives for effective competition, accessing bidder innovation, and maintaining a robust contractual framework. The options under consideration include the potential for greater centralisation of the procurement process, as is being adopted for the Department for Education's Priority Schools Building Programme. Potential benefits of this approach need to be weighed against alternative options that enable local project authorities to tailor and manage a procurement locally to deliver local requirements.

PAC CONCLUSION AND RECOMMENDATION 7

Competition in the procurement of privately financed projects is limited and has not been a guarantee of value for money. The financial resources needed to bid for PFI contracts have restricted the number of companies bidding for contracts thereby limiting any competition. As the pricing of equity in PFI contract appears higher than the risks would justify, there is no assurance that competitive bidding on its own will lead to effective market pricing.

The Treasury needs to analyse the working of the private finance market, including the returns for investors, to demonstrate how any new approach will address these current inefficiencies and hence poor value.

7.1 The Government disagrees with the Committee's recommendation.

7.2 The Treasury disagrees that competition for PFI projects has been limited and has not offered value for money. The Treasury's engagement with Departments and with private sector investors has provided evidence of competition. A value for money case was required to be confirmed for each project as part of the original procurement.

7.3 The Treasury has undertaken a review of the market for equity investment in PFI projects, including historic returns to investors and their drivers. The findings of this review have been considered as part of the ongoing reform of PFI. In the call for evidence document on PFI reform ("*Reform of the Private Finance Initiative*", December 2011), the Treasury set out its aim of accessing a wider range of financing sources for future projects, including encouraging a stronger role to be played by pension fund investment.

PAC CONCLUSION AND RECOMMENDATION 8

There is evidence from the amounts being realised by investors selling shares in PFI projects of excess profits being built into the initial pricing of contracts. The low risks associated with government contracts are not fully reflected in the pricing of PFI contracts. Project cash flow to meet bank requirements also appear to over-compensate investors.

The Department should instruct departments to require investors to demonstrate that their pricing of equity is appropriate. The Department should introduce standard contractual arrangements to recover excess cash left after contractors have met bank requirements; and share in other investor returns above defined levels.

8.1 The Government disagrees with the Committee's recommendation.

8.2 The Treasury disagrees that the returns being generated by investors from sales of PFI equity are conclusive evidence of excess profits being built into the initial pricing of contracts. Significant uplifts in base case equity returns have been achieved by investors largely as a result of strong demand for investment in operational PFI projects in the secondary market compared with the primary phase (encompassing the bid development, contract award and project construction periods).

8.3 As part of the reform of PFI, the Treasury has sought input from stakeholders on options for capping or sharing in investor returns, or otherwise regulating the returns to equity. In considering the options for regulation of equity returns, the impacts for potentially reduced investor appetite, and the likely effectiveness of implementation, monitoring and enforcement need to be taken into account.

Eighty Third Report

Department for Work and Pensions (DWP)

Child Maintenance and Enforcement Commission: cost reductions

Report Summary from the Committee

The role of the Child Maintenance and Enforcement Commission (the Commission) is to support separated families and secure maintenance payments for children affected by separation. Around half of all children in the UK from separated families are being brought up in poverty. In 2010-11 the Commission collected and transferred £1.1 billion to parents caring for more than 880,000 children.

The Committee was encouraged that the new management at the Commission say they recognise the problems they face and have started to address them. Nevertheless significant, all too familiar and recurring challenges remain: parents are frustrated with the standard of support received from the Commission, and too often fail to get any or the right amount of maintenance from non-residential parents; maintenance payments totalling some £3.7 billion are outstanding, but the Commission estimates that only £1 billion of this is collectable; and costs remain high.

These continuing problems are difficult to tackle, yet the Commission faces further significant challenges in introducing its new child maintenance scheme. In particular, it will need to respond to substantial cost reductions and successfully implement a new system of charging fees to parents who choose to use the Commission's services. The Commission needs to deliver acceptable standards of service at a reasonable cost. The new child maintenance scheme should improve efficiency, but further changes are needed to streamline existing processes. Better management information is also required to identify areas for further cost reductions.

The Commission has to deliver cost reductions of £117 million by 2014-15 and its plans are currently £16 million short of this target. Its cost reduction plans depend in part on a new IT system which is already late. To meet the current timetable critical testing will have to be undertaken in parallel with development work, mirroring poor practices that have contributed to the failure of a number of government IT projects. Each month of delay will increase the Commission's costs by at least £3 million and may delay planned income from fees. Unless the Commission delivers further efficiencies it will not have the contingency needed to delay implementing the system until it works.

The Commission's cost reduction plans are high risk in that they rely heavily on the introduction of fees on parents rather than achieving genuine savings. Forecasting how parents will react to fees is difficult. Whilst ensuring parents accept proper responsibility for the cost of care for their children is important, it would be unfortunate if an unintended consequence of this initiative was more child poverty with extra costs to the taxpayer. Parents lack confidence in the system, and the Commission needs to demonstrate that it has a service which is worth paying fees for.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Work and Pensions and the Child Maintenance and Enforcement Commission on its cost reduction plans.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Commission has made genuine progress over recent years in some areas. More money than ever before is going to children, backlogs are being reduced, the service is faster, and a higher proportion of non-resident parents pay some child maintenance. Nevertheless, the Commission still faces serious challenges in its goal of supporting separated families and securing maintenance payments for children affected by separation.

The Committee has set out below the principal concerns that it expects the new management to address.

1.1 The Government welcomes the Committee's report and its findings.

1.2 The Government recognises that there is still much to do to deliver a service for children and their parents that they can rely on, while also giving value for money for the taxpayer. The Government has launched a reform programme that places positive outcomes for families and children at its heart and wants parents to come to collaborative family-based arrangements, wherever possible, as these are generally better for children. The Government remains committed to providing a statutory child maintenance scheme for those people for whom family-based arrangements are not appropriate.

PAC CONCLUSION AND RECOMMENDATION 2

Outstanding payments total some £3.7 billion, but the Commission considers that only £1 billion of this is 'collectable' and that less than half of that can be collected cost-effectively. The Commission and the Department must recognise that around a half of these amounts are due to parents with care to support their children, not just due to the Commission. Parents with responsibilities for care expect to receive the child maintenance owed to them to support their children and the Commission must keep them informed of progress in collecting their arrears.

The Commission should identify the cost-effectiveness of different debt collection methods and set out a clear plan of what it expects to recover. It should also assess the arrears owing for each case and notify parents of what action it plans to take to recover the sums owing to them. It should tell customers of any debt it believes is too costly to pursue rather than leave parents in limbo.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Plans in place by end of 2012. Implementation to commence 2013.

2.2 The Commission is determined to get to grips with the £3.7 billion debt, which has accumulated over 19 years. It is not correct to say that £2.7 billion which is deemed not to be collectable has been written off. The Commission is already chasing collectable debt more aggressively – for example: through more effective use of existing enforcement powers and through tackling more rapidly those non-resident parents who miss a child maintenance payment. The Commission also has a range of activities designed to pursue arrears on child maintenance cases, which have not been pursued in recent years.

2.3 The Commission welcomes the Committee's recommendation that it should inform clients where debt is too costly to pursue. It is undertaking a trial, with a small number of clients, in which the Commission will be transparent about arrears that remain outstanding, and that are not currently collectable. This is one of the recommendations set out in a report¹⁰ by an independent panel of financial services sector experts, who were tasked specifically by the Secretary of State to consider the total level of child maintenance arrears outstanding and how they could be most effectively addressed. Based on the panel's report, the Commission has examined using new debt collection models to assist in prioritising cases for debt collection. The Commission is also investigating how best to work with commercial partners and use its experience of using debt collection agencies.

2.4 The Commission intends to bring forward a child maintenance arrears strategy later in 2012, which will set out how much it expects to collect and how. The Commission's overriding priority within any such strategy is the collection of arrears of maintenance owed to children, and where parents therefore remain financially responsible for them. The collection of arrears in older cases (where the children in those cases are now adults) will be treated with less priority.

¹⁰ <http://www.childmaintenance.org/en/pdf/advisory-panel-arrears-sep-11.pdf>

PAC CONCLUSION AND RECOMMENDATION 3

A successful fee regime will depend on the Commission being able to deliver reasonable standards of service. Aspects of the service offered to parents remain unacceptable. Maintenance payments change without explanation and parents are frustrated with the lack of communication. The introduction of fees may encourage parents to reach their own agreement and speed up the process for those who use the statutory scheme. But trust in the service must be restored or some customers may see little point in paying fees for a service which has failed them in the past. The risk is that parents who cannot agree private arrangements and do not trust the statutory system are left without effective child maintenance arrangements and that could impact on child poverty.

The Commission should work with stakeholders to monitor whether more separated families agree their own arrangements and understand any service-related reasons for lower than expected applications to the new child maintenance scheme. The first monitoring report should be carried out six months after the introduction of fees.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: A full evaluation of the new statutory service and charging will be conducted 30 months after the introduction of charging, which is expected around summer 2013.

3.2 The desire to provide the best possible service to separated and separating parents lies behind the Government's investment of £20 million in coordinating support to provide them with help for the range of issues they face at separation.

3.3 The new statutory scheme will:

- improve the way child maintenance is calculated by taking information directly from HM Revenue and Customs (HMRC);
- be a faster and simpler way of working out maintenance;
- be a more transparent assessment process;
- be a facility for clients to manage their cases online, making it more user-friendly; and
- be a more effective enforcement regime.

3.4 The Government announced, during the passage of the Welfare Reform Bill, that the level of the application charge would be £20 instead of the £100 originally proposed. The £20 will not just enable a child maintenance calculation to be made, but create an actual child maintenance liability for the non-resident parent, based on the latest information from HMRC, which the non-resident parent will then be required to pay through maintenance direct or the collection service.

3.5 Although it is difficult accurately to predict parent behaviour, the Department will work closely with all stakeholders to monitor the impact of the reforms. The Department will closely monitor changes in the number and mix of applications to the statutory scheme following its planned introduction from October 2012. It will also monitor parents' service level experiences of the new service through on-going customer satisfaction surveys. From the time of the introduction of charging in 2013, all potential applicants to the new scheme will first pass through a gateway conversation, which will help them to explore whether a family-based arrangement might be more appropriate. The number and type of arrangements that gateway callers put in place will also be monitored through an ongoing quarterly survey.

3.6 The Department believes six months is too short a period to conduct a full evaluation of the impact of charging as new patterns of parental behaviour are unlikely to have been established. In addition, the process of closing in excess of one million former Child Support Agency (CSA) cases will have just begun. For these reasons, a full evaluation of the new statutory service and charging will be conducted after 30 months, as announced to Parliament during the passage of the Welfare Reform Bill. The review will make use of information from the sources already described, plus other

information including from longitudinal surveys of former CSA clients and relevant surveys of the wider separated population to determine what arrangements they are putting in place.

PAC CONCLUSION AND RECOMMENDATION 4

The Commission's plans to deliver £117 million of cost reductions by 2014-15 are high risk. There is a £16 million funding gap for 2014-15 which could widen by some £3 million for every month the new IT system is delayed. A further shortfall of up to £30 million could arise in 2014-15 if projected fee income does not materialise. The Commission is reviewing its spending to identify alternative reductions that can be made to build a buffer of up to £30 million to use if needed.

The Commission needs to identify further savings to create a greater contingency and meet any further shortfall in planned cost reductions without affecting services.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2012, as one element of a broad-based review of the Commission's business case. The identification of further savings will however remain a continuing focus for the Commission as its change programme is implemented.

4.2 The Commission's business case is not over-reliant on fee income. Around 65% (£151 million) of the projected savings to be achieved in the final year of the 2010 spending review period will be generated by operational efficiencies from the new system and from policy changes, as well as the Commission's continuing focus on cost reduction. £49 million has already been delivered, and a further £86 million of savings have been identified in current plans in place. The remaining £16 million referred to as a 'funding gap' will subsequently be met by introducing further efficiencies into non-operational functions as the Commission moves towards integration with the Department, by reducing the growth in off-system, (also known as "clerical") cases and by restricting pay growth across the Commission.

4.3 It does not automatically follow that a reduction in fee income produces a shortfall in the Commission's net costs. Fee income is generated by charging separated parents, who do not have payment arrangements between themselves, for using the Government's collection service. If fee income reduces because the numbers of parents using the statutory scheme reduce, then the Commission will reduce its cost base to a level that matches that lower volume of usage by parents. In addition, by reviewing all of its central costs, the Commission is ensuring that it is resilient to future cost pressures should fee income be less than expected. Savings will be generated through efficiencies from the introduction of the new child maintenance scheme, which in turn will allow the closure of largely clerically based cases and a range of operational efficiency savings.

4.4 The Commission has already begun to generate other efficiency savings to create contingency through reducing staffing levels at the corporate centre, putting in defined plans to rationalise its estate and by renegotiating ongoing contracts.

PAC CONCLUSION AND RECOMMENDATION 5

The Commission is relying on the implementation of a new IT system to improve the service to parents and reduce its costs. The Commission's new IT system is running more than two years behind schedule. In 2011 it strengthened its IT project management and governance, but risks remain and the Commission simply cannot afford for implementation to go wrong. To meet the planned implementation date testing will now have to be undertaken in parallel with development. This mirrors poor practice that has contributed to the failure of a number of Government IT projects.

The Commission must ensure testing is completed satisfactorily before the system is implemented.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2012

5.2 The new more efficient statutory scheme and IT system, which is there as a backstop for parents who are unable to make their own family-based arrangements, is a fundamental component of the programme for implementing the Government's agenda for supporting children and families as well as delivering value for the taxpayer. The original 2010 launch date for the new IT system had been set as the then Government aspiration even before the Commission was in place and detailed planning had been undertaken.

5.3 The Commission has been reducing its costs while continuing to improve its service to parents in recent years. However, its effectiveness and efficiency will be further improved with the introduction of the new IT system.

5.4 It was not the Commission's intention to run development and testing of the new IT system in parallel. Most of the development had already taken place before this testing began. Further development work was required to implement changes and acceptance testing continued alongside this work. This is not without its risks. However, the Commission will take a lower risk approach to the new system, unlike the previous system, and will not launch the new scheme until the new IT systems have been thoroughly tested. Moreover, the Commission will use a pathfinder approach to introduce the new scheme gradually.

5.5 The Commission will closely manage the IT programme to time, cost and quality, and focus on achieving the late 2012 launch date. In summary, the key priority is the safe launch of a service that works well for the benefit of children, parents, society and the taxpayer.

PAC CONCLUSION AND RECOMMENDATION 6

There is significant scope to improve the efficiency of the Commission's services. The new child maintenance system should improve efficiency, but further changes are needed to streamline existing processes. Decisions on policy and administrative changes must be based on accurate information, but the Commission has misrepresented the cost of a typical case. The Commission must ensure its new IT system is capable of providing the right management information to help identify areas for further cost reductions.

The Commission must develop robust productivity measures and draw on good practices from elsewhere to implement efficiency improvements. It must also benchmark value for money and cost per case between its offices and should publish this data quarterly to drive improvement and rebuild confidence in the service.

6.1 The Government disagrees with the Committee's recommendation.

6.2 Efficiency improvement is and will remain a priority for the management of the Commission's operational business. Increases in the number of children benefiting and the amount of money collected or arranged over the past five years have taken place at the same time as the cost of running the statutory schemes has reduced in both real and cash terms. However, the Government recognises that the current child maintenance system is not efficient and that there is significant scope to continue to improve the efficiency of the Commission's services.

6.3 Although the overall average annual cost per case is £350 for cases managed on the main systems, there are some CSA cases which require significant effort to keep payments flowing. For example, one estimate suggests that a case which is compliant most of the time but requires such significant intervention could cost up to £25,000 in terms of staff time spent on managing it, if measured over the theoretical maximum life of a case from the child's birth until adulthood.

6.4 Progress in getting better management information is being made. The introduction of the first phase of the new data warehouse, in October 2012, will enable the Commission to capture information in a much more coherent way, and bring improvements to the reliability of productivity data. This will be further enhanced once the new scheme has gone live, enabling the generation of far richer, real time information, which in turn will enable the Commission to internally benchmark operational performance between sites and teams.

6.5 The Commission has also discussed with Jobcentre Plus taking the learning from their continuous improvement activity (Active Operations Management) and identifying the benefits from applying it to the Commission's operations.

PAC CONCLUSION AND RECOMMENDATION 7

The Commission should plan to access all information on income when assessing how much maintenance non-resident parents should pay. In the new system maintenance calculations for non-resident parents will be based on taxable earned income for PAYE taxpayers and total taxable profits for the self-employed. But some self-employed parents may minimise their child maintenance obligations by taking dividends instead of salaries; and some PAYE taxpayers may not declare all sources of income to the Commission. Relying solely on parents with care to identify such practices by the non-residential parent to ensure all significant taxable income is taken into account is unreasonable when taxpayer data are available to the Commission.

The Commission should access all data on all taxable income sources, such as capital gains and dividends, to calculate the maintenance due, not just PAYE information. Where self-assessment data is not filed until later, the Commission should reassess the maintenance due as part of the next annual review.

7.1 The Government disagrees with the Committee's recommendation.

7.2 The new statutory scheme of child maintenance will be fair and transparent when arriving at a maintenance liability. To achieve this, maintenance calculations will be based on a non-resident parent's gross taxable income or profits, which has been supplied, in the main, to HMRC through Pay As You Earn (PAYE) (for employed people) or self-assessment return (mainly for self-employed people and those with complex tax affairs). Some non-resident parents may pay tax through PAYE and also be required to complete a self assessment form. In these cases, the Commission will wait until a self assessment return has been made and will draw 'earned income' information from that to ensure it has a full picture of a non-resident parent's earnings.

7.3 Maintenance liabilities will be reviewed on an annual basis and will be based on income from the latest available tax year. If a non-resident parent has current income that is 25% different from the figure held by HMRC, then the maintenance liability will be based on that. Self-employed non-resident parents will be expected to produce evidence of a 25% difference from the HMRC figure over a complete tax year, which is more recent than the information held by HMRC. This will ensure that maintenance liabilities will not be disrupted by small changes in income, but will reflect a non-resident parent's ability to pay, and will allow parents to plan ahead and budget with more confidence.

7.4 The maintenance calculation will be based on taxable 'earned income', as this is the only income type which is included in both PAYE and self assessment returns. Taxable 'earned income' includes income from employment or from occupational or personal pension types. For self-employed non-resident parents their total taxable profits will be considered as their 'earned income'.

7.5 It was considered whether the maintenance calculation should be based on a broader definition of income, which would capture income types beyond 'earned income'. However, this was decided against because it would introduce differential treatment of non-resident parents. Taxpayers completing a self-assessment tax return would have all of their taxable income taken into account when calculating their liability whereas taxpayers who are taxed via PAYE and at source on their savings, who may well have significant "unearned income" would not have all their income taken into account. The Commission would not have details of their income from investments included in the return from HMRC.

7.6 If a parent with care believes a non-resident parent has significant taxable 'unearned income', which could include income from savings, investments and property, then they will be able to make an application for a 'variation'. It seems more equitable to give all parents better access to the variation regime than to have some who benefit automatically from "unearned income" and others who do not. To ensure the Commission takes advantage of the wide range of income available to it through HMRC, parents with care will not be expected to provide a burdensome amount of evidence to have a variation application taken forward. This approach will also apply when income information is not held

by HMRC because tax is paid at source, for example, on savings and investments at a bank or building society. A variation may also capture dividend income, which legally is a type of investment income as it is a return on a share holding rather than remuneration for work done.

7.7 There is a larger lead time between the end of a tax year and self assessment data becoming available to the Commission than there is for income information captured through PAYE. This is because non-resident parents whose income or profits are reported through a self assessment form require time after the completion of a tax year (up to the following January) to assess their affairs and fill in the form. Income information from the form will become available to the Commission shortly after the self assessment has been submitted and can then be picked up after an application to the new statutory scheme or an annual review.

7.8 The timing of an application to the Commission and the status of a non-resident parent's self-assessment form may result in a previous tax year being used for the first maintenance calculation. The calculation may be changed if a parent has evidence of a later, complete tax year which is 25% different to the figure held by HMRC. If not, the income figure will be captured in the next annual review.

Eighty Fourth Report

Department for Business, Innovation and Skills (BIS)

Adult Apprenticeships

Report Summary from the Committee

The successful Apprenticeship Programme (the Programme) involves work-related training for full-time employees in England. The Department for Business, Innovation and Skills (the Department), which has responsibility for adult apprenticeships (ages 19 and over), works with its partners, the Skills Funding Agency (the Agency) and the National Apprenticeship Service (the Service), to deliver the Programme. Adult apprentices represented 325,500, or 71%, of the 457,200 apprentices who started their apprenticeship in the 2010-11 academic year. During the 2010-11 financial year the Department spent £451 million on adult apprenticeships.

The Programme has been a success: the Department and its partners have more than quadrupled the number of adult apprenticeships in the four years to 2010-11 and the proportion of adult apprentices successfully completing their apprenticeship has also risen, from around a third in 2004/05 to over three-quarters in 2010-11.

The NAO found that completed apprenticeships were associated with economic benefits of around £18 per £1 of public funding; although these estimates did not take into account the extent to which employers would have paid for training in the absence of public funding because the Department had yet to make such an assessment.

While the Committee commends the leadership provided by the Service and recognise the successes of the Programme, further work needs to be done to maximise its impacts. The Department should improve its understanding of which apprenticeships offer the biggest returns. The Service should give both employers and individuals better information about the benefits arising from different types of apprenticeship, as well as about the quality of the many training providers. The Service should do more to increase the number of employers offering apprenticeships, and to increase the proportion of advanced skill level apprenticeships achieved, moving England closer to the levels delivered in other European countries.

Importantly, around one in five apprenticeships lasted for six months or less. The service accepts the Committee's concern that apprenticeships lasting for such a short period are of no proper benefit to either individuals or employers. The service says it is tackling the problem but it needs to do more to guarantee the length and quality of training - especially the off-the job training apprentices receive.

The Service and the Agency also need to develop a proper understanding of the cost of delivering apprenticeship training. At present, they do not know whether they are paying too much for some apprenticeships.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Business, Innovation and Skills, the Skills Funding Agency and the National Apprenticeship Service.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee recognises the significant achievement of the Department and its partners in raising both the number of adult apprentices and the percentage who successfully complete their apprenticeship. The number of adult apprenticeships rose to 325,500 in 2010-11 compared with 79,000 in 2006-07, while the proportion of adult apprentices who successfully completed their apprenticeship rose to 78% in 2010/11, compared with just 34% six years before.

- 1.1 The Government welcomes the Committee's report and its findings.

PAC CONCLUSION AND RECOMMENDATION 2

The Programme is estimated by the National Audit Office (NAO) to deliver a positive economic return of £18 for each £1 spent, but to improve its targeting of resources the Department needs a better understanding of which apprenticeship in which sectors deliver the greatest value for money. Without better data on the impacts of apprenticeships in different employer sectors, the department is not well-placed to target its efforts where it might have the best impact. Moreover, estimates of economic returns do not include an assessment of additionality the extent to which public funding results in training that would not have happened in its absence. To the extent that employers would have paid for training anyway, the estimates of returns on public investment would have to be reduced in step.

The Department should carry out research during 2012 into the impacts of apprenticeships in different sectors including estimates of additionality, and use this information to better direct its efforts and improve the financial return of the Programme to the economy.

- 2.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: 2012.

2.2 The Government announced, in November 2011, that in future the National Apprenticeships Service (NAS) would target the programme on areas that have been demonstrated to have the greatest economic return, including younger learners, higher level qualifications, and some sectors. These steps are being taken in the context of a demand led programme, where ultimately only employers can create apprenticeship jobs.

2.3 In May 2012, the Department published two evaluation surveys¹¹ – of learners and employers – which provide insights into the benefits they report from the programme, and how these vary by sector. Case study evidence¹², published at the same time, also highlights the very different character of apprenticeships in different sectors and the variety of aims they serve for employers. A number of factors including apprentice age, prior learning, delivery models and level of qualification will influence returns and wider benefits in individual cases. Further work on the economic returns to apprenticeships in different sectors is being conducted by *London Economics*, and is expected to be published by summer 2012.

2.4 The employer evaluation survey suggests that the total number of 19+ apprentices would fall by 85% if public funding was removed. The Department has also published a bespoke report considering additionality in further education and skills provision, with particular focus on apprenticeships¹³.

2.5 The Government has announced that an independent review led by Doug Richard will consider how to ensure that in future apprenticeships meet the needs of the changing economy, consistently deliver the skills which employers need, and maximise the impact of Government investment.

¹¹ BIS Research Paper No. 76: *Evaluation of Apprenticeships: Learners'*
<http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/e/12-812-evaluation-of-apprenticeships-learners.pdf>
and BIS Research Paper No. 77: *Evaluation of Apprenticeships: Employers'*
<http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/e/12-813-evaluation-of-apprenticeships-employers.pdf>

¹² BIS Research Paper No. 67: *Employer Investment in Apprenticeships and Workplace Learning: The Fifth Net Benefits of Training to Employers Study*

¹³ BIS Research Paper No. 71: *Assessing the Deadweight Loss Associated with Public Investment in Further Education and Skills'*
<http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/a/12-767-assessing-deadweight-loss-with-investment-further-education.pdf>

PAC CONCLUSION AND RECOMMENDATION 3

The Department needs better information to promote the benefits of apprenticeships to employers and individuals. England lags behind other countries in terms of the size of its Apprenticeship Programme and in terms of the proportion of people undertaking Advanced level apprenticeships. Many employers still see apprenticeships as a cost rather than an investment, and individuals considering their education and training options are less likely in England to understand the long-term personal benefits of taking up apprenticeships. The need for better, publicly available, information will become particularly acute from the 2013-14 academic year when learner loans are introduced and individuals aged 24 and over will be required to contribute financially to meet the cost of advanced apprenticeships.

Before 2013-14, the Service should publish comprehensive information aimed at employers and individuals on: the costs and benefits of apprenticeships (in each sector), the relative benefits of attending university as compared to undertaking an apprenticeship, the quality of individual training providers, and ways of accessing the Programme.

3.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: 2013.

3.2 The Government has consistently promoted the benefits of apprenticeships, which is a high profile programme for the Department. For example, during *Apprenticeship Week 2012*, more than 800 events and activities took place across England generating around 1,000 pieces of media coverage and 300 pieces of broadcast coverage. In promoting the programme, the Department and NAS made use of research demonstrating the benefits of apprenticeships to employers and individuals, for example, the recently published employer case studies discussed in 2.3 above demonstrate that the employer payback period (how long it takes an employer to recoup its investment) averages around one to two years, ranging from three years in more costly frameworks such as engineering, to under a year for business administration, transport or hospitality.

3.3 The NAS website provides a return on investment tool, which provides employers with an estimate of the return they are likely to receive from investing in apprenticeships, based on the age of the apprentice, the sector they work in, and the wages they receive. The NAS will continue to promote apprenticeships through marketing, and will use the outcomes of research into the benefits of apprenticeships in different sectors to strengthen the information and promotional material it uses

3.4 At a more local level, colleges and providers have a critical role in promoting apprenticeships to employers and individuals. They will have more immediate and direct access to get the message across locally, and develop relationships with local partners – such as Job Centre Plus - to assist them in doing so.

3.5 The Government publishes information on the relative quality of training providers, including those providing apprenticeships on the Further Education (FE) Choices website¹⁴. There are four comparative performance indicators:

- Qualification success rates – the percentage of learners or trainees successfully achieving the qualification they started;
- Learner destinations – the percentage of learners or trainees making positive progression into further learning or work;
- Employer satisfaction ratings shown as a score out of ten; and
- Learner satisfaction ratings shown as a score out of ten

¹⁴ <http://fechoices.skillsfundingagency.bis.gov.uk/Pages/home.aspx>

3.6 The further education sector is currently leading a public information project to improve the quality and range of information made available at local and provider level. This will complement the information available through FE Choices, and will provide better information about cost and access to courses. Improvements are expected to be implemented from January 2013.

3.7 The National Careers Service launched on 5 April 2012 makes it straightforward for individuals to find impartial information on a wide range of opportunities, including the potential benefits of becoming an apprentice, including a comparison with other alternatives, such as attending university. The Department will continue to monitor the benefits to individuals of taking apprenticeships alongside other further or higher education learning routes.

PAC CONCLUSION AND RECOMMENDATION 4

The Committee has concerns about the number of short training programmes classified as apprenticeships and about the quality and amount of training some apprentices receive which we consider is inadequate and poses risks to the value of the Programme to individuals and employers. Around a fifth (19%) of apprenticeships lasted for six months or less in 2010-11, when the Service expects most to last between one and four years. The Committee welcomes the fact the Service has started taking action to tackle providers of short duration apprenticeships. It also needs to strengthen its arrangements for ensuring that apprentices receive their statutory amount of off-the-job training.

Given a recent survey the Department itself published showing that less than half of apprentices surveyed said they received off the job training the Service should set out in its response how and when it will take action with the sector.

4.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: 2013.

4.2 The Government is clear that all apprenticeships must entail a rigorous period of learning and the practice of new skills in the workplace. All apprenticeships are now underpinned by statutory standards as set out in the Apprenticeships, Skills, Children and Learning Act 2009 and Specification of Apprenticeships Standards in England 2011. This means that all apprenticeships must be real jobs, that all frameworks must offer substantial on and off the job guided learning (a minimum of 280 guided learning hours, of which at least 100 or 30% must be delivered off the job) and lead to the achievement of recognised qualifications.

4.3 The average length of an apprenticeship in 2010-11 was 13 months; around 19% are recorded as lasting six months or less. Some very short durations are caused by 'stop start' learning, for example army apprentices who stop then restart programmes either side of active service, or learners who leave due to redundancy or pregnancy, but complete later and who record this as two separate episodes of learning.

4.4 From August 2012, apprenticeships will be expected to last between one to four years, in line with the durations stated in the individual frameworks developed by employers and other stakeholders. For 16-18 year olds, this will be an absolute requirement. Adults may be able to recognise some prior learning as part of an apprenticeship (with funding reduced as a result), and therefore in some circumstances be eligible to complete more quickly, but never in less than six months.

4.5 The NAS and the Skills Funding Agency (SFA or Agency) have recently published revised funding rules and a new Statement on Apprenticeship Quality, which set out new measures to ensure all apprentices will receive training of sufficient volume and quality. New safeguards are being put in place to strengthen monitoring, reporting and subcontracting arrangements to ensure that these new quality expectations are being met. In addition, new contracts will ensure that training providers not only act according to regulations, but also within the spirit of the apprenticeship programme. NAS and the SFA will continue to closely monitor provision to ensure any instances of poor quality are identified, investigated and addressed, with funding clawed back if necessary.

4.6 The NAS and the SFA's comprehensive review of all short duration programmes has already resulted in significant improvements to many apprenticeships. Where cases have been concluded, providers have changed their delivery models to be fully compliant or ended the delivery that doesn't meet requirements. This work is ongoing.

4.7 The Richard Review will consider the future of apprenticeships including how they meet the skills needs of employers.

PAC CONCLUSION AND RECOMMENDATION 5

The Service does not know whether it is paying training providers too much for some apprenticeships. While the Service pays providers less for types of apprenticeship requiring less training, the way it has calculated the rates is based on out-of date assumptions. The Service does not know what level of profits providers are making on different types of apprenticeship; nor does it know whether it is subsidising some apprenticeships more than others. There is also evidence to suggest some providers are providing training without receiving the expected contribution from employers.

The Service should work closely with the Agency to link the funding it provides more closely with the delivery costs.

5.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: 2013-14 academic year.

5.2 The Agency maintains a model against which framework costs are assessed. These include average staff costs, group delivery hours, awarding body costs, and examination fees.

5.3 As part of its wider funding simplification programme, the Agency is currently reviewing how funding rates for adult further education and skills training including apprenticeships are set; to ensure the approach is transparent and robust, this includes testing an approach to link the funding rate for each framework to the size (in terms of learning hours and other costs) of each constituent element (such as National Vocational Qualifications, technical certificates). Further testing and research is being conducted with employers and the further education sector to refine this approach.

5.4 The Agency is also embarking on a review to examine whether and where excess profits are being made by providers. New information will be published on the parameters governing excess profits for the start of the 2012-13 academic year. The Agency is also clear in its funding rules that funding should only be claimed in relation to the costs actually incurred for the delivery of provision.

5.5 The Richard Review will include consideration of the impact and value for money of public investment in apprenticeships.

PAC CONCLUSION AND RECOMMENDATION 6

The relationship between the National Apprenticeship Service and Skills Funding Agency remains unclear. The way in which the two bodies interact, and the question of who is responsible and accountable for what, still needs to be clarified. This will be particularly important to settle during 2012, given the Department needs to appoint new permanent chief executives in each body.

The Department should review the organisation of the Service and Agency, to ensure working arrangements are clear and there is minimal duplication.

6.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: 2013.

6.2 The NAS has overall accountability to Ministers for the successful development and delivery of the apprenticeships programme, including engaging with employers and individuals to raise demand, and managing the vacancy matching service. The SFA provides an allocations, contracting and performance management function for the NAS, working within the single account management funding system.

6.3 Under proposals announced to Parliament in December 2011, the Government is proposing to make responsibility and accountability for apprenticeship delivery much clearer. Subject to legislation, the statutory post of Chief Executive of Skills Funding Agency will be removed from legislation, and the SFA will operate as a modern, conventional departmental executive agency, in line with the Public Bodies Reform agenda led by the Cabinet Office. As part of this change, it is proposed that the NAS will operate as a division of the Agency, retaining its distinct identity and focus on outward employer and learner facing services.

Eighty Fifth Report

Department for Work and Pensions (DWP)

Introduction of the Work Programme

Report Summary from the Committee

The Work Programme replaced virtually all welfare to work programmes run by the Department for Work and Pensions (the Department). Having only started in June 2011 this is an early opportunity for us to look at the Programme and how it has been implemented. The Work Programme is designed to help long-term unemployed people into sustainable employment. Over the next five years, the Department expects the Programme to help up to 3.3 million people at a cost of £3 billion to £5 billion. The Department has contracted with 18 prime contractors to deliver the Programme across England, Scotland and Wales. Each of the prime contractors has their own subcontractors.

The Department has done well to introduce the Work Programme in 12 months. The Work Programme has new features which give providers longer to work with individuals and greater flexibility about how they help people into work. Prime contractors receive the majority of their payments once a participant has stayed in a job for a set period of time, with the length of time varying according to claimant group.

The Department believes that the payment by results contracts have transferred the financial risk of the Work Programme to the providers. Although some financial risks have been transferred, the test of whether the Programme is achieving value for money will be broader than this and there are new risks associated with the changes from previous programmes. Among other things, the Department and prime contractors will need to show that more people are in work as a result of the Programme than would have been if it had not existed and that the wider social benefits which underpin the cost benefit analysis are delivered in practice. The Department needs to be alive to the impact the difficult economic environment may have on the Work Programme.

The Work Programme is based in large part on payment by results. The Department is less concerned with defining how clients should be treated and the services they should receive and is measuring success on sustained job outcomes. The Department must seek assurances on a range of issues. For example, those sub-contractors, especially charities, are treated fairly, that they were not misled into accepting inappropriate contracts, and that they receive the number of cases and funding that they were promised. The Department also needs assurances that harder-to-help claimants are not parked and ignored. And to ensure proper value for money, the Department should require assurances that the provider added real value in placing people into work and has a clear understanding of how many individuals would have found jobs by themselves.

The Department currently relies on contractors to set minimum standards of service. However, the Department has no measurable indicators against which the quality of service all participants receive can be judged.

Reliable data on performance will not be available until autumn 2012, some 15 months after the Work Programme started. The Department must assure itself and us that no improper payment is made to contractors before the effective monitoring systems are in place. It is important that this data shows clearly the performance of individual contractors. The Committee expects the Department to use this data when evaluating the performance of prime contractors and how they manage their subcontractors.

The Department is currently developing its plans to implement Universal Credit in autumn 2013 which could lead to major changes to the Work Programme's claimant groups and payment regime. Any changes the Department makes must address the Committee's concerns regarding the quality of service for all participants and the value for money for taxpayers. There has been significant media coverage recently of investigations into alleged fraud in welfare to work schemes. Whilst allegations relate in the main to previous schemes, they point to an area of significant risk and the C&AG is carrying out further work on this and will report in May.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Work and Pensions on the introduction of the Work Programme.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee commends the Department for introducing the Work Programme (the Programme) quickly. It now needs to demonstrate that the risks of implementing the Programme at such speed and against a background of difficult economic conditions have been effectively addressed. It was a significant administrative achievement that the Programme was introduced in 12 months. However, the Programme was not piloted, design and development phases overlapped, the business case was devised after the decision to go ahead had been made, and the IT system designed to support the Programme was not in place until March 2012.

The Department now needs to demonstrate that, in the face of changes in the volumes of referrals to the Programme and changes in economic conditions, it can still hold prime contractors to the delivery promises they made. The Department also needs to demonstrate that payments to contractors are valid and correct.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

1.2 As the Work Programme has been established as a payment by results contract, the Department is now relying on providers' delivery promises: unless the job outcome conditions are met, no payment will be made (beyond relatively small attachment fees, which reduce and disappear after three years).

1.3 Performance Managers already hold regular contract performance review meetings with providers at contract level, to discuss performance against the minimum service levels set out in their bid. Any areas for improvement identified are included within the provider's Performance Improvement Plan, which is used as an ongoing record of actions agreed and reviewed regularly. This regime is further supported by Compliance Monitoring Officers, who provide assurance on a monthly basis for each contract, by obtaining evidence that all European Social Fund (ESF) and Match Funded Providers are adhering to delivery models as set out in contracts, and that ESF Regulatory Requirements are met. Where there is evidence of repeated or systemic failure to meet the required performance / delivery standards ultimately, breach action could be taken.

1.4 With the implementation in March 2012 of version 2.1 of the Provider Referral and Payment system, every job outcome claim now goes through a clear validation process. The Department will not release a payment for a job outcome unless it can demonstrate the claimant is off-benefit or, if this check is failed, in work for the required period. In addition to this initial pre-payment check, every two months, the Department will sample outcomes that passed the off-benefit check to validate employment by checking records against HMRC data or independently validating with employers. The Department will recover any individual payments found not to be valid at the post-payment stage; it will also use the error rate found in the sample to extrapolate and then recover an estimated overpayment across all payments to each provider made in that period.

PAC CONCLUSION AND RECOMMENDATION 2

Achieving value for money will need to go beyond a reliance on risk transfer. The Department has transferred some of the financial risk of low performance to prime contractors. Consideration of the Programme's value for money should be wider than whether prime contractors meet their contractual targets.

In its on-going assessment of value for money, the Department should include whether the Programme is achieving all its objectives, including whether all participants receive a suitable level of support, and whether the Programme produces the expected wider benefits to society of getting more people off benefit and into work. The assessment should also take into account unintended consequences, such as the risk that participants on the Work Programme are replacing existing workers.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2012.

2.2 The Department agrees that it is important to account of the wider impact of the Work Programme, in addition to assessing whether providers meet their contractual targets. The Department has commissioned an independent evaluation of the programme. This includes both quantitative and qualitative research to explore the outcomes and experiences of different types of claimants, and the delivery strategies used by providers to support people into sustainable work. A key objective is to evaluate the success of the funding model in encouraging providers to work with all claimants.

2.3 The evaluation will begin reporting from autumn 2012, with very early indications of the impact of the programme on claimant outcomes becoming available by late 2013 / early 2014. Should there be any unintended consequences, the Department expects the evaluation process to pick these up. The wider benefits of the programme will also be addressed in the ongoing evaluation and impact assessment.

2.4 The Department does not agree that the activation of the long term unemployed and inactive claimants leads to significant substitution or displacement in the labour market. The United Kingdom has a flexible labour market, where jobs are created every day. As such, an increase in the numbers of people actively looking for work will increase labour supply, which in turn will lead to an increase in overall employment. There is significant evidence suggesting that it is better overall for the economy to support the long term unemployed into work.¹⁵

PAC CONCLUSION AND RECOMMENDATION 3

Service standards vary between contractors and are not always measurable. The level of support that participants require from the Programme depends on the complexity of their needs. However, prime contractors receive an attachment fee on the basis of the participant's benefit type and the Department will pay this fee regardless of the service individuals receive. This raises the risk that prime contractors 'park' the hardest-to-help within each payment group as these individuals may require more support. Conversely, in cases where little input is required, contractors may get paid for doing very little. The Department currently relies on each prime contractor to set out the standard of services all their participants should expect, but these are not always measurable.

The Department should require prime contractors to set measurable minimum standards that all participants can expect. It should monitor the quality of service provided by contractors to make sure that these standards are maintained. As part of this it should seek feedback on the quality of service provided from participants on the Programme and should review the results of this regularly.

3.1 The Government disagrees with the Committee's recommendation.

3.2 All Work Programme providers' minimum service standards are published on the Department's website¹⁶. The Department has processes in place to ensure that providers are consistently delivering against what they have published. In addition, each claimant receives a copy of the service standards for their provider on referral; there are complaints procedures in place if these standards are not met, and if a provider cannot resolve a complaint, it will be referred to the Independent Case Examiner. If the Examiner is unable to resolve a case, and upholds the complaint against a provider, then the provider is fined £5,000 in each case.

3.3 The Department does not consider the introduction of a single set of service standards to be useful. Providers have the flexibility to tailor the service to meet the individual needs and circumstances of each participant. Accordingly, the personalised action plans, drawn up and agreed

¹⁵ For example White, M. and Riley, R. (2002) "Findings from the Macro Evaluation of the New Deal for Young People," DWP Research Report No. 168; Riley, R. *et al* (2011) "The introduction of Jobcentre Plus: An evaluation of labour market impacts" DWP Research Report No. 781

¹⁶ <http://www.dwp.gov.uk/docs/provider-minimum-service-delivery.pdf>

between the provider and participant, outline the expectations, service and standards applicable to each individual. This flexibility is at the heart of the Government's 'black box' approach.

3.4 The Department believes that the personalised service that it delivers will be beneficial for both the claimant and the taxpayer. The personalised approach ensures each participant's experience will be different. However, the Department does require evidence from providers to show that action plans comply with the published minimum service delivery standards, the content of the original bid and contractual requirements.

3.5 Attachment fees were introduced in order that providers could cover their start-up costs, and are being phased out over the course of the programme. The Department does not consider attachment fees will increase the risk of 'parking'.

PAC CONCLUSION AND RECOMMENDATION 4

Reliable data on the performance of contractors in the Programme will not be available before autumn 2012. Accurate and detailed information is necessary to judge the Programme's performance and that of each provider.

The Programme will operate for a full 15 months before participants, prime contractors, subcontractors and Parliament are informed of, and able to compare, performance. This is clearly less than ideal, and the information to be published must show performance at the level of individual contractors. This should include the minimum performance levels for each contract and the level of performance achieved.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2012.

4.2 The Work Programme is a long term programme that incentivises sustained employment, and participants are on the programme for two years. It will therefore take time before sufficient job outcome data is available to create a meaningful statistical series. The first official statistics on outcomes will be published by the Department in autumn 2012, and will show the performance at the level of individual contractors, as recommended. They will also include more detailed data breakdowns. Minimum performance standards have already been published, and are the same across all contract package areas; as such, they will not form part of the official statistics release.

4.3 The Department has commissioned a comprehensive and transparent evaluation of the Work Programme, which will include a full impact assessment designed in conjunction with external, independent experts. The first findings from the evaluation will be available later in 2012, with results from the impact assessment from 2013 onwards.

PAC CONCLUSION 5

Recent press reports have highlighted the possibility of fraud in welfare to work schemes. Whilst many of the allegations relate to previous schemes, they highlight issues with the Department's control environment. The Department considers the risks of fraud to be low, even in the absence, before March 2012, of its IT system that will carry out automated checks on whether people prime contractors say they have placed into work have ceased claiming benefits.

The Comptroller and Auditor General will examine and report to Parliament on the control environment for welfare to work schemes. Prime contractors should not be allowed to exploit subcontractors. In the Pathways to Work Programme some prime providers retained a disproportionate amount of the payment from the Department and 'cherry picked' the easier-to-help claimants. The Department's Merlin standard is intended to regulate the relationship between prime contractors and subcontractors, and the Department plans to accredit each prime contractor against the standard by June 2012.

PAC RECOMMENDATION 5

The Department should make sure its audit of performance against the Merlin standard will properly establish whether subcontractors are receiving the agreed workload and that administrative fees charged by prime contractors can be justified by the services provided.

5.1 The Government disagrees with the Committee's recommendation.

5.2 The issue of fraud in the Work Programme has now been addressed by the National Audit Office (NAO), in their report: *Preventing fraud in Contracted Employment Programmes*. The report, recognised the Department as having significantly improved its anti-fraud controls. Steps taken include the introduction of measurable and verifiable outcomes for the Flexible New Deal and the Work Programme, and the use of centralised management and oversight arrangements, pre-payment checks and provider assurance visits, and contractual conditions setting out anti-fraud controls, supported by the Merlin standards. The NAO noted that reported fraud amounted to less than 0.01% of the Department's spending on employment programmes.

5.3 The Merlin Standard (the Standard) was developed in partnership by the Department and representatives from the welfare to work industry to drive continuous improvement, encourage excellence and generate healthy, high performing supply chains. It is built around fundamental principles of sustainable and positive partnership with supply chain providers. Assessment of all eighteen Work Programme prime providers is being undertaken between April and July 2012 with details of scheduled assessments published on the Merlin Standard website¹⁷.

5.4 Assessment against the Standard entails a process of self-assessment followed by independent evidence based assessment and accreditation. This includes validation of evidence by a representative cross-section of sub-contracting organisations and culminates in publication of an assessment report, which will highlight both identified strengths and areas for improvement, as well as providing information on the outcome of accreditation.

5.5 The Department's account managers receive a copy of the assessment report and where possible will participate in the final feedback meeting. Account managers will work with prime contractors, following their assessment, to address areas for improvement and will consider the threat of sanctions for non-compliance with the Standard, which can include suspension of eligibility to benefit from 'market shift'; potential for action on breach of contract; and, in worst cases, contract termination.

5.6 Subcontractors with concerns about the behaviour of their prime contractor in the context of the Standard are able to raise these confidentially with emcq Ltd, the Merlin Assessment and Accreditation Service Provider before deciding whether they wish to pursue a complaint more formally including with the Department or via the Merlin Mediation Service (delivered by the Independent Case Examiner).

5.7 The Standard is not, though, a defence against under or poor performance by subcontractors; nor is it intended to negate the need for organisations to negotiate realistic and commercially viable terms.

PAC CONCLUSION 6

There is little transparency over the financial affairs of companies which derive their income solely from government. Where companies depend on public sector contracts for the bulk of their income they can expect their performance, profits and remuneration packages to be subject to proper scrutiny by Parliament on behalf of the taxpayer. In other areas of government spending the Efficiency Reform Group (ERG) has secured significant benefits, by for instance negotiating rebates from companies that have multiple public sector contracts.

¹⁷ <http://www.merlinstandard.co.uk>

PAC RECOMMENDATION 6

ERG should extend the scope of its challenge to contracts with companies which have central government as their main source of income. The Committee remain of the view that in the interests of transparency, where private companies provide public services funded by the taxpayer, those areas of their business which are publicly funded should be subject to the Freedom of Information Act provision.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

6.2 The Department will continue to work with the Efficiency Reform Group (ERG) to ensure that suppliers that have a pan Whitehall presence offer value for money and consistency across their various contracts. In this sector, DWP is an acknowledged lead - for example, it oversees the Welfare to Work contracting pipeline for ERG - and the Department will act for Government in ensuring the outcomes as recommended here.

6.3 Under the Work Programme contracts, providers are required to provide all necessary assistance to the Department, in order to enable the Department to respond to Freedom of Information Act (FOI) requests in a timely manner. The Department has discretion over whether any information (including any information designated as "commercially sensitive") is exempt from disclosure pursuant to the exemptions set out in the Act. More widely, the FOI Act is currently subject to post-legislative scrutiny by the Justice Select Committee to see how it is working in practice. The Government will consider the recommendations of the Committee, including any recommendations regarding the scope of the Act, before bringing forward any proposals for future policy on FOI.

PAC CONCLUSION AND RECOMMENDATION 7

The Department must be vigilant to the impact Universal Credit may have on the Programme. Universal Credit is due to be introduced from autumn 2013. It could lead to major changes to the Programme - for example: to the definitions of claimant groups and associated payments to prime contractors and to the number of participants joining the Programme. The Department appears not to have considered how the implementation of Universal Credit will impact on the Programme and how this impact will be managed.

The Department should report to the Committee in November 2012 on the key changes to the Programme that will arise from Universal Credit, the risks for the Programme, and the actions it is taking to mitigate these risks.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2012.

7.2 The Department considers that the impacts of Universal Credit on the Work Programme are being properly taken into account at the appropriate point in the policy design of Universal Credit. The Department will provide a written update to the Committee in November 2012.

Eighty Sixth Report

Department for Education (DFE)

Free entitlement to education for three and four year olds

Report Summary from the Committee

The Department for Education (the Department) wants all three and four year olds to receive high quality early years education. The primary purpose of this education is to support children's development. To achieve this goal the Department provides funding for local authorities to pay for three and four year olds to receive their entitlement to 15 hours of free education each week (the entitlement). The Department devolves delivery to local authorities and providers but it is responsible for the overall value for money from the system.

In 2011-12 the Department's estimated funding for the entitlement of £1.9 billion provided over 800,000 three and four year olds with access to free education; an estimated annual allocation of approximately £2,300 per child. The Department, working alongside local authorities and providers, should be commended for the work done over the past decade to increase the provision of early years education.

While the Department and local authorities have focused on ensuring places for children are available, there has been less attention on how value for money can be secured and improved. The Committee is concerned that the Department has, as yet, done very little to understand the costs and outcomes in different local authorities and has not properly monitored how taxpayers' money has been spent. Witnesses assured the Committee that this would improve.

Research suggests that high-quality early years education can have a lasting positive impact on educational achievement, but the higher the quality the greater the cost will often be, due to the extra cost of employing qualified staff. While there is evidence of educational improvement at age five, the evidence that this is sustained is questionable. The Department needs to do more to understand how educational benefits can be lasting and why outcomes at age seven have shown such little improvement.

There is not enough good information for parents to make informed choices about early year's education. Data on performance of local providers is not easily available to parents and parents are too often unsure about what exactly their children are entitled to. The Committee is particularly concerned at reports that some families are still not receiving the entitlement free of charge; it is important that all parents know what the entitlement is and that it should be provided completely free. It is not enough for the Department to respond to complaints. It must actively take steps to ensure parents enjoy their legitimate right to free pre-school education for their children.

The Department considers that early years education has the greatest benefit for children from disadvantaged backgrounds. However disadvantaged families have the lowest levels of take-up and deprived areas have the lowest levels of high quality services. The Department needs to identify and share good practice from those local authorities which are having the most success in increasing take-up amongst disadvantaged groups and providing high quality early years education. They should, in particular, learn from the almost universal high quality of early years education offered by nursery schools.

On the basis of a Report by the Comptroller and Auditor General, The Committee took evidence from the Department for Education, as well as a panel of expert witnesses, on the free entitlement to education for three and four year olds.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department welcomes the fact that over 800,000 three and four year olds now receive an entitlement to free education. The significant funding supplied by the Department, alongside the work of local authorities and providers, means that early years provision has expanded significantly since this policy was first introduced over a decade ago.

The following recommendations are intended to push the Department, working with local authorities, to build on this success and improve the value for money of this important programme.

1.1 The Government welcomes the Committee's report and its findings.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has a limited understanding of how the funding it provides for early education is spent. Until 2010-11 the Department did not have sufficient data to estimate spending on early years education and even now the data contains errors. The Department also has very little knowledge of how funding for specific purposes has been spent.

The Department must collect and publish further information on spending and outcomes. This should include the results from funding supplied for specific purposes, such as increasing capacity and participation. It is important that proper systems and data are in place to monitor and assess the investment in two year olds properly.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2013.

2.2 The Department agrees that it needs to collect and publish more data. The Department has published local authority-level data on the funding, take-up, quality and outcomes of early education provision.¹⁸ This publication is the first consolidated data release for foundation years services and the Department will continue to add more data as it becomes available. The Department is also working to improve the quality of the data on local authority spending on the free entitlement. All local authorities will be required to publish their funding arrangements transparently in a consistent format from 2013-14. This will provide consistent information, so that comparisons can be made more easily between different local authority areas.

2.3 The Department announced its intention to remove the 90% funding floor for three year olds on 26 March 2012 in the consultation document *School funding reform: next steps towards a fairer system*.¹⁹ The 90% floor was introduced in 2003 to provide additional resources for local authorities to build capacity and boost take-up, when they were rolling out the universal free early education entitlement to all three year olds. The delivery of the entitlement is now in a different phase. Moving to a full participation-based funding should provide an incentive for local authorities to maintain high levels of take-up of the free entitlement by three year olds. It should also incentivise local authorities to increase participation by those not currently benefiting from free early education.

2.4 The Department agrees that it is important to have robust data to support the implementation of the new entitlement to free early education for two year olds. From January 2014, the annual censuses of funded provision (in both schools and private, voluntary and independent providers) will also collect data on the two year old entitlement, including information on the number of hours accessed by children in each setting. Until that point, the Department is conducting voluntary biannual surveys of the number of funded two year old places in each local authority.

¹⁸ <http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/delivery>

¹⁹ <https://consumption.education.gov.uk/publications/standard/SchoolsSO/Page2/DFE-00029-2012>

PAC CONCLUSION AND RECOMMENDATION 3

The Department has not yet explored the reasons underlying the wide variations in local authority spend and performance and the opportunities to improve value for money that these imply. Although the implementation of early years education is devolved to local authorities it is the Department, which must understand and improve the value for money of the system nationally.

The Department must analyse, and attempt to understand, the variations in spending and outcomes between different local authorities and types of provider. It should seek to understand better the relationship between funding and quality to ensure best value. In particular it must use the data it has to understand the impact of its initiatives, such as the local funding formula, so that it can improve outcomes for children. The Department should also identify and publish data which enables comparisons to be made and identifies best practice, enabling local authorities to benchmark their performance against each other. It should set out in its reply to the Committee what it will do to ensure robust comparative data and how it intends to encourage best practice and ensure that local authorities work with and learn from each other.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Department has published local authority-level data on the funding, take-up, quality and outcomes of early education provision. This data will enable authorities to compare their performance with other authorities, and will be a powerful tool for parents and providers to hold their authority to account. The Department will continue to add more data as it becomes available, to give the broadest possible range of data for comparison.

3.3 The Department has recently launched a good practice gathering exercise on the effective use of the early years single funding formula to drive improvements in early education provision. The Department will make available the good practice received, alongside revised supporting material, to help local authorities to improve the impact of funding arrangements on local performance.

3.4 To support the roll-out of the new entitlement to early education for two year olds, during 2011-12, 18 local authorities trialed different approaches to building capacity and improving quality. The Department has facilitated events for sharing the good practice from these trials. Additionally the Children's Improvement Board²⁰ commissioned the Centre for Excellence and Outcomes in Children and Young People's Services to identify the lessons from the trial areas. The Department is funding further trials in ten local authority areas in 2012-13 and will share the learning from these trials in a similar fashion to the 2011-12 trials.

PAC CONCLUSION AND RECOMMENDATION 4

There is insufficient information available to parents to allow them to make informed choices. Parents do not have clear, comparable and up-to-date information regarding the performance of different providers.

The Department should set out what information local authorities must make available to parents. This information must be clear and easily accessible.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2012

²⁰ The Children's Improvement Board is a partnership between the Local Government Association, the Association of Directors of Children's Services and the Society of Local Authority Chief Executives, supported by funding from the Department for Education. The report can be found at: <http://www.c4eo.org.uk/themes/files/expansion-of-the-entitlement-for-disadvantaged-two-year-olds.pdf>

4.2 The Department has published revised statutory guidance for local authorities on the delivery of the free entitlement on 30 May 2012, coming into force on 1 September 2012.²¹ This guidance makes clear that local authorities have a duty to provide information to parents and that they should ensure parents are aware of their child's entitlement and their options in taking up their entitlement. The guidance also makes it clear that local authorities should provide parents with information about the quality of local provision. This will apply equally in the case of the new two year old early education entitlement. However, as the new entitlement is rolled out, the Department also intends to work with both local authorities and other government departments to ensure that parents are informed of the new offer. The new guidance also introduces an annual report for elected members and parents on the sufficiency of childcare in each local authority, including the availability of free early education places for three and four year olds.

4.3 The Department will publish a choice framework for the free entitlement to early education. This framework will clearly set out to parents their choices, where they can access information to help them choose a provider and the routes for complaining if they cannot take up what they are entitled to. The Department's strategic partner for the Foundation Years, 4Children, has designed a new website that helps inform parents of young children about all the services available to them and their children²².

PAC CONCLUSION AND RECOMMENDATION 5

Research shows very strong effects in early years. However there is no clear evidence from the National Key Stage One results that the entitlement is having the long term educational benefits for children that the Department intended. There is evidence of educational improvement at age five, but Key Stage One results at age seven have shown very little improvement since 2007. The Department needs to better understand how the quality of early years education supports lasting benefits and what happens in the early years of primary school to lessen the effect. The Department cannot yet be confident that spending on the entitlement is having lasting impacts on child development.

The Department should identify how it will measure longer term impacts on children, and examine why measured improvements at age five are not feeding through to results at age seven.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2013.

5.2 The Department is aware that, whilst there is strong research evidence of the long term benefits, the primary evidence base for England (the Effective Provision of Pre-school Education study) was published in November 2004. This study is now based on children who had their early years experiences ten years ago. There have been many changes to early education provision over that period, including the introduction of universal free early education, the Early Years Foundation Stage and significant improvements in the qualifications of the workforce. The Department therefore intends to commission a new piece of longitudinal research to gain a better understanding of how early education impacts on later attainment.

5.3 The Department will also look at the feasibility of linking the records of children's free early education experience (recorded on the Early Years and Schools Censuses) with their attainment (recorded on the National Pupil Database). If this were to be feasible, it would provide the Department with data to track the impact of all children's early education on their later attainment.

PAC CONCLUSION 6

Disadvantaged families have the lowest levels of take-up of the entitlement and poorer areas have the lowest levels of high quality provision. The Committee is concerned that fewer disadvantaged families take advantage of the free education entitlements. There is a 9% gap in take-up of free places between disadvantaged families and other families. There is a clear correlation between lower quality provision and areas of poverty.

²¹ <http://www.education.gov.uk/aboutdfe/statutory/g00209650/code-of-practice-for-las>

²² <http://www.foundationyears.org.uk>

PAC RECOMMENDATION 6

The Department must capture and share practical examples of local authorities which have successfully increased take-up in disadvantaged groups. The Department should also state how it will use the funding system to raise quality in deprived areas.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2013.

6.2 Whilst take up of the free entitlement is very high, the Government is committed to increasing take up particularly among disadvantaged groups. As part of the trials of payment by results for children's centres, some local authorities are exploring the potential for them to be paid for increasing take-up of free early education by disadvantaged two and three year olds. If the trials prove successful, payment by results may provide a significant incentive for local authorities to increase take-up among disadvantaged groups. The Department also awards grants to voluntary and community sector organisations, including the National Education Trust, the National Portage Association and the Pre-school Learning Alliance, to promote participation by disadvantaged families and children with disabilities.

6.3 The Department has recently announced its intention to reform the operation of the early years single funding formula (EYSFF) to target support for disadvantaged children more efficiently. From April 2013, the compulsory deprivation supplement in each authority's formula must be awarded to settings offering places to disadvantaged children, rather than just being in disadvantaged areas.

6.4 The Department is committed to supporting local authorities to improve the quality of provision, particularly in disadvantaged areas. The EYSFF allows local authorities to use quality supplements to incentivise providers to improve their quality and cover some of the additional costs of higher quality provision. As part of the good practice gathering exercise on the EYSFF, the Department will be publishing examples of where local authorities have made effective use of quality supplements.

6.5 The implementation of the new entitlement for two year olds should re-focus local authorities on take-up of early education among disadvantaged groups. The Department has contracted Mott McDonald to support local authorities to implement the new entitlement. One of the contractor's areas of focus will be supporting authorities to ensure parents take-up their child's new entitlement. This should include targeting the most disadvantaged families, which in turn should lead to these families continuing to take up their child's entitlement at three and beyond. There will be opportunities for local authorities to refocus and build in continuity of support through their EYSFF deprivation funding for three and four year olds, once the two year old entitlement is established.

PAC CONCLUSION AND RECOMMENDATION 7

The Committee is concerned that some providers may be excluding families which do not pay for additional hours. In the Department's own survey of parents, some parents stated that they could not receive the 'free' entitlement without buying additional hours. One witness suggested that compulsory top-up fees were commonplace in some nurseries and the Committee has seen other evidence of parents being asked for further payments. Such practices risk excluding poorer families from nurseries. Although the Department told the Committee it has acted in response to approaches by parents, the Committee is concerned that it has not been more proactive in understanding the extent of this problem and tackling it.

The Department needs to work with local authorities to better understand how common this problem is and to prevent it from happening.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2013.

7.2 The Department is clear that charging ‘top-up fees’ or making free early education places conditional on paying for other hours or services is unacceptable. The Department published statutory guidance for local authorities on 30 May 2012, which re-iterates that these practices are not permitted. The Department is also reviewing its information to parents to ensure that it is clear that they cannot be required to pay for any of their free hours and gives details of who they can complain to if a providers charges them for taking up their child’s entitlement.

7.3 The Department has an established procedure for dealing with potential breaches of an authority’s duty to secure free early education. The Department will investigate any known instances where local authorities are tolerating ‘top up fees’, and take action. As a last resort, the Secretary of State has powers to direct local authorities to take certain actions if they are not fulfilling their statutory duties. This could include, for example, requiring the authority to stop funding free places at a particular provider.

7.4 The Department will continue to keep this issue under review, discuss with the Local Government Association and Association of Directors of Children’s Services and consider any further action necessary.

Eighty Seventh Report

HM Revenue and Customs (HMRC)

HM Revenue and Customs: Compliance and Enforcement Programme

Report Summary from the Committee

HM Revenue and Customs (the Department) employs some 26,000 people on compliance and enforcement work, the purpose of which is to improve taxpayer compliance and tackle tax evasion and avoidance. Its long term aim is to reduce the tax gap—the difference between taxes due and the amount actually collected. According to the Department's own estimate, the tax gap stood at £35 billion (7.9% of all the tax due) in 2009-10, although other estimates suggest the figure is much greater.

Over the last five years, the Department has sought to transform this area of its business through the Compliance and Enforcement Programme (the Programme). The Programme was intended to target the areas of greatest risk and raise productivity, delivering an extra £4.56 billion in tax revenue by 2010-11. In practice, the Programme has brought in £4.32 billion of tax revenue over the five years to 2010-11, a rate of return of 11:1 on the money invested. The Department expects that the changes introduced will generate a further £8.87 billion by 2014-15. This success has been achieved in large part by innovation, allowing HMRC to make better use of data to assess the risks and patterns of evasion, and to deliver substantial productivity improvements by processing cases more quickly and efficiently.

Within the context of this welcome improvement, the Committee believes that the Department's targets for the Programme could have been more ambitious. The Committee is not convinced that the decision to reduce staff numbers working in this area in the past represented value for money for the taxpayer. The Department has estimated that, in shedding more than 3,300 staff, it lost £1.1 billion in potential tax revenue: about £10 in tax lost for every £1 in running costs saved. The Committee is not confident, from what it heard, that there is a regular discussion with policy makers in which the Department is sufficiently clear about the marginal rate of return it could achieve from different levels of spending. The Committee therefore welcome the increase in spending by £ 917 million in the 2010 Spending Review.

The Committee also found that some of the intended benefits of the Programme were postponed or lost due to slippage in introducing key technology. In order to live within funding limits, the Department had to defer the introduction of new systems or reduce their scope. In particular, by delaying implementation of its new Casflow and Spectrum systems, the Department deferred the additional tax revenue of £743 million it had estimated these systems would provide by 2010-11. It now expects that these projects will instead deliver £547 million of new tax revenue by 2014-15.

In this Spending Review period the Department has agreed with Treasury to re-invest £917 million in further activities to tackle tax evasion and avoidance, and to collect more debt. This investment is more than double the money spent on the Programme over the last five years, and is expected to generate an additional £7 billion a year by 2014-15. It is therefore essential that the Department learns and applies lessons from the Compliance and Enforcement Programme.

In particular, the Department must improve the way it integrates new systems with its existing working practices, ensuring the training necessary to support the introduction of new technology is both targeted and timely, and strengthening its procedures for managing ICT contractors. The Department acknowledged that the way it had measured the Programme's benefits lacked rigour, hindering its ability to understand the return on individual projects. The Department needs to take a more rigorous approach to tracking and evaluating benefits to inform future investment decisions. The Committee is also concerned that the Department places insufficient focus on the importance of customer service and were disappointed to note that the Department had not done enough to evaluate the Programme's impact on customers.

Finally, the Committee consider that the Department needs to be more transparent and consistent in its commitment to tackling tax avoidance. The Committee was alarmed at reports that the Department had advised that the use of managed service companies to avoid tax could ever be appropriate for full-

time employees of public bodies. The Department must have a clear and consistent approach to providing advice on such matters. The Chief Secretary to the Treasury has announced a review of how managed service companies are used in the public sector and the Committee expects to return to this issue once the review is concluded.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department on its management of the Programme and the potential to increase tax revenues further through compliance and enforcement work.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Compliance and Enforcement Programme (the Programme) has generated a substantial increase in tax yield and an impressive level of return on the investment. The Committee welcomes these achievements. The Programme generated an additional £4.32 billion of tax yield between 2006 and 2011, which represents a rate of return of 11:1 on the £387 million it invested in the Programme. The Programme achieved this by innovating and by introducing new technology, to increase productivity and make better use of data to identify and target evasion.

On the back of the Programme's success, the Department negotiated, as part of the 2010 Spending Review, that it would re-invest £917 million of its efficiency savings until 2014-15 in further compliance and enforcement work. The aim of this investment is to generate an additional £7 billion a year in tax revenue by 2014-15

The recommendations which follow are designed to help the Department achieve the higher levels of performance now required.

1.1 The Government welcomes the Committee's report and its findings.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has largely met its forecasts but the Committee believes that the Department's targets for the Programme could have been more ambitious. The Committee are not convinced that the decision to reduce staff numbers working in this area in the past represented value for money for the taxpayer. The Department estimated that its commitment to reduce staff numbers by more than 3,300 (about 11%) over the Programme's lifecycle reduced the additional yield that could have been generated by £1.1 billion.

While the Committee recognises the broader considerations that impact on Spending Review decisions, such as the aim of increasing efficiency across the whole public sector and the need to cut costs, the Committee questions whether this decision to reduce staff represents value for money for the taxpayer. However, the Committee is not confident, from what it heard, that there is a regular discussion with policy makers in which the Department is sufficiently clear about the marginal rate of return it could achieve from different levels of spending.

It is therefore welcome to see that the Department agreed, in the 2010 Spending Review, that it would reinvest £917 million of its savings to employ staff to generate additional revenue.

2.1 The Government notes the Committee's comment.

Recommendation implemented

2.2 As the Committee recognises, there is a balance to be struck in Spending Reviews between investment to secure additional revenue and achieving greater efficiency and lower public expenditure.

The settlement in 2007 Spending Review, which covered the period of the Compliance and Enforcement Programme, required substantial cost savings to be achieved, which were delivered while also increasing revenue. During this period, yield from the Department's compliance activities increased from £7 billion in 2005-06 to £13.9 billion in 2010-11. The Programme was a significant contributor, giving a return on investment of 11:1.

2.3 The Department recognises that good quality information on marginal returns is an important part of decisions about resources. Better information, as well as the proven track record of delivery under the Programme, were critical factors in its ability to secure agreement to reinvest £917 million to produce an additional £7 billion a year in revenue in the 2010 Spending Review. The Department will continue to improve its information and understanding in this area.

PAC CONCLUSION AND RECOMMENDATION 3

The Department must learn and apply the lessons from the Programme to make further performance improvements and thus optimise the return on its £917 million of new investment. The Programme consisted of more than 40 projects to introduce new systems and improve working practices. While the innovative nature of many of these projects made it inevitable that not all would deliver the full range of benefits sought, there are a number of key lessons to be learned from the Programme's implementation.

For example, the introduction of two important new systems - Caseflow and Spectrum - was delayed, with the result that the extra revenue generated by these systems will be lower and later than anticipated. Staff did not have sufficient capability to make best use of the technology, so future training will need to be more targeted and timely than it has been. The Department also needs to plan more effectively to integrate new projects into existing business practices, and strengthen its procedures for managing ICT contractors.

In its response to this report, the Department should set out how it will apply the lessons it has learned from the Programme as it decides how to use resources between now and 2014-15.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

3.2 In line with good practice, the Programme has documented and shared lessons learned. These, along with lessons from other programmes, underpin delivery of the Department's Change Programme. They include managing all projects as a single portfolio to ensure consistency, quickly putting in place experienced Senior Responsible Owners (SROs), and regular reporting on delivery and business readiness. The Department has recently renegotiated its contract with IT suppliers, enabling it to have direct control over subcontractors, ending exclusivity to a single supplier and increasing transparency.

PAC CONCLUSION AND RECOMMENDATION 4

The Department lacked rigour in the way it measured benefits, which hindered its ability to understand the rate of return on individual projects or the main drivers of value in the Programme. In some cases, the Department attributed yield increases on the basis of untested assumptions rather than rigorous monitoring and evaluation. In future the Department should be able to demonstrate that its resourcing decisions are underpinned by robust data showing that it understands the likely returns from particular projects.

The Committee would expect the Department's data to enable it to distinguish clearly between the benefits that are being delivered from the £917 million new investment in compliance and enforcement work and the returns accruing from business as usual.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The Department has put in place a series of reinvestment projects, backed by detailed business and benefits cases that follow Cabinet Office / MPA best practice guidelines. These show how the £917 million will be spent and the benefits expected from the reinvestment. They have started to report in year both the additional tax revenue benefits attaching to each project and the returns accruing from business as usual following Treasury and NAO guidance to distinguish one from the other.

4.3 Detailed checks are made to ensure that any benefit attributed to the capability built through reinvestment is actually delivered through the compliance interventions funded by the reinvestment projects. These checks are carried out independently from those producing the results on which the benefits are calculated to ensure there is no double counting or incorrect attribution. The Department continues to share their attribution process with the Treasury and auditors to ensure they have an agreed audit trail for these figures.

PAC CONCLUSION AND RECOMMENDATION 5

The Department lacks a clear and coherent policy on its approach to the use of managed service companies for public sector employees. The Committee was concerned by reports that the Department had given advice that using managed service companies to avoid tax could ever be appropriate for full-time employees of public bodies, especially, as in one case, when this was contrary to the advice provided to the individual concerned by one of the leading accountancy firms.

The Department should have a clear and coherent approach to all forms of tax avoidance. The Committee will consider the issue further in the light of the Government's report on the extent of this practice in the public sector.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The Government has made it clear that it will take a firm line on tax avoidance. It set out its position in *Tackling Tax Avoidance* published at Budget 2011. This also set out the Department's anti-avoidance strategy, comprising of three elements: prevention, detection and counteraction. The Department's approach is to design out the opportunities wherever possible, to discourage adoption of aggressive tax planning policies, to secure early disclosure of avoidance schemes and to challenge schemes wherever possible, litigating if necessary. Where appropriate, the Department will advise Ministers that a change in the law may be necessary to counter an avoidance issue.

5.3 The Department is also developing its processes for tackling avoidance. There is a single owner within the Department with responsibility for all aspects of each tax, including development of handling strategies against avoidance risks. The Department has a governance process for approving and monitoring these handling strategies to ensure that the response and the resources used are appropriate to the risk; and is implementing new processes so that all avoidance issues with multiple users are project managed in line with the agreed handling strategy.

5.4 The Department has a clear policy on its approach to managed service companies (MSCs) as statutorily defined. It believes that MSCs are always avoidance devices and, as such, Parliament legislated in 2007 to ensure that where they are used, all money paid to a person in an MSC is treated as employment income and subject to tax and National Insurance as if the person were an employee. Where the MSC cannot pay the Pay As You Earn (PAYE) and National Insurance Contributions, there is a transfer of debt provision from the MSC to the person operating through the MSC, or the person who set up and ran the MSC, or a person instrumental in the avoidance. The Department has a dedicated compliance team to target MSCs and ensure that they pay the tax and National Insurance due.

5.5 Small limited companies, commonly known as personal service companies (PSCs) are often legitimate commercial arrangements. Where a PSC is used to disguise what would otherwise be an employment relationship between the worker and the engager there is high profile anti-avoidance

legislation already in place, commonly known as 'IR35'. IR35 requires that, where the relationship between the worker and the engager would be one of employment. If it were not for the interposition of the PSC, then all of the payments from the contract, other than 5% for expenses, must be subject to tax and National Insurance, as if it were employment income. It is only where there is an employment relationship, and the PSC has failed to operate IR35, or withdraw the profits as PAYE income, that there is a potential tax loss.

5.6 Following the Budget 2011 announcement, the Department has improved the way it administers the IR35 legislation. This includes setting up specialist teams to tackle avoidance of employment taxes, specifically where the IR35 legislation has not been applied. The Department has also made clear, that the new specialist teams will be focused on those who are seeking to put in place PSCs to disguise an employment relationship, whichever sector they are operating in.

5.7 The recent Treasury Review of tax arrangements of public sector appointees²³ considered engagement arrangements used within the public sector. It was not designed to find evidence of tax avoidance, but to identify circumstances where they may be a risk of tax loss. The recommendations of the review mean that departments will have the ability to assure themselves that the tax arrangements of their senior appointees are no longer open to question.

²³ http://www.hm-treasury.gov.uk/d/tax_pay_appointees_review_230512.pdf

Eighty Eighth Report

Ministry of Defence (MOD)

Managing the change in the defence workforce

Report Summary from the Committee

The Ministry of Defence (the Department) announced in the summer of 2010 that it had a funding gap of £38 billion over the next ten years. As part of the Government's efforts to reduce the deficit, the Department also needs to reduce its annual spending by 7.5% in real terms by 2015. It intends to achieve a significant proportion of its required savings by reducing its civilian personnel by 29,000 and its military personnel by 25,000, which it estimates will save £4.1 billion between 2011 and 2015. In October 2010, the Government published the Strategic Defence and Security Review, which set out its future priorities and plans in the context of the need to balance its budget. The Department is currently enacting a transformation programme to change its way of working in order to deliver on these priorities with fewer staff.

The Department has acted decisively to put plans in place to implement reductions in its workforce. However, it has done this before it has finalised its new operating model. The operating model will set out the detail of how the Department will meet its objectives in the future, but its reductions in workforce will be well advanced before the model is agreed. The Committee are concerned that the Department's plans to reduce the workforce have been determined more by the need to cut costs than by considering how to deliver its strategic objectives in the future.

A lack of clarity about the Department's future workforce requirements and the skills it therefore needs to retain means there is a risk of further skills gaps developing. This could make the Department increasingly reliant on external expertise. The Department's consultancy expenditure through the Framework Agreement for Technical Support has grown from £6 million in 2006-07 to £270 million in 2010-11 indicating a greater reliance on external expertise. The Committee is not convinced that the Department has considered how its consultancy budget will be affected by reductions in staff with key skills.

The Committee welcomes the Department's candour about staff morale. Given the scale of change in the Department it is not surprising morale is low and the Committee was encouraged that the Department is taking active steps to improve internal communications on its transformation programme.

On the basis of a Report by Comptroller and Auditor General, the Committee took evidence from the Ministry of Defence on its plans for reducing its workforce.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

1. The Department has a difficult financial situation ahead, needing to reduce its annual spending by 7.5% in real terms by 2015. It intends to achieve a significant proportion of these savings by reducing civilian and military personnel by 29,000 and 25,000 respectively. The Department has acted decisively to implement workforce reductions. Nevertheless, it faces a significant challenge in balancing operational needs with financial restrictions. Within months of settling the Comprehensive Spending Review, the Department has already increased the number of staff it needs to lose by 12,000 to 54,000. Such changes make rational headcount planning very difficult.

The recommendations below are intended to address the risks we see in the Department's plans.

PAC CONCLUSIONS AND RECOMMENDATIONS 2 to 4

2. The reduction in the Department's workforce will be well advanced before its new operating model is finalised. The Department plans to agree a full operating model by April 2013, by which time staff departures through the military redundancy and civilian early release scheme will be well underway. The Department has good information on the skills of its military staff but recognises it needs to do more to improve its information on civilian skills.

There is a danger that if staff reductions are not based on a clear new set of objectives the Department will lose the skills it will need to meet its objectives.

3. The Department's expenditure on external support has increased significantly in the past five years. The Department's consultancy expenditure through the Framework Agreement for Technical Support has increased from £6 million in 2006-07 to £270 million in 2010-11. This indicates an increasing reliance on external expertise. If the Department loses key skills it may have to replace those skills at potentially greater cost. The Committee is not convinced that the Department has considered how its consultancy budget will be affected by losing staff with key skills or how it will ensure value for money.

Over the period of the transformation programme, the Department should review and monitor the extent to which staff who have left are being replaced by consultants.

4. Morale in both the military and civilian workforce is low. This is not surprising given the scale of change in the defence workforce and the Committee welcomes the Department's candour about this matter. One impact of low morale is that more staff might choose to leave of their own accord creating further skills shortages, which may be costly in the long term. The Department recognised this important issue and has committed to engage in a "major programme of communications" as part of its transformation programme.

The Committee expects to see a measurable improvement in the Department's morale indicators.

1.1 The Government notes the Committee's comments.

Recommendations implemented

1.2 As described at the Committee's hearing on 29 March 2012, skills formed a critical part of decisions on whether to release civilian staff under voluntary early release. Some 72% of the overall assessment of whether to say 'yes' or 'no' to somebody who volunteered was on the basis of the skills of that individual. During the first phase of releases, the Department made 8,000 offers against 13,000 applications. More than 5,000 applications were rejected on the basis of the skills and costs using the methodology set out by the National Audit Office (NAO) in their report²⁴. The Department has already acknowledged that the quality of data on skills is not as good as is required and has tasked each of its senior budget holders to provide work force and skills plans setting out how many people are employed and what skills they have.

1.3 The Department has sought to strike a balance. The first draft of the blueprint was issued in December 2011 and whilst there is further detail to be added, there were opportunities to reduce workforce numbers on the basis of the information already known. For example: the workforce reductions in the Royal Navy, where over half the reductions are a consequence of force structure changes announced following the Strategic Defence and Security Review (SDSR) in 2010, do not require any additional understanding to make the necessary reductions. Version 2 of the blueprint, containing more detail, was published in June 2012.

²⁴ http://www.nao.org.uk/publications/1012/defence_workforce.aspx

1.4 The Department's note to the Committee on 3 April 2012 refers to the Framework Agreement for Technical Services (FATS), which gives project team's access to nearly 400 suppliers, on standard terms and conditions, and pre-agreed rates, across a range of technical capabilities. Exemptions are given to procure technical support outside of the FATS only if it cannot provide the capability sought. The budgets for such technical services expenditure are approved by Ministers as part of equipment and other programmes' overall cost budgets at the outset, where the programme value requires it.

1.5 The FATS is not used to procure general strategic and management consultancy. Additionally, because it is used only for the provision of technical skills not available in-house, it cannot be used to fill vacancies that have arisen in the Department's civilian workforce. It is, however, used for services such as the provision of independent safety auditors as the Department's safety policy requires the engagement of a safety auditor to provide advice on the adequacy of safety management arrangements, and audit of safety related material. This ensures that projects are developed in accordance with stringent safety requirements.

1.6 Expenditure on the FATS has, in recent years, been brigaded in to a single place to allow for a greater level of monitoring and control over that expenditure. The Department estimates that prior to the introduction of the FATS, the expenditure on technical support, through multiple individual contracts, was in the region of £325 million per annum. In addition, FATS expenditure saw a 10% reduction from £297 million in 2009-10 to £267 million in 2010-11.

1.7 On consultancy, as distinct and separate from FATS, expenditure fell from £105.598 million in 2008-09 to £25.5 million in 2010-11.



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