HM TREASURY

TREASURY MINUTES

Government responses on the Forty Sixth to the Fiftieth Reports from the Committee of Public Accounts: Session 2010-12

Cm 8244 December 2011

Treasury Minutes on the Forty Sixth to the Fiftieth Reports from the Committee of Public Accounts: Session 2010-12

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Forty Sixth Report

Department of Health (DH)

Transforming NHS ambulance services

Report Summary from the Committee

Ambulance services provide a valuable service that is held in high regard. Eleven regional ambulance services operate across England. In 2009-10, they handled 7.9 million emergency calls, and spent £1.5 billion on urgent and emergency services. Ambulance services are expected to make 4% efficiency savings year-on-year, in line with the rest of the NHS, at a time when public demand for their services continues to rise.

Until 1 April 2011, the Department measured the performance of ambulance services against three response time targets. These were introduced in 1996 to focus attention on improving basic standards and achieving consistency across the country. But the incentive to meet response time targets has led to some inefficiencies. For example, some ambulance services send more than one team to incidents, over-committing vehicles and staff. The Committee welcomes the Department's decision to introduce a wider suite of health quality indicators to create a broader performance regime in which response times remain one indicator.

There is wide variation in the cost of responding to an incident across ambulance services, which is underpinned by variation in a number of other factors, such as sickness absence, overtime and back office costs. Ambulance services need to produce more consistent performance data in order to benchmark and share best practice so that efficiency can be improved and variations reduced across the country. For example, they do not currently collect and share comparable data on the extent to which ambulance crews are utilised when on duty. Although the Committee notes the Department's and ambulance services' commitment to provide more reliable benchmarking data and reduce variation, the Committee were disappointed that it has taken so long to address the variation in efficiency.

Under the NHS reforms, there is still a great deal of vagueness around who will be responsible for what in the new system. It is not clear who will be responsible for commissioning ambulance services, who will be responsible for improving efficiency across ambulance services, or who will intervene if a service runs into financial trouble or seriously underperforms. In the future, ambulance services will become foundation trusts and be directly accountable to Parliament, but it is not realistic for each ambulance service to be individually accountable to us for value for money. There needs to be greater clarity on the roles and responsibilities of the Department, commissioners and ambulance trusts, with appropriate structures for accountability to Parliament on value for money.

Other parts of the health system affect ambulance services' performance. A more integrated emergency care system is required to ensure that ambulances are not kept waiting outside accident and emergency, can hand over patients faster and get back out to help others. The Department has plans to align the objectives of those involved in the provision of urgent and emergency care providers. There are also varying levels of collaboration between ambulance, fire and police services which should be strengthened and the Committee look to Government to investigate the scope for further co-operation to identify savings in areas such as procurement and back-office services.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department, the ambulance service and ambulance service commissioners on the value for money ambulance services provide.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Ambulance services provide a valuable service that is held in high regard for the care it provides for patients, but more could be done to improve efficiency and value for money.

Wide variations exist in unit costs and efficiency across ambulance services. Better benchmarking and sharing of best practice could help to reduce these variations. Monitoring and interventions at a national level are needed to increase efficiency and achieve better outcomes and value for money. The recommendations set out below are intended to help the Department, commissioners, and ambulance services achieve these aims.

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

1.2 The Department recognises that the ambulance services have national plans in place to address variations in costs, efficiency and value for money in the future.

1.3 The Department has introduced initiatives to focus on patient outcomes.

PAC CONCLUSION AND RECOMMENDATION 2

Under the NHS reforms, it is not clear who will be responsible for achieving efficiencies across ambulance services or intervening if an ambulance service runs into financial difficulties or fails to perform.

The NHS Commissioning Board will be accountable for the continuation of '999' services in all situations, but individual trusts will be accountable to Parliament. However, the Department could not clarify who will be responsible for improving efficiency across ambulance services or taking action in cases of underperformance. The Department should clarify roles and accountabilities for the emergency care system and quickly develop an intervention regime to protect '999' services in situations where providers fail.

2.1 The Government agrees with the Committee's recommendation.

2.2 Under the Government's proposals, all NHS ambulance trusts will become foundation trusts. As with all other foundation trusts, the Board of an ambulance service would be responsible for delivering efficiencies and for responding to any financial or clinical difficulties. However, all foundation trusts will be subject to the framework for securing continued access to NHS services set out by the Health and Social Care Bill. Under this framework, commissioners would be responsible for securing continued access to NHS services, including ambulance services, to meet the healthcare needs of their populations.

2.3 Monitor, the independent regulator of NHS foundation trusts, would support commissioners to secure continued access to NHS services through proactive regulation to prevent providers becoming unsustainable, where possible. Through an ongoing assessment of risk to provision of NHS services, Monitor's licensing regime would allow a range of different interventions that could be applied, including:

- the ability to access a provider's records and premises
- requiring a provider to supply additional information
- requiring a provider to produce a turnaround plan to reduce the unacceptable risk to continued access to NHS services
- requiring a provider to appoint turnaround experts to increase Board capacity to resolve the issues facing the organisation.

2.4 The Department would expect providers to return to normal operation and delivering high quality care following the interventions described above. However, in rare circumstances, it might be possible that the interventions are unsuccessful and the provider becomes unsustainable. In these circumstances, Monitor would appoint an administrator to take control of the provider's affairs. The administrator would be tasked to secure continued access to services identified by commissioners and to develop and consult on a plan to secure the long-term viability of those services. The administrator would have access to additional funding to help secure continued access to NHS services from the financial mechanisms that will be set up by Monitor. More details on the Government's proposals can be found in the document *Securing continued access to NHS services*.[1]

2.5 Providers of ambulance services are required to register with the Care Quality Commission and to meet the essential levels of safety and quality. Where an ambulance service does not meet these levels, the Care Quality Commission has the power to take enforcement action to bring about improvements.

2.6 The Permanent Secretary (the Principal Accounting Officer) of the Department is accountable to Parliament for the proper stewardship of the resources allocated to the Department. The Accounting Officers' responsibilities are set out in the Treasury guidance *Managing Public Money.* In summary these are:

- to ensure that all the expenditure of the Department, its arm's-length bodies and the NHS (including NHS trusts and NHS foundation trusts) is contained within the overall budget – the Departmental Expenditure Limit;
- the Accounting officer should assure herself that the individual organisations within the system are performing their functions and duties effectively and have the necessary governance and controls to ensure regularity, propriety and value for money; and
- to ensure that Ministers are appropriately advised on all matters of financial propriety and regularity, and value for money, across the systems for which the Department is responsible.

PAC CONCLUSION AND RECOMMENDATION 3

The Department was unable to tell us who will be responsible for commissioning ambulance services under the NHS reforms.

Ambulance services are currently commissioned by primary care trusts. These trusts must commission the emergency care response to '999' calls from the ambulance service in their region, but the degree of choice in how they procure additional services, such as using paramedics in GP surgeries, is unclear. The Department must clarify how ambulance services will be commissioned and what choice commissioners will have over the providers of emergency and urgent care.

3.1 The Government agrees with the Committee's recommendation.

3.2 The new commissioning architecture will devolve responsibility for most commissioning to local clinical commissioning groups, supported and held to account by an independent NHS Commissioning Board.

3.3 Subject to the passage of the Health and Social Care Bill, clinical commissioning groups will commission urgent and emergency care and ambulance services for their patients. The Department expects clinical commissioning groups to commission from providers who are best placed to provide high quality clinical services. The Department will set out clear expectations as to how commissioners should do this in secondary regulations and this will be supported with detailed guidance from the NHS Commissioning Board.

[1] http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_129819.pdf

3.4 Clinical commissioning groups should make decisions appropriate for their local needs. This includes urgent and emergency care services, and ambulance services. The way these services are commissioned and procured would need to be done appropriately, working within guidance from the NHS Commissioning Board. Clinical commissioning groups, in the same way as current primary care trusts operate, may choose to act collectively to coordinate care over larger geographical areas, for instance adopting a lead commissioner model to negotiate and monitor contracts with urgent care providers. Through the NHS standard contract, commissioners will set standards, quality requirements and outcomes that providers, such as ambulance trusts, will have to meet in the delivery of services to patients.

3.5 There are already a range of emergency and urgent care services provided in the NHS by a range of providers - for example: minor injuries units and patient transport services and non-urgent ambulances.

PAC CONCLUSION AND RECOMMENDATION 4

Performance information on ambulance services is not always comparable, making it difficult to benchmark services and identify the scope for efficiency improvements.

Ambulance services will have to meet demanding efficiency targets in the next few years. Although they work closely together through various forums, there is still considerable variation between ambulance services in areas such as cost per incident, the staff skills mix in ambulance crews, sickness absence and back-office costs. In addition, ambulance services do not have a standard way of measuring the use made of ambulance crews while on duty (utilisation rate). The Department should set standard definitions for the data to be measured by each ambulance service to enable benchmarking, and certify the quality of data-generating systems. Commissioners should use this data as a basis on which to seek service efficiencies. Ambulance services should use it to share best practice and maximise efficiency.

4.1 The Government partially agrees with the Committee's recommendation. The Department agrees with the spirit of the recommendation, but not with the mechanism to achieve this as it is not appropriate for the Department to set standards for the service.

4.2 The Department is moving to measuring ambulance clinical quality indicators that focus on the outcomes and quality of care delivered for all ambulance calls and it is valuable that the Committee recognises this. The Department believes it would be beneficial for ambulance trusts to collect information based on standard definitions, where appropriate, and that this would help to reduce variation. However, it is not for the Department to specify such definitions due to the operational nature of the service and the need for local services to best collect data to meet their needs.

4.3 The newly established Association of Ambulance Chief Executives will develop a programme of work looking specifically at benchmarking for improvement across all ambulance services.

4.4 The Department believes that commissioners should use all information available to them to assess the safety, quality and performance of the ambulance services they commission.

4.5 Utilisation rate definitions were discussed at the National Ambulance Operations Directors Group meeting and two national definitions will be agreed and used from December 2011.

4.6 In addition, the National Ambulance Finance Directors Group has requested that the benchmarking work, carried out for the NAO report, be repeated. Work will commence shortly. The assessment of productivity across a range of metrics with agreed definitions will be a key part of this work. Given the size of the challenge that ambulance services face in terms of their cost improvement programmes it is widely recognised that an increase in the sharing and learning around cost and productivity will be needed in future. The Ambulance Service Network recently ran a national conference for all ambulance services in England. The conference looked at how to save the ambulance service £100 million and included best practice presentations of Quality, Innovation, Productivity and Prevention from across the country. This exercise will be repeated in future.

PAC CONCLUSION AND RECOMMENDATION 5

Focusing on response time targets has improved performance but has also led to some inefficiencies.

A focus on response time targets was needed to improve basic standards and achieve consistency across the country. But currently response times are measured from the moment the '999' call is received from BT, rather than after obtaining sufficient information on a patient's condition to determine the most appropriate response. This has led to an over-commitment of vehicles and staff as ambulance services often send more than one team to an incident. This can waste resources and result in other patients not getting the most appropriate care. The Department introduced a wider range of clinical quality indicators in April 2011 and plans to review them in a year. The Department should review how response times are measured to ensure ambulance services have sufficient flexibility to identify the most appropriate response to calls before resources are deployed.

5.1 The Government agrees with the Committee's recommendation.

5.2 NHS Ambulance Services in England have some of the fastest 999 call answering and ambulance response times in the world and the service has worked hard over the past ten years to achieve significant improvements.

5.3 Ambulance Trusts are performance managed against the A8 and A19 response time targets. The A8 target requires 75% of category A (immediately life threatening) calls to receive a response within 8 minutes and the A19 target requires an ambulance needed to transport a category A patient to arrive within 19 minutes of the request for transport being made, 95% of the time. However, there has been an increasing recognition that patient outcomes, and not response times alone, need greater focus.

5.4 Last year the Department sponsored a multi-disciplinary group to look at the removal of the Category B 19 minute response time target, the introduction of new national clinical quality indicators and a possible change to the clock start time for the A8 target which governs response times to emergency and life threatening situations. The first two pieces of work have been successfully implemented and ambulance services are now starting to use this new clinical comparative data to improve clinical care. The removal of the B19 target has already increased flexibility in terms of appropriate responses being deployed. It is anticipated that the publication and review of the ambulance clinical quality indicator data will decrease variation in performance between trusts and will therefore help to improve efficiency.

5.5 In terms of the existing A8 'call connect' system, the Department acknowledges that the current dispatch arrangements used by ambulance services to achieve this target may lead to over commitment of vehicles and staff. Two trials on a change to how the A8 target is measured have been undertaken to assess the impact and the Department is currently assessing the clinical safety of the current response time arrangements against that of the proposed change. The Department is looking at the whole system of dealing with care of the most seriously ill patients and is working to introduce a change once a safe approach is agreed.

PAC CONCLUSION AND RECOMMENDATION 6

Delays in handing over patients from ambulances to hospitals lead to poor patient experience and reduced capacity in ambulance services.

Over one-fifth of patient handovers from ambulance crews to Accident and Emergency staff at hospitals take longer than the 15 minutes recommended in guidance. If ambulances are queuing in hospitals, they are not available to take other calls. Commissioners should take a consistent approach to penalising hospitals that do not adhere to the guidance of 15 minute handovers and the Department should also develop a quality indicator for hospital trusts on hospital handover times.

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

6.2 The Department introduced clinical quality indicators for Accident and Emergency Departments in April 2011. One of the indicators measures the time to initial assessment for all patients arriving by ambulance. The indicator is a headline measure under national oversight to assess organisational and system health in the NHS Operating Framework for 2011-12; a 95th percentile time to assessment above 15 minutes may trigger performance management intervention. Data on this indicator are published monthly for each provider. This therefore means that hospital trusts are already, via an indirect route, monitored against their ability to perform timely patient handovers as initial assessment cannot occur until a patient is handed over from the ambulance crew.

6.3 Strategic health authorities, primary care trusts and acute trusts have focussed on making improvements in those hospitals that have consistently struggled with handovers and there have been some significant improvements, however more work is still needed. A range of technological enhancements have given acute trusts a better ability to plan for ambulance patient arrivals as has the introduction of capacity management systems in ambulance control rooms which allow ambulance control managers to manage the destination of ambulances to those hospitals with most capacity. In addition, commissioners are looking to use the acute standard contract for 2011-12 to incentivise hospitals through the Commissioning for Quality and Innovation framework to improve turnaround.

6.4 The Department does not think it appropriate to develop a specific clinical quality indicator for hospital trusts on handover times as this would be a process focused measure and would, to a large extent, duplicate the existing indicator on time to initial assessment.

6.5 The Department is keeping the Accident and Emergency and ambulance clinical quality indicators and their data under review. At an appropriate point in this review, the Department will consider appropriate indicators for the commissioning outcomes framework.

PAC CONCLUSION AND RECOMMENDATION 7

Ambulance services do not collaborate sufficiently with other emergency services to generate efficiency savings.

Although ambulance services collaborate with fire services and police forces in some areas, there is scope for a more systematic approach to sharing procurement and back office services across the emergency services. The Efficiency Reform Group should work with the departments responsible for fire, ambulance and police services to commission an independent review. The review should examine what efficiencies and enhanced service delivery could be achieved by increased joint-working across the emergency services and should look to maximise opportunities for co-location, for example in the empty regional fire centres.

7.1 The Government partially agrees with the Committee's recommendation.

7.2 Cabinet Office would be receptive to being approached by the emergency services organisations to explore the potential for efficiency savings through more collaborative procurement and back office shared services while respecting local autonomy. Emergency services can already access some of the central procurement categories if they are able to aggregate and commit spend. Cabinet Office is also developing a shared services strategy which, in due course, may be a model the emergency services wish to follow or learn more about.

7.3 The Government is also keen to encourage closer joint working between the emergency services as it will result in a more effective overall response to civil emergencies. To drive this work forward, the Government committed in the Strategic Defence and Security Review to "*improve the way the emergency services work together in an emergency*". Ministers are working jointly with the emergency services to identify how this might be achieved.

Forty Seventh Report

Department for Work and Pensions (DWP)

Reducing costs in the Department for Work and Pensions

Report Summary from the Committee

As part of the Government's target to reduce the budget deficit, the Department for Work and Pensions (the Department) has to reduce its running costs by £2.7 billion by March 2015. The Department intends to achieve over half of this reduction in 2011-12. It is important that the reductions in the £7.8 billion running costs do not lead to an increase in expenditure on benefits and pensions (currently estimated at £156 billion). The Committee are concerned that the Department lacks a clear plan to deliver these savings.

While the Department aims to improve value for money through fundamental reform, it faces a considerable challenge in doing so at the same time as implementing savings. The Department told the Committee that it was confident it could deliver all these changes effectively, but the Committee have real concerns about its ability to do so. For example, the introduction of Universal Credit is dependent upon the successful implementation of new IT, and this requires effective resourcing of the IT back office support services in the Department.

Furthermore, the Department is assuming running costs reductions from an optimistic expectation that most customers will communicate online with the Department. Both of these areas are high risk, and any delays are likely to impact on planned cost reductions. There are insufficient contingencies in place and services could be adversely affected if things do not go to plan. Too often this Committee has highlighted examples in other government departments where IT systems or projects have gone off track and emerging problems have gone unchallenged by staff.

Spending cuts of this magnitude necessitate fundamental reform to generate sustained efficiency savings – as plans are developed, more focus needs to be on the cost and value of activities so that short term benefits are not prioritised above long term efficiency savings. On the one hand, the Department closed the Future Jobs Fund, based on early analysis of its value for money, but on the other hand it will not have a full evaluation until 2012.

Work is underway to streamline the corporate functions in the Department and to reduce staff numbers in Jobcentre Plus, but it is not clear how the Department will operate as a result. The Department is currently unable to reconcile its proposals for reducing costs, for example by improvements in administrative efficiency, with the spending cuts required for the Spending Review (£1.45 billion in 2011-12). The absence of a clear model of how the Department will operate in future creates uncertainty and risks unsettling staff whose morale is already low, and we expect the Department to provide us with detailed plans as soon as possible.

On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department on its plans for reducing costs and reforming its services.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Faced with reductions of £2.7 billion in its running costs, the Department has been slow to determine how it will operate in future.

Cuts of this magnitude require major re-organisation if they are to generate sustained efficiency savings. The Department's plans for headcount reductions, or how services will be maintained, lack clarity. The Department should develop a clear, fully-costed model of how it expects to operate in future. It should keep staff informed of plans to achieve its model, in particular the extent and timing of planned headcount reductions.

1.1 The Government agrees with the Committee's recommendation and is continuously communicating with its staff as the Organisational Design Review is implemented.

1.2 The Comprehensive Spending Review was published in November 2010, in parallel with a Structural Reform Plan for major changes to create a welfare state fit for the 21st Century. Given the magnitude of the change which this requires, and – as the Committee should expect – the consequential need to rethink its operational models, the Department considers that it has operated at pace. For example: the Universal Credit Programme has been established, and has already delivered a third of the core IT for user interface and rules processing as well as a strategy for migration from existing benefits. Both of these necessarily inform choices now to be made about the detail of operations from October 2013.

1.3 In addition, the requirement to deliver a 40% reduction in the cost of the Corporate Centre has been quickly translated into a programme now well underway. By the end of March 2012, the baseline pay bill of the centre will have been reduced by 28% in one year.

1.4 All of this has happened while achieving the savings required in 2010-11, and remaining on track for the savings necessary in 2011-12. There is, of course, more to do to define the operating plans in more detail, now that these early steps have been taken. But the Department has not been slow.

PAC CONCLUSION AND RECOMMENDATION 2

The running cost reductions depend to a significant extent on optimistic assumptions that 80% of Jobcentre Plus customers will deal with their claims online.

Currently only 17% deal with their claims online and 31% of the poorest in society never use IT. The Department could not explain the basis of the 80% target at the hearing. Subsequent written evidence from the Department stated that 86% of JSA customers already use the internet and 67% have access in their homes, while just over 40% are "ready, willing and able" to use online JSA services. The Department should test the realism of the plans by Jobcentre Plus to process 80% of Jobseekers Allowance claims online and prepare a detailed plan for what it can achieve. It must also spell out alternative actions if the assumed savings from customers using services online are not achieved.

2.1 The Government agrees with the Committee's recommendation and plans to prepare a detailed plan by the end of March 2012.

2.2 Jobseeker's Allowance Online is a popular service: over one million claims have been made online to September 2011 and over 80% of people who have claimed online are satisfied with the service.[2] Take-up is increasing and the figure quoted of 17% is out of date. In September 2011:

[2] From user feedback. The proportion of users leaving feedback is small.

- the proportion of all JSA claims submitted online was 30.4%, an increase of over 60% from the 18.8% submitted in March 2011; and;

- the proportion of JSA claims completed online was 16.2%, an increase of over 55% from the 10.4% completed in March 2011. Not all claims submitted online are completed online, for some this is because they are either withdrawn or closed.

2.3 The Department considers this a priority and the activities being undertaken to drive further take-up include:

- using claimant and staff feedback to improve the online service, making it even more user friendly and attractive;

- raising awareness among those currently claiming JSA (because they may stop claiming and make a new claim quickly: around 40% of claims are from people with a previous claim within 6 months);

- raising awareness among those currently claiming another benefit who may move to JSA as a result of the reassessment of Incapacity Benefit claims and changes to Income Support eligibility; and

- raising awareness among those not currently claiming any benefit.

2.4 More detail of these activities will be included in the plan published in March 2012. In parallel, Universal Credit is being designed as a totally new user-focused online service, and a radical departure from the limitations of Jobseekers Allowance Online.

2.5 The online Universal Credit experience, co-designed with both staff and claimants, will be compelling, straightforward and an attractive proposition. The business model also puts online access and services at its heart – helping claimants to get online and stay online.

2.6 It is difficult to forecast accurately where take-up will reach as a result of these activities. Both HM Revenue and Customs (HMRC) and the Driving Standards Agency (DSA) took over seven years to reach a similar level, with a different demographic. The Department is monitoring progress and best practice carefully, and will ensure its plans are robust.

PAC CONCLUSION AND RECOMMENDATION 3

The Department admits that there are substantial risks attached to implementing major welfare reforms while at the same time reducing its costs.

The successful transition to Universal Credit, for example, will depend heavily on the development of a new IT system with HM Revenue and Customs to a very tight timetable. The Committee have often seen problems with delivering new IT to time, budget and specification. The Department should allocate clear responsibility for scrutinising progress of the welfare reforms alongside cost reductions, develop a clear understanding of the risks to each and how they will be managed and encourage staff to report any emerging problems early.

3.1 The Government agrees with the Committee's recommendation and is already doing so.

3.2 The Department has already changed, and strengthened, its ability to manage these risks. The Departmental Board is now chaired by the Secretary of State, and includes experienced, non-executive directors; the Department's Executive Team has been restructured, and Executive Agency Boards removed, to bring clear, senior leadership across the Department's agenda; clearer personal accountability has been established for each of the major welfare reforms, supported by a new Portfolio Management Unit; and the Department is significantly tightening its grip on financial and performance data.

PAC CONCLUSION AND RECOMMENDATION 4

The plans for spending and cost reductions are not transparent.

The Department was not able to reconcile its planned savings in 2011-12, for example by improving administrative efficiency, with the reductions required in the 2010 Spending Review (£1.45 billion in 2011-12). The additional sums available for Universal Credit and other welfare reforms cannot be used to hide the need for efficiency savings during the Spending Review. For each business unit, such as Jobcentre Plus, the Department should publish baseline costs and regular updates on progress in securing cost reductions each year, including outturn against plans for key projects that contribute to the savings, such as the implementation of Universal Credit.

4.1 The Government agrees with the Committee's recommendation and will report further in the 2012-13 Delivery Plan.

4.2 There is transparency in the aggregated spending plans for 2011-12, and later years, which were set out in the Comprehensive Spending Review 2010. The Structural Reform Plan also detailed the planned welfare reforms, including Universal Credit. These plans made clear the level of efficiency savings required. The Department will consider what further information could be provided, in its 2012-13 Delivery Plan, to demonstrate the relative financial impacts of efficiency, volumes, and investment.

PAC CONCLUSION AND RECOMMENDATION 5

It is not fully clear what the impact of running cost reductions is likely to be on the cost of benefits and pensions. Nor is it clear which department bears the cost of any such impact.

Although the running costs of £7.8 billion are relatively small in comparison to the £156 billion on benefits and pensions, any reorganisation risks impacting on welfare costs if they are not managed appropriately. The Department could not quantify the impact of its 2010-11 cost reductions on service delivery in sufficient detail to measure efficiency savings. As many of the reductions planned for 2011-12 are similar, it is important that this is remedied quickly. The Department should develop and apply a methodology for measuring the impact of running cost reductions on benefits and pensions expenditure. The Department and the Treasury should clarify how any variances in the cost of benefits and pensions would be funded.

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

5.2 The Department will develop by March 2012 its ability to quantify (and hence manage) the impact of operational cost reductions on benefit and pension expenditure. It is worth noting, though, that most of the savings being achieved are driven by productivity improvements through benchmarking performance of individual units against their peers, through the use of lean techniques, and through the introduction of technology. The Government does not believe that these approaches will put benefit and pension expenditure at risk.

5.3 The Department recognises its responsibility to save operational costs in a way which does not put larger benefit and pension spending at risk. It is not, therefore, seeking an agreement with the Treasury on a mechanism for funding variances it seeks to avoid.

PAC CONCLUSION AND RECOMMENDATION 6

While the Committee welcomes the contingencies that are in place, the National Audit Office believes that they are insufficient and the Department has little flexibility to adjust its plans if expected savings do not materialise.

It is imperative that reductions secure sustained efficiency gains rather than short term cuts that adversely affect services. The consequences of failure fall to the taxpayer and welfare recipients. Some parts of the Department have included contingencies in their plans but this prudence is not widespread and the Department does not have a clear back-up plan. The Committee will regularly hold the Accounting Officer to account for progress. As a first step, by October 2011 the Department should review the main risks to securing efficiency savings in 2011-12 and the adequacy of the contingencies it has available.

6.1 The Government agrees with the Committee's recommendation. The second, of three, reviews this financial year began in September 2011, and is due to complete shortly.

6.2 New opportunities for savings are already being identified, for example, through benchmarking performance of individual units against their peers, which is driving improved productivity.

6.3 The scale and complexity of reform in future years is challenging. The Department is significantly tightening its grip on the financial and performance data necessary to manage these challenges, with the aim of clarifying appropriate contingencies. Again, early indications from the current review are that plans across the Spending Review period are consistent with the funding available.

6.4 The Department will report further progress in the Treasury publication *Treasury Minutes: progress on implementing recommendations*.

Forty Eighth Report

Foreign and Commonwealth Office (FCO)

Spending reduction in the Foreign and Commonwealth Office

Report Summary from the Committee

Around half of the Foreign and Commonwealth Office's (the Department's) budget is spent in foreign currencies. As a result of a decline in the value of sterling, in September 2009 the Department faced an overspend of £91 million on its 2009-10 budget (£72 million centrally and £18.8 million overseas), out of its total budget of £1.6 billion.

The Committee recognises that the Department did well to reduce spending so quickly, which enabled it to live within its budget. However, many of the spending cuts the Department made were short term in nature, and involved simply delaying or stopping some activities, rather than making lasting efficiency improvements. The Department did not do enough to monitor and measure the impact of its cuts and there is a risk that such short term cuts can lead to increased spending in the future.

In 2008, the Treasury removed the protection it had previously provided to the Department against exchange rate fluctuations. The Committee are concerned that the Department did not have the expertise or experience to effectively manage the risk of a fall in exchange rates, and that the Treasury imposed poor value for money conditions on forward purchasing foreign currency which further limited the Department's ability to do so.

The Department told the Committee that it needs to achieve sustainable reductions in running costs of £100 million over the next four years. The Department regards its overseas estate as a potential source of these efficiencies and income, but in the past, high charges have had the unintended consequence of discouraging other government departments from sharing premises with the Foreign and Commonwealth Office overseas.

The Committee looks forward to seeing whether the Department's new charging agreement with users of its premises abroad successfully encourages other government departments to share its premises. A cross-government approach is important if government as a whole is to achieve the savings required to reduce the deficit.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Foreign and Commonwealth Office on why it needed to make such drastic cuts to its budget, the action it took to reduce its spending, and the lessons for the Department and government more widely on balancing the need for short term spending reductions with longer term efficiency gains.

Government responses to the Committee's recommendations

The decision to remove the Overseas Price Movements mechanism in 2008, which lead to the FCO spending cuts, was taken by the previous Government. The current Government did not support this and introduced a new Foreign Currency Mechanism this financial year as part of 2010 Spending Round. This protects the FCO against foreign currency fluctuations and provides greater certainty of spend.

PAC CONCLUSION AND RECOMMENDATION 1

The Treasury withdrew the Department's protection against exchange rate movements from 2008, but limited the Department's freedom to manage the risk of a fall in the value of sterling.

While the Department tried to manage this risk by forward purchasing foreign currency, the Treasury imposed poor value for money conditions on the process which limited the Department's efforts. For example, the Department could only forward purchase currency on one single day every month regardless of what was happening in the currency markets. The Department did not co-ordinate its purchases with other departments, including the Ministry of Defence, which also forward purchased foreign currency. The Treasury should review whether the management of exchange rate risk could be better co-ordinated across government and whether relaxing the conditions it imposes on forward purchasing would enable departments to secure better value for money.

1.1 The Government disagrees with the Committee's recommendation.

1.2 When the Treasury allows any Department to manage its own currency risk, it is always essential to ensure that the Department has sufficient skills in depth to carry out the necessary assessment, monitoring and trading; and avoid speculation or any appearance of speculation.

1.3 In 2008, with Treasury agreement, the FCO began to make its forward purchases on a single day each month to build in regularity and avoid undue speculation with taxpayers' money, reduce foreign currency administration costs, provide greater certainty in departmental cash management and partly to average risk over time. Subsequently, as part of the wider 2010 Spending Review negotiations, a new Foreign Currency Mechanism means that the Department now shares the risk of currency movements with the Exchequer. The Department along with the Department for International Development (DFID) also participates in the tri-departmental currency pool operated by the Ministry of Defence (MOD).

1.4 The Treasury considers that management of currency risks should be determined in the context of each Department's operational requirements, level of expertise and the specific foreign currency risk they face, provided that the principles set out in *Managing Public Money* are respected. It is therefore unnecessary to conduct a cross Departmental review.

PAC CONCLUSION AND RECOMMENDATION 2

Most of the cuts the Department made were short term and included delaying or stopping activities, which risked the Department spending more in the future.

The majority of the cuts were from doing less, rather than through efficiencies, and approximately 10% were through deferring expenditure. Furthermore, the Treasury agreed that the Department could move £33 million - over a third of the overall £91 million - from other budgets to help reduce the amount of cuts needed. In future cost reduction programmes, the Department must assess whether proposed cuts will lead to additional spending later on and take this into account when selecting areas to cut.

2.1 The Government agrees with the Committee's conclusion. The Department has learned important lessons from the urgent spending cuts it had to undertake in 2009-10. It has already taken steps to ensure that future cost reduction programmes will be sustainable over the longer term.

2.2 The spending cuts made by the FCO in 2009-10 were a short-term response to the immediate problem caused by the significant fall in the value of sterling against a number of foreign currencies. As the Committee recognises, these cuts were largely designed to reduce in-year spending quickly, rather than to achieve specifically long-term efficiencies. The Department's Ministers considered carefully the impact of the cuts being proposed, and used the following principles to make decisions:

- spending related to staff safety and security should be maintained;
- Departmental Strategic Objectives should be protected; and
- overseas post closures should be avoided where possible.

2.3 The cuts were thought through, prioritised, and – once agreed – monitored. However, the Department accepts that more could have been done in this respect.

2.4 To achieve its 2010 Spending Review settlement, the Department has developed a programme to reduce its annual administration costs by approximately £100 million in 2014-15. These savings are designed to enable the Department to maintain its diplomatic front-line activity over the long term. The savings will be achieved by restructuring the Department's corporate services, estate and workforce. The Department will carefully monitor the savings and evaluate their impact to ensure that they are achieved and that they do not adversely affect its front line operations. An Operations Committee and a new Network Board have been established for this purpose. The savings programme is also regularly scrutinised by the Department's Board.

PAC CONCLUSION AND RECOMMENDATION 3

Although the Department believed it was able to sustain those services which absorbed the greatest cuts, it did not do enough to monitor and measure the impact of the cuts made.

The Department has difficulty measuring the impact of its work more generally, for example the impact of its support to business. The Department should develop clearer metrics to select future financial cuts in a more rational way and concentrate efforts and resources where they are most valuable.

3.1 The Government agrees with the Committee's conclusion.

3.2 The nature of the Department's work makes it difficult to measure the overall impact of some of its activities - for example: conflict prevention work. Nevertheless, the Department accepts that it needs to continue to improve its ability to measure and evaluate the impact of its work, including commercial diplomacy.

3.3 The Department has developed a business planning process - including individual country business plans - as its main tool for monitoring and evaluating its overall performance in delivering the Government's Foreign Policy Priorities. In June this year, the Department's Business Plan was published detailing its work for the four year period covered by the 2010 Spending Review. This will be updated in early 2012 to reflect global developments and progress against objectives. Business plans are regularly reviewed to assess whether the Department is on track to deliver against its published plans.

3.4 The impact of the savings that the Department will need to make as a result of the 2010 Spending Review settlement will be carefully monitored and evaluated to measure the impact on front line operations. The Department is also improving its financial management systems to ensure that it can better focus resources on activities that have the most impact on the delivery of its priorities.

PAC CONCLUSION AND RECOMMENDATION 4

There is insufficient integration in the management of government properties overseas.

The expense of co-locating with the Foreign and Commonwealth Office discourages other government organisations from sharing the Department's space overseas. Some departments have therefore moved out of the Foreign and Commonwealth Office's properties. As a result there is potential duplication of costs, with a risk of the taxpayer paying for multiple government buildings in one location. A new charging agreement aims to reduce the Foreign and Commonwealth Office's charges and encourage other government organisations to share its premises. The Foreign and Commonwealth Office should produce an analysis of the costs of all premises occupied by UK government organisations overseas.

In light of this analysis, the Treasury should ensure that government organisations secure efficiencies through co-location where feasible, so that Government as a whole benefits, rather than one department benefitting at the expense of another.

4.1 The Government agrees with the Committee's recommendation

4.2 Treasury guidance is clear (*Managing Public Money*, Chapter 3) that Departmental Accounting Officers should ensure that value for money is achieved for the public sector as a whole, not just for the Accounting Officer's organisation.

4.3 As the Committee recognises, the Department introduced a new charging system in April 2010 which has reduced the costs for other Government Departments which co-locate with the FCO overseas. This was designed to encourage more departments onto the FCO's platform.

4.4 Since these changes were introduced, the British Council and the DFID have both conducted co-location reviews. The British Council has identified 12 more locations overseas where co-location is possible (in addition to the 31 posts where they are already co-located with the FCO). DFID has also identified seven overseas offices for possible co-location to add to the 24 co-located already. The first planned moves are progressing well.

4.5 There has also been significant interest from Visit Britain and Scottish Enterprise to move onto the FCO platform abroad as soon as they can free themselves from existing rental agreements for commercial office accommodation. In addition, the Department is obtaining data from other government departments with separate offices abroad, to ascertain whether any other potential co-location opportunities exist.

4.6 More generally and in support of greater estates coordination by UK government organisations overseas, the Efficiency Reform Group in the Cabinet Office will also look at the scope for maximising co-location opportunities which provide good value for money for the taxpayer overall.

PAC CONCLUSION AND RECOMMENDATION 5

Recent events in the Middle East demonstrate that the Department needs to keep its finances flexible to deal with emerging global crises.

This is even more difficult when it must make cuts of 10% to its core budget over the four year spending review period. The Department should develop contingency saving measures to hold in reserve so that it can respond to unexpected worldwide events without affecting its ability to make necessary efficiencies and stay within its budget.

5.1 The Government agrees with the Committee's conclusion.

5.2 In line with Treasury budgetary guidance, the Department holds £10 million as a Departmental Unallocated Provision (DUP) in reserve to meet unforeseen costs. In recent years, the Department has been able to use the DUP to help deal with adverse currency movements. The Department's Consular Department also has a Crisis Contingency Fund which is the first port of call to fund crisis work. Where the costs of a crisis overseas involving British nationals exceed the specified threshold, the Department may apply to the Treasury for access to the Emergency Disaster Reserve (EDR) which is funded by an element of the passport fee. This arrangement was confirmed in the 2010 Spending Review settlement and there is therefore no requirement to establish additional reserves above that of the Department's DUP and the EDR.

5.3 With regard to keeping finances flexible, the Department monitors its budget and regularly reprioritises in-year resources in order to seek the best value for the taxpayer and to achieve the Government's foreign policy priorities. The Arab Spring - and events in Libya in particular - has inevitably put additional pressure on the FCO budget during the current financial year. The Department is working to reprioritise spending to meet unforeseen costs from within its existing budget whilst also implementing its programme of savings in respect of its annual administration costs.

Forty Ninth Report

Cabinet Office

The Efficiency and Reform Group's role in improving public sector value for money

Report Summary from the Committee

The Efficiency and Reform Group (the Group) was established within the Cabinet Office in May 2010 to lead efforts to cut government spending by £6 billion in 2010-11. Its long term aim is to improve value for money across government by strengthening the central coordination of measures to improve efficiency.

The Group's core objectives are closely aligned with our own role in seeking to improve value for money across government. We therefore welcome the creation of the Group. It has made a good start in its first year towards ensuring central government better coordinates its activities.

The imperative to make savings in the short term has involved the Group imposing new controls on departments, such as moratoria on certain expenditure. This approach has depended on the support of ministers and informal relationships with the Treasury, but sustained efficiency improvements will need a much deeper change to both the culture and institutional structure of government. In the longer term, the Committee expects to see a clear plan for what the Group intends to achieve and how it will get there. The Group also needs to clear up confusion over who is accountable for what in terms of improving value for money, especially in defining its responsibilities and those of the Treasury and individual departments.

Since the Committee's hearing, the Group has reported to us that its actions have resulted in efficiency savings of £3.75 billion across departments in 2010-11. The Group's clear reporting of these savings demonstrates a welcome improvement on previous efficiency initiatives, where we were dismayed by the poor quality of reporting by departments. It is important for the credibility of the Group that it continues to describe any future spending reductions accurately and explain any impact on services.

The scale of the challenge to deliver efficiencies is huge: the Government intends that half of the £81 billion reduction in spending planned over the next three years should come from efficiencies rather than through cuts to services or delays to important projects. Many of the efficiencies must be achieved in areas where the Group currently has a limited influence, or by local bodies, where it has none. The Committee looks to the Group to set out how it will operate to ensure that its approach can be replicated across the wider public sector, while respecting the objective of devolving decision making authority to local bodies.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Cabinet Office on the Group's progress during 2010-11 and its longer term plans to improve Government efficiency.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Efficiency and Reform Group (the Group) has made a good start in its first year. However, the Group's interventions so far have relied heavily on political leadership and sustainable efficiencies will require permanent changes to institutional structures.

The logic of establishing the Group as a corporate headquarters for central government is sound, as it allows the Group to exploit potential synergies from bringing different corporate government functions under a single body. However, some important areas – notably finance – are under the control of other parts of government, potentially undermining the effectiveness of the Group's interventions. The Group and the Treasury should be clear and open about their defined areas of responsibility and need to develop strong partnership working to maximise the impact on Government efficiency.

1.1 The Government agrees with the Committee's recommendation.

1.2 The Cabinet Office has responsibility for all central efficiency and operational work, with the clearly defined exception of finance. It is right that this should fall under the authority of the Treasury. To reflect the shared agendas of governance, there is a strong organisational framework in place. Both the Public Expenditure Committee and the Efficiency and Reform Board are co-chaired by the Minister for the Cabinet Office and the Chief Secretary to the Treasury. In the case of the Efficiency and Reform Board, the Head of the Finance Profession would also attend. Furthermore, the Cabinet Office and Treasury share one building, with all levels enjoying strong working relationships.

1.3 There is also strong partnership work on finance matters, with the Permanent Secretary to the Cabinet Office as head of the Efficiency and Reform Group sitting on the Finance Transformation Programme Board chaired by the Economic Secretary to the Treasury. The Treasury and Cabinet Office are jointly developing a Management Information Strategy for Government, a recommendation from the Efficiency and Reform Board. The Treasury's responsibility for finance matters is clearly set out in documents such as *Managing Public Money* and *Managing Taxpayers Money Wisely.*

PAC CONCLUSION AND RECOMMENDATION 2

There is uncertainty about the respective responsibilities of the Group and individual departments for achieving value for money.

For example, the Group's ability to intervene in the management of major projects and negotiate with large suppliers means that departments' responsibility for their own projects and procurement decisions is less clear-cut than in the past. The 'tight-loose' relationship is likely to evolve and there is a risk that departments might attempt to use the Group as a shield to avoid responsibility and accountability for their spending decisions.

As the Committee set out in its April 2011 report on Accountability for Public Money, Accounting Officers must remain personally responsible to Parliament for how they spend taxpayers' money. If departments consider that central spending controls militate against securing best value for money, they should raise this formally with the Group. The Cabinet Office should confirm that the head of the Group is accountable to Parliament for the transparency of its decisions and the impact of its activities on value for money across government.

2.1 The Government agrees with the Committee's recommendation.

2.2 It is the natural role of the centre in any large organisation to ensure efficiency, whilst maintaining operational integrity. The efficiency and reform agenda does not diminish, but rather increases clarity of accountability. Cabinet Office led measures increase assurance that Accounting Officers are exercising their responsibility to provide value for money. Accounting Officers remain responsible to Parliament for their spending decisions. The Government confirms that, as part of his role as Accounting Officer, the Permanent Secretary at the Cabinet Office is accountable to Parliament for the transparency of Cabinet Office decisions and their impact on value for money.

PAC CONCLUSION AND RECOMMENDATION 3

The Committee's past experience of reviewing efficiency savings shows that departments' reported savings are frequently unreliable and impacts on front line services are often unclear.

The Government has ambitious aims for the scale of efficiency savings to be made, and intends that about half of the planned £81 billion reduction in public expenditure over the next three years will come from efficiencies rather than cuts to services. Following the Committee's hearing, the Group provided a note reporting that its activities produced savings of £3.75 billion across government in 2010-11, which included a breakdown of savings generated by each initiative.

The Group should seek to maintain a high degree of transparency in future reporting on savings, and in particular provide clear and accurate statements which set out: the level of savings delivered across government; whether savings arise from efficiencies or reductions in service; whether savings are permanent and sustainable; and the extent of any independent assurance on the reliability and accuracy of the reported savings.

3.1 The Government agrees with the Committee's recommendation.

3.2 In the last year significant improvements have been made in how savings are reported. This was acknowledged by the Committee's endorsement of the Cabinet Office savings approach. Raising standards for clear reporting remains a key focus for the Department.

3.3 The Cabinet Office is committed to reporting savings clearly and transparently. The Cabinet Office's approach to efficiency has a focus on specific granular reforms; such as consolidating the London estate, mutualising *My Civil Service Pensions* and centralising some areas of common central government procurement. Benefit reporting mirrors this focus on granular reforms and the Cabinet Office intends to report at a detailed level the benefits derived in specific areas. Where different methodologies are used, the Cabinet Office will report this openly.

3.4 Following independent verification of the 2010-11 savings figures, the Cabinet Office published the auditors' findings to further strengthen transparency.

3.5 The Cabinet Office intends to build further on this open level of reporting and work is currently underway with audit partners to ensure satisfactory systems are in place to provide the Committee with assurance that this recommendation is complete.

PAC CONCLUSION AND RECOMMENDATION 4

The Group has had a strong short term focus on reducing government spending, but has not been clear about what it intends to achieve in the longer term.

In the absence of quantified targets, it is uncertain what the Committee can expect to see from the Group in two to three years' time or how the Committee will judge whether it has met its objectives. Lord Browne suggested that success criteria should include evidence of how the Group had affected the behaviour of those in Government, whether commercial decision making had improved and whether the Group had developed a unified approach consistent with its strategies across all government departments. The Group now needs to set out more clearly its aims over the spending period, specifying quantifiable measures of success. It should also put in place adequate management information systems to measure progress accurately and objectively.

4.1 The Government agrees with the Committee's recommendation.

4.2 The Government views efficiency and reform as two sides of the same coin. The Committee rightly highlights the Cabinet Office's focus on reducing Government spending. The Cabinet Office welcomes the contribution of greater scrutiny which the Committee brings as it continues to progress in this endeavour. Operational savings will derive from much of Cabinet Office's work and the Government expects this will be the equivalent of roughly one quarter of its planned deficit reduction.

4.3 However, efficiency is not a short term endeavour. It is a core priority of the Cabinet Office to focus on deeper structural change. The Cabinet Office has created cross-cutting bodies such as the Major Projects Authority who support Departments in embedding centrally modeled best practices; reform across areas as diverse as civil servants' pay and pensions; public bodies and civil society. The Cabinet Office is undertaking essential measures to build a leaner, higher performing civil service. The Cabinet Office agrees that metrics should be put in place to assess how well this is done.

PAC CONCLUSION AND RECOMMENDATION 5

The Group has direct responsibility for only a fraction of public sector spending, with many of the efficiency savings required by 2014-15 to be achieved in areas where the Group currently has no direct role.

Local public sector bodies, such as NHS trusts, need to contribute £20 billion of efficiency savings over this period. However, the Group does not have a remit to exercise 'tight' control over these bodies, as the Committee found in our May 2011 report on commodity procurement by NHS trusts. The Group must give further consideration to how the benefits of its approach could be replicated across the wider public sector, while respecting the powers of local decision making bodies. For commodity procurement in particular, the Group should develop and promote arrangements for the wider public sector to take up the best deals, including triggers to mandate actions if progress is slow.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Cabinet Office has concentrated the efficiency and reform programme on spend within central government control. This approach has been successful with departments achieving savings worth £3.75 billion in the first year. The Cabinet Office intends to build upon this achievement to embed long-term transformational change across the civil service. This will require sustained focus across central Government Departments.

5.3 At the same time, the Cabinet Office recognise that the majority of Total Managed Expenditure (TME) is spent within the wider public sector and that joint working has the potential to deliver significant benefits. The Cabinet Office also recognises the importance of specialist expertise in local bodies who are best placed to determine their requirements; a prescriptive approach would run contrary to the localism agenda and may lead to perverse outcomes. The Cabinet Office is, therefore, receptive to working with wider public sector on mutually beneficial programmes. For example, the Government Procurement Service already manages procurement spend for a range of local bodies in the wider public sector. Moreover, some centralised procurement categories have been made accessible to local public sector bodies if they are able to aggregate and commit spend.

PAC CONCLUSION AND RECOMMENDATION 6

The senior civil service needs to prioritize a different set of skills to deliver cost reduction on the scale required.

Senior civil servants have traditionally been policy experts, but they also need strong implementation and project management skills in order to reduce spending while delivering sustainable improvements in value for money. The Group has responsibility for wider civil service reform and should set out detailed plans to develop the civil service's management capabilities, leadership and project management skills – especially among senior responsible owners and project directors. It should set a clear expectation that departments arrangements for recruitment, performance assessment, promotion and training must encourage civil servants to develop their implementation skills.

6.1 The Government agrees with the Committee's recommendation.

6.2 The Minister for the Cabinet Office has made clear that improving the Civil Service's ability to manage projects and programmes and deliver results is a top priority. The Cabinet Office is building implementation and project management skills at all levels in the civil service. Civil Service Learning - established in April 2011 to ensure all civil servants have the skills they need to do their job – supports senior civil servants to develop delivery skills, and provides new "e-learning" on Programme and Project Management (PPM) for all civil servants, complemented by various workplace learning resources. The Government PPM Profession, headed by the Efficiency and Reform Group Executive Director of Major Projects, provides more advanced learning options including for senior responsible owners and project directors.

6.3 The Major Projects Authority is also working with the "Top 200" senior civil servants to develop stronger PPM skills in the senior civil service, including through an initiative to encourage the Top 200 to become Gateway Reviewers to increase expertise around project delivery. Finally, the Department is launching the Major Projects Leadership Academy in early 2012, to build world-class project leadership skills by providing a dedicated training programme to develop world-class senior responsible owners (SROs) and Project Directors as project leaders with the right skills, knowledge and status to successfully deliver the Government's £300 billion portfolio of Major Projects. The key focus of the MPLA will be on leadership, business acumen and commercial expertise from both an academic and practical angle and will include lessons learned from previous major projects.

6.4 The Cabinet Office has recently completed work on reforming senior civil service (SCS) performance management policy. In order that the performance management process delivers the required rigour, the focus on competencies and behaviours has been emphasised alongside achievements: holding senior civil servants to account for the way they behave across the board, including their demonstration of delivery and implementation skills. The revised process also places an increased emphasis on fiduciary responsibility and the setting of strong objectives. The Civil Service Leadership Model has also been revised to reflect the importance of delivery skills for leaders across the civil service. This model is used to inform performance management, development and recruitment to executive levels.

Fiftieth Report

Department for Communities and Local Government (DCLG)

The failure of the FiReControl project

Report Summary from the Committee

This is one of the worst cases of project failure that the Committee has seen in many years. FiReControl was an ambitious project with the objectives of improving national resilience, efficiency and technology by replacing the control room functions of 46 local Fire and Rescue Services in England with a network of nine purpose-built regional control centres using a national computer system. The project was launched in 2004, but following a series of delays and difficulties, was terminated in December 2010 with none of the original objectives achieved and a minimum of £469 million being wasted.

The project was flawed from the outset, as the Department for Communities and Local Government (the Department) attempted, without sufficient mandatory powers, to impose a single, national approach on locally accountable Fire and Rescue Services who were reluctant to change the way they operated. Yet rather than engaging with the Services to persuade them of the project's merits, the Department excluded them from decisions about the design of the regional control centres and the proposed IT solution, even though these decisions would leave local services with potential long-term costs and residual liabilities to which they had not agreed.

The Department launched the project too quickly, driven by its wider aims to ensure a better co-ordinated national response to national disasters, such as terrorist attacks, rail crashes or floods. The department also wanted to encourage and embed regional government in England. But it acted without applying basic project approval checks and balances – taking decisions before a business case, project plan or procurement strategy had been developed and tested amongst Fire Services. The result was hugely unrealistic forecast costs and savings, naïve over-optimism on the deliverability of the IT solution and under-appreciation or mitigation of the risks. The Department demonstrated poor judgment in approving the project and failed to provide appropriate checks and challenge.

The fundamentals of project management continued to be absent as the project proceeded. So the new fire control centres were constructed and completed whilst there was considerable delay in even awarding the IT contract, let alone developing the essential IT infrastructure. Consultants made up over half the management team (costing £69 million by 2010) but were not managed. The project had convoluted governance arrangements, with a lack of clarity over roles and responsibilities. There was a high turnover of senior managers although none have been held accountable for the failure. The Committee considers this to be an extraordinary failure of leadership. Yet no individuals have been held accountable for the failure and waste associated with this project.

The Department awarded the IT contract to a company with no direct experience of supplying the emergency services and who mostly relied on sub-contractors over which the Department had no visibility or control. The contract was poorly designed, lacking early milestones which would have enabled the Department to hold the contractor accountable for project delays. Payments within the contract were scheduled too late, and created tension in an already poor relationship. This was made worse by the Department's weak contract management and its failure to ensure the contractor followed the contracted approach.

Following the cancellation of the project, the Department has earmarked £84.8 million to meet the project's original objectives, to improve resilience, efficiency and interoperability within the Fire and Rescue Service. It has invited bids for this money from each of the Fire and Rescue services. These arrangements, however, rely on the voluntary collaboration of individual services, and the Committee are concerned that the Department could not tell how it will ensure certainty of response in the event of a large scale incident, or whether the £84.8 million will provide value for money. Response in the event of a large scale incident is a key issue which needs to be addressed in the new National Framework later this year, and the Committee look forward to reviewing progress on this in due course.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department and representatives from the Fire and Rescue Service on the delivery and cancellation of the FiReControl project.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department failed to secure the co-operation and support of local Fire and Rescue Services. The project's success rested upon voluntary cooperation between local Fire and Rescue Services. Delivery of the project was fatally undermined from the outset by the Department's failure to acknowledge the independence and local accountability of local services and work to build their support for the project.

In the future the Department must secure the buying in of those expected to use and operate new systems and must involve them in both the decision and the delivery of projects.

1.1 The Government agrees with the Committee's recommendation.

1.2 The Department will ensure that those who are directly impacted by projects and programmes are properly represented and engaged in those projects and programmes. Two recent examples demonstrate the Department's inclusive approach to the fire sector:

- in July 2010, the Fire Futures review of fire and rescue provision in England signalled the new way of working. It was undertaken and led by volunteers from the fire sector, with contributions from fire and rescue authorities, frontline staff, sector bodies, wider industry and local partners.

- in January 2011, following the termination of FiReControl, Ministers made clear that the government would not impose a solution on local authorities for the future of their fire and rescue control services. This recognised that the burden of risk and expertise to deal with it resided locally. A consultation was conducted between January and April 2011, which resulted in additional funding being made available to support local plans for increasing resilience and efficiency. Local authorities have since prepared proposals and these are currently being assessed by the Department.

PAC CONCLUSION AND RECOMMENDATION 2

The Department failed to apply effective checks and balances from the start. The project progressed too fast without essential checks being completed. For example Departmental and Treasury approval was given without proper scrutiny of the project's feasibility or validation of the estimated costs and savings.

For all future projects, the Department must follow proper business case approval procedures and ensure that an appropriate level of challenge is applied to the approval process. Accounting Officer Directions must be sought where officials believe proposed projects do not represent value for money.

2.1 The Government agrees with the Committee's recommendation.

2.2 The Department has already implemented a significant number of improvements to the way projects and programmes are initiated. These improvements include the establishment of an Investment Sub-Committee which scrutinises business cases before projects and programmes commence. The Investment Sub-Committee is chaired by the Department's Finance Director. It reviews and approves investment proposals and associated business cases, taking into account deliverability, affordability, value for money, risk management and transparency of procurement, and makes recommendations to the Department's Finance Sub-Committee.

2.3 There is now a much greater focus on risk management and assurance, with appropriate escalation procedures to help ensure that the right questions are asked at the right time and that potential problems do not become major issues.

2.4 The Government agrees with the Committee that Accounting Officers should seek a ministerial direction where they believe that spending proposals do not represent value for money for the taxpayer. This is set out in Treasury guidance, in *Managing Public Money*, Chapter 3.

PAC CONCLUSION AND RECOMMENDATION 3

The Department's management and oversight of the project was weak. The Department lacked the necessary expertise and experience to deliver the project and was over-reliant on consultants, whose performance was not managed effectively. The Department did not approach the project as being one of business transformation, but treated each element in isolation. So for instance the Department failed to understand the complexity of the IT system but prioritised building the new control centre. So today we have nine regional white elephants, most of which have stood empty since 2007.

For all future projects, the Department should follow proper project and programme management procedures and not take on projects without ensuring it has staff with the right business change, programme management and IT skills

3.1 The Department agrees with the Committee's recommendation.

3.2 From early 2009 onwards, the Department implemented a number of significant changes to ensure the FiReControl project was properly managed. As was noted: "… the Department's failure to ensure that EADS followed the contracted approach in developing the system, until spring 2009, when the Department started to get a grip on the situation." The changes made in 2009 included:

- restructuring the project team
- creating a new technical assurance team and collocating it with the IT contractor
- structured involvement of the fire and rescue services in the design of the IT system
- a number of changes to the contract for the supply of the IT system to ensure that the contractor supplied and implemented credible plans that would enable the Department to hold it to account

3.3 For projects initiated more recently, the Department has implemented a significant number of improvements to ensure that projects and programmes are properly managed throughout their lifecycle. The improvements include internal assurance processes, regular monitoring and tracking of investment proposals through the Investment Sub-Committee process, use of Gateway Reviews and, for projects that fall within the definition of major projects, assurance mechanisms established by the Major Projects Authority.

3.4 Procurement in project management has been strengthened. This was reflected in the Office of Government Commerce (OGC) assessed Procurement Capability Reviews, that showed a significant improvement between Wave 1 in 2007 and Wave 2 in 2009. In Wave 2, the OGC confirmed that "procurement capability has continued to improve in Department for Work and Pensions, DCLG and the Home Office, with DCLG delivering the greatest improvement in Procurement Capability Review RAG scores."

3.5 In April 2010, the Department set up a centre of excellence providing an independent source of advice and assurance on project and programme management. This carries out reviews on major projects to ensure that project and programme management is robust.

3.6 Over half of the Department's staff have already received an appropriate level of project and programme management skills training and around 50 in key development roles have received training that has led to a recognised qualification – Association for Project Management or Managing Successful Programmes. The Department's commitment to training is ongoing.

PAC CONCLUSION AND RECOMMENDATION 4

The Department failed to manage delivery of the IT system by the contractor. The Department failed to follow the most basic fundamentals of good contract management. The poorly designed IT contract lacked early milestones or mechanisms to effectively manage prime or sub-contractor performance. The Department allowed the contractor to deviate from the agreed approach, and when problems did emerge, it did not take timely corrective action.

The Department should ensure that all its future contracts contain terms and conditions which clearly define responsibilities and outputs, including those requirements which, if not met, would constitute a breach of contracts. Rewards and incentives must reflect the balance of risk.

4.1 The Government agrees with the Committee's recommendations.

4.2 The Department agrees that the milestones and requirements to be met by a small number of early deliverables were poorly defined and that during the first two years of the contract the Department allowed the IT contractor to deviate from the contracted approach to designing and developing the system.

4.3 The Department will ensure that the lessons learned from FiReControl and the Committee's recommendations are taken into account in the design of future contracts, particularly where they are output based. Procedures are being implemented to ensure that all contracts contain appropriate and clear deliverables and standards. This includes enhancing the central procurement capability, increasing commercial awareness so as to ensure that all contracts contain relevant controls and specifications. New training and guidance on contracts management is being piloted and the intention is to roll these out across the Department from January 2012 onwards.

PAC CONCLUSION AND RECOMMENDATION 5

Despite the scale of failure and waste, no one in the Department has been held accountable. Convoluted governance arrangements, a lack of continuity among senior staff and an over-reliance on consultants impeded effective management and oversight. The Department's wider corporate governance arrangements failed to provide an effective check on the project.

For future projects, the Department needs to clearly identify roles and responsibilities and to define clear lines of accountability. It should make sure that any such future projects are subject to robust challenge by its Board. More widely, Government as a whole through the Cabinet Office needs to embed a culture which accepts personal responsibility and accountability for major projects and must be clear as to how Government will address underperformance.

5.1 The Government agrees with the Committee's recommendations.

DCLG response:

5.2 The Department has implemented changes to ensure that roles and responsibilities and lines of accountability are clearly defined and that significant projects are the subjected to scrutiny as outlined under the Committee's recommendations 2 and 3. The Department's Executive Team now has three sub-committees which focus on performance, people and finance. Project risks are reported to the performance and finance sub-committees on a regular basis and, where necessary, escalated to the Executive Team.

5.3 In line with the Corporate Governance Code published by the Treasury and Cabinet Office (July 2011), the Departmental Board is now chaired by the Secretary of State and has two committees: Audit and Risk, and Nominations and Governance. Key risks are discussed at the Audit and Risk Committee, which the NAO attends, ensuring future projects will be robustly challenged.

Cabinet Office response:

5.4 The Government is committed to creating a culture which accepts personal responsibility and has recognised the importance of establishing clear lines of accountability in managing public spending. Ministers and Departmental Accounting Officers are accountable for the projects and expenditure they control and Accounting Officers answer personally to the Committee of Public Accounts on these matters, within the framework of Ministerial accountability to Parliament for the policies, actions and conduct of their departments.

5.5 The Government acknowledges the key issues raised by the Committee with regards accountability and personal responsibility and is working to address underperformance. The Major Projects Authority (MPA) was established with the fundamental aim of significantly improving the success rate of major projects across central government and has established several mechanisms to support this work including the Government Major Projects Portfolio (GMPP) and Integrated Assurance and Approval Plans (IAAPs).

5.6 The GMPP acts as an early warning system and allows the MPA and departments to identify projects with poor or declining delivery confidence. We are also able to see where projects are not performing to time and cost. The MPA is working collaboratively with departments to ensure that they have IAAPs in place which will indicate how assurance reviews of all types will be scheduled to support decision making and inform approvals by the Cabinet Office and the Treasury. Taken together, these tools allow the MPA unprecedented insight into the state of the Government's £300 billion major projects portfolio, highlighting potential problems so that we can take action to address poor performance.

5.7 More generally, the Cabinet Office is working to ensure that Government has the necessary skills and capability to deliver. The MPA is developing a Major Projects Leadership Academy (MPLA) to undertake the education and development of high potential Departmental officials to improve significantly the leadership of major projects. The courses will be delivered by a leading tertiary provider and work in collaboration with Departments, current project leaders and PPM Profession to make them fit for purpose. The intention is for the MPLA to launch in early 2012 with the first 25 project leaders starting the academy programme also in early 2012, and full roll out of approximately 150-200 project leaders from October 2012.

PAC CONCLUSION AND RECOMMENDATION 6

The Department must ensure that the further £84.8 million it now intends to spend to obtain the original objectives of the FiReControl project is not wasted. The Department has made new money available to local Fire and Rescue Services to ensure greater collaboration. The Committee are unclear how national resilience will be delivered given that collaboration between local services is not guaranteed and how the expenditure of a further £84.8 million will deliver value for money.

The Department should manage the new funding as a distinct programme, with defined outputs, clear criteria for approval, appropriate milestones and transparent delivery arrangements and accountabilities.

6.1 The Government agrees with the Committee's recommendation.

6.2 National resilience across Fire and Rescue Service control rooms will be strengthened by investing in locally determined projects and collaboration to improve current arrangements. This approach is in line with the views expressed by the fire and rescue sector during the Government's consultation on future control arrangements. Fire and rescue authorities have submitted proposals for improving their current arrangements and the Department is assessing these proposals to ensure they are consistent with the objectives of improving resilience, efficiency and inter-operability, both from a local and national perspective.

6.3 The Department will remain accountable for the funding and the success of the programme as a whole in delivering these objectives. Individual fire and rescue authorities will be responsible for leading and delivering each local improvement project and are accountable for their investment decisions, which are subject to local audit processes.

6.4 The Department will ensure that the proposals submitted by fire and rescue authorities are assessed thoroughly against objective criteria, and that clear resilience and efficiency improvements are identified. The Chief Fire and Rescue Adviser is playing an important role in providing professional input to this assessment. Thereafter, the Department will seek to secure delivery of the planned improvements through influence and challenge. Arrangements will be put in place to collect information on progress and discussions are currently being held with the Local Government Association and Chief Fire Officers Association to develop a range of options, including a rigorous peer review process on a one-to-one basis, to provide support and challenge to fire and rescue authorities and ensure that the benefits of the programme are realised.

6.5 In addition, the Department is planning to require fire and rescue authorities, through the new Fire and Rescue National Framework and associated strategic governance arrangements, to provide assurance to Government on national resilience.

PAC CONCLUSION AND RECOMMENDATION 7

The regional control centres remain empty and expensive to run. Eight of the purpose-built regional control centres remain empty and continue to cost the taxpayer £4 million per month to maintain. It is likely that only five will be used by the Fire and Rescue Service.

The Government must urgently undertake a review of fire, ambulance and police services to develop better co-operation and integration between the emergency services. This review should look at the potential for co-location so that good use can be made of the newly built fire centres which currently stand empty.

7.1 The Government agrees with the Committee's recommendation.

7.2 The Department worked quickly to identify fire and rescue service interest in the control centres. Of the nine control centre buildings, one has already been transferred to the London Fire and Rescue Service and discussions are progressing well with a consortium of fire authorities in the North West on the transfer of the control centre building in Warrington. The Department is also in discussion with County Durham and Darlington Fire and Rescue Authority on whether they might use the control centre building in Durham. Discussions are also at a very early stage on the transfer of a further centre. The Department is actively working to ensure that the remaining five control centre buildings, in which there is no fire and rescue service interest, are disposed of quickly and efficiently, and has reached agreement in principal that the control centre building in Fareham will transfer to the Maritime and Coastguard Agency.

7.3 Decisions on whether to use the control centre buildings or to co-locate emergency service control centres are a matter for individual local authorities and local service leaders to make.

7.4 In terms of broader co-operation and integration, under the Civil Contingencies Act 2004, emergency responders are required to co-operate with other Category 1 and 2 responders and other organisations engaged in response activities in the same local resilience area. The statutory guidance to responders recommends that they also co-operate outside their local resilience area on a multi-agency basis.[3]

7.5 The Government is also keen to encourage closer joint working between the emergency services as it will result in a more effective overall response to civil emergencies. To drive this work forward, the Government committed in the Strategic Defence and Security Review and CONTEST to "improve the way the emergency services work together in an emergency."[4] Ministers are working jointly with the emergency services to identify how this might be achieved.

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[3] The Civil Contingencies Act 2004 divides responders into two categories, imposing a different set of duties on each. Category 1 responders are those organisations at the core of the response to most emergencies, and they are subject to the full set of civil protection duties. Category 2 responders are co-operating bodies that will primarily be involved in incidents that affect their sector, and they have a lesser set of duties. Further information is available at http://www.cabinetoffice.gov.uk/content/civil-contingencies-act

[4] This commitment has been made in both the Strategic Defence and Security Review and the counter-terrorism strategy - CONTEST. These documents are available at http://www.cabinetoffice.gov.uk/resource-library/strategic-defence-and-security-review-securing-britain-age-uncertainty and http://www.homeoffice.gov.uk/counter-terrorism/uk-counter-terrorism-strat/

7.6 The Department intends to emphasise the importance of co-operation through the new Fire and Rescue National Framework by requiring fire and rescue authorities to collaborate with other Fire and Rescue Authorities, other emergency services, wider Category 1 and 2 responders and Local Resilience Forums to ensure interoperability.

7.7 The Home Office is setting a similar expectation for police forces through the Strategic Policing Requirement, which will set high level requirements for interoperability.

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Correction made to page 4, paragraph 1

This paragraph should be the first paragraph of page 15

The decision to remove the Overseas Price Movements mechanism in 2008, which lead to the FCO spending cuts, was taken by the previous Government. The current Government did not support this and introduced a new Foreign Currency Mechanism this financial year as part of 2010 Spending Round. This protects the FCO against foreign currency fluctuations and provides greater certainty of spend.

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