HM TREASURY

TREASURY MINUTES

Government responses on the Twenty Eighth and the Forty Second to the Forty Fifth Reports from the Committee of Public Accounts: Session 2010-12

Cm 8212 October 2011

Treasury Minutes on the Twenty Eighth and the Forty Second to the Forty Fifth Reports from the Committee of Public Accounts: Session 2010-12

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Twenty Eighth Report

HM Treasury (HMT)

Accountability for public money

Report Summary from the Committee

This Report addresses an issue at the core of the relationship between Parliament and government - accountability for public spending. The Committee recognises that this is just one dimension of the accountability framework that underpins its constitution: Ministers have a separate accountability to Parliament and the public for their policy choices and outcomes achieved; and local authorities are answerable directly to their own electorate. The Committee also recognises the inherent tensions between these different dimensions of accountability and that as government has evolved demarcation between them has become less clear. The Committee's concern is to ensure that regardless of what public money is spent on, or which bodies are spending it, it is spent properly with due regard to value for money, hence our focus on financial accountability.

The Committee was interested in the implications for accountability of two recent developments: the governance reforms which include Ministers chairing departmental boards and greater non-executive involvement in those boards; and the reform and localism proposals which envisage a significant devolution of responsibility for service delivery to a wide range of new bodies, in some cases independent of both central and local government. The Committee took evidence from the Minister for the Cabinet Office, the Cabinet Secretary, the Permanent Secretary to the Treasury and the Government's lead non-executive. The Committee's concern was to understand rather than challenge the underlying policy intentions.

In practice, Government has long chosen to discharge this accountability through the senior civil servant in each department, the Accounting Officer. Government vests in each Accounting Officer a direct and personal accountability to Parliament for his or her department's stewardship of public funds. While significant sums are spent locally, local taxes account for just 5% of revenue raised and so the overwhelming majority of public spending in the UK is routed through departments and is the responsibility of the Departmental Accounting Officer. Parliament vests responsibility in this Committee to hold Accounting Officers accountable on its behalf.

The Accounting Officer model has a number of strengths: it promotes high standards of propriety in public spending and an understanding within departments of the importance of securing value for money. The Accounting Officer model has also stood the test of time, adapting to new and diverse methods of delivering services to the public.

The environment within which Accounting Officers operate has evolved since they were first appointed in the 1870s. The clear demarcation between ministerial responsibility for policy and Accounting Officer responsibility for implementation has blurred as Ministers in successive administrations have taken a closer interest in how their policies are delivered, and the present public service reforms will inevitably impact on senior relationships within Departments. These developments, taken to their logical conclusion, might have been thought to argue for a shift from the current individual accountability model to a collective model in which departmental boards would be held accountable. The Committee was told very clearly, however, that the Government intends to continue with the current model, and the Committee's Report therefore starts from this premise.

The Government has recognised the need to reconcile the policy objective of its reform and localism agenda with the demands of accountability to Parliament through the Accounting Officer model, and has asked Sir Bob Kerslake to review how this might be achieved.

The Committee welcomes this review and the commitment to consult the Committee, and have taken the opportunity in this Report to set out its view of the fundamental elements that need to be in place to ensure the accountability process is effective, which provides the context for the Committees consideration of the current reform proposals.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSIONS AND RECOMMENDATIONS 1 TO 5

1: The Committee welcomes the Government's acceptance of the need to reconcile the policy intention of its reform and localism agenda with the legitimate demands of Parliamentary accountability.

The Committee urges the Government to consider the fundamentals of effective accountability set out in this Report and consult fully with Parliament on how accountability will be delivered within the context of its reform agenda.

2: Local accountability and reformed structures do not absolve Departmental Accounting Officers of their personal responsibility to gain assurance on the way funds voted to their Departments are spent.

.... Parliament needs to be able to assure the public that value for money is obtained and the Government must put in place arrangements to enable Parliament to do its job.

3: The accountability arrangements supporting the localism agenda are unclear.

....The Government's review of accountability needs to consider the extent to which local accountability will act as an effective pressure to secure service improvements without due regard to value for money, particularly where there is no local financial incentive to keep costs down.

4: The reform agenda anticipates a plethora of delivery and accountability models, some of which are untested.

....The Government's accountability review should map out the landscape of the different delivery models and proposed accountability arrangements for each form of reform and ensure they comply with the fundamentals the Committee has outlined.

5: Accountability regimes must be underpinned by sound information systems, yet the Committee's experience suggests this is an area of systemic weakness.

....The Government should specify what performance, financial and outcome information is needed to enable effective transfer of responsibility to local service providers.

1.1 The Government welcomes the Committee's interest and helpful input into the debate on balancing the accountability to Parliament with local accountability following the programme of decentralisation. Since the Committee's report, the Committee had considered Sir Bob Kerslake's report *Accountability: Adapting to Decentralisation*, on 14 September 2011. This response draws on the approach that report takes. In continuing to develop this approach, the Government will reflect carefully on the comments made by the Committee on 14 September 2011 and any further report arising from it.

1.2 Accounting Officers are already responsible for ensuring that there are robust accountability systems at both the national and local level. Nothing has changed in that respect. But it is clear that decentralisation will shift power from the centre into the hands of local communities and individuals. The Committee can be assured that central Government will not stop taking an interest in what happens locally.

1.3 There is a distinction between those services that are delivered directly by the Government and those that it may fund, but are delivered in more decentralised arrangements. For the latter, as set out in the Open Services White Paper, Accounting Officers' focus will be on ensuring there is a robust local accountability system in place. There are also significant differences between the organisation, culture, aims and client base of different public services. Accounting Officers will therefore need to find the most appropriate way of demonstrating that public money is being used properly for their service.

1.4 The Government agrees that decentralisation must not mean a weakening of the pressure to ensure that public money is used properly and achieves maximum value for the taxpayer. The challenge is to put strong local accountability systems in place for decentralised services to ensure the proper use of public money. It will be important to demonstrate that local responsibilities and accountabilities are robust in practice.

1.5 An effective local accountability system needs to be based on a web of different checks and balances rather than one single lever, reflecting different accountability relationships, including, for example: local people as taxpayers; local third parties for their collective aims; and the centre for the funding of national priorities.

1.6 As a result of the work in this area, the Government will put in place new accountability arrangements. In future, Accounting Officers will draw up and publish concise annual statements setting out the system to be used for each major decentralised funding stream. From 2012, these accountability system statements will form part of the Accounting Officer's governance statement in each Department's Annual Report and Accounts to provide the necessary assurances to Parliament. Policy makers may also want to use the production of draft statements during policy development to test whether their proposed reforms will provide robust accountability arrangements

1.7 There cannot be a set format for these statements. But they should cover a similar set of issues, as follows:

- how local accountability operates in the Accounting Officer's area;
- how the Accounting Officer will be assured that the system is working; and
- work in hand to strengthen the existing system.

1.8 Since the Committee's report was published and in recognition of an issue that the Committee has highlighted, the Government has revised the Accounting Officer Memorandum to give more prominence to an Accounting Officer's responsibility to ensure that decisions with resource implications are affordable and sustainable.[1]

PAC CONCLUSION AND RECOMMENDATION 6

Accountability for the delivery of major projects and programmes must be clear so those responsible for delivery can be held to account.

....For all major projects and programmes, the Accounting Officer should nominate a Senior Responsible Owner who is accountable to Parliament alongside the Departmental Accounting Officer. Steps should be taken to reduce the present turnover of staff, which undermines efficiency and effectiveness and makes nonsense of personal responsibility and accountability.

6.1 The Government agrees with the Committee's conclusion and recommendation.

6.2 Accounting Officers are already responsible for nominating a Senior Responsible Officer (SRO) for all major projects. SROs account to Ministers and Accounting Officers for the delivery of projects within an agreed budget, timeframe and quality criteria.

6.3 The Government agrees that high turnover of SROs is not desirable. The Cabinet Office and Treasury have jointly set up a Major Projects Authority (MPA) for the oversight and direction of major projects funded and delivered by central Government. The MPA has a clear, enforceable mandate from the Prime Minister. The MPA is working collaboratively with Departments to ensure that they have the necessary skills and resources to deliver to time, cost and quality, and to intervene where there are gaps in capability and capacity. The MPA is also developing a Major Projects Leadership Academy to undertake the education and development of high potential departmental officials to improve significantly the leadership of major projects.

6.4 David Pitchford, the head of the MPA, plans to send the Committee a note about the development of the MPA, particularly on building and managing SRO capability across Government.

[1] http://www.hm-treasury.gov.uk/d/dao01_11.pdf

Forty Second Report

Department for Education (DFE)

Getting value for money from the education of 16-18 year olds

Report Summary from the Committee

In 2009, over 1.6 million 16-18 year-olds participated in some form of education and training at a cost of over £6 billion. Most of these young people studied full-time for Level 3 qualifications (such as A levels or National Vocational Qualifications) at a general further education college, sixth form college or school sixth form. The Government's approach is to encourage choice and quality of education through a market of providers. Young people choose where they want to study, subject to entry criteria, with funding following the student.

The system governing the education of 16-18 year-olds is devolved and complex. The Department for Education (the Department) has overall responsibility, and the Young People's Learning Agency funds education providers and monitors their performance. At a local level, local authorities have a duty to secure provision but they have limited powers, and having duties without powers cannot work effectively. The Skills Funding Agency oversees provision for students over the age of 19, on behalf of the Department for Business, Innovation and Skills, and has lead responsibility for general further education colleges. Hence, many colleges report to two Departments and two funding agencies.

The Department cited reductions in funding per student as one incentive to make education providers more efficient, but there is a risk providers simply spend up to this unit price. The Committee took evidence from the leaders of three highly performing institutions, and they emphasised the value of reliable comparative information and benchmarks in enabling them to improve efficiency.

There has been an overall improvement in the achievements of 16-18 year-olds over the last four years. Students in larger providers have generally achieved better results. Smaller providers, by collaborating, can achieve some of the benefits of size, including economies of scale and improvements to quality and choice. However, the competitive market in which providers of 16-18 education operate can be a barrier to collaboration and aspects of inspection and assessment are not aligned with collaborative delivery.

In a market, consistently poor providers should fail because they lose funding as students choose to study elsewhere. For the 16-18 education market to work effectively there needs to be consistent and relevant information so the Department can assess value for money and students can make informed judgements about their courses and what they lead to. Also, where a provider's performance is poor, there must be clarity about the criteria for intervention, and the timing and extent of intervention. Neither is fully in place at present, leading to negative consequences for students, and limiting the speed and effectiveness of actions to deal with poor performance.

While participation of 16-17-year-olds in education and training has increased in recent years, further increases are required to reach the legislative requirement of full participation by 2015. The Department must assess the impact of recent changes to policy, such as its replacement of the Education Maintenance Allowance, on its plans to have everyone up to age 18 in education or training by 2015.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Education, the Young People's Learning Agency and the Principals of three education institutions on the effectiveness and efficiency of the current education system for 16-18 year-olds.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Educational achievements of 16-18-year-olds have improved over the last four years, but more needs to be done to enable the market to operate effectively.

The Department's market-based delivery model will not deliver its objectives of improving choice and quality for students unless good comparative information between providers is available, relevant advice and information is provided to students, and the Department intervenes effectively to address poor performance. The recommendations set out below include steps the Department should take to help it achieve these aims.

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

1.2 The Department is taking steps to improve the information that is available for young people about their choices post-16 in the areas of performance information, destinations and course level information, as described below.

1.3 On performance information, the performance tables published in 2012 will, for the first time, include information on the percentage of students who achieve three or more A-levels (A*-E) or equivalent, two or more A-levels and at least one level 3 qualification. From 2013 information on the percentage achieving level 2 in English and maths by the age of 19 will be included. Currently performance tables publish only average points score per student and per entry, which are hard to understand for students and parents.

1.4 For destinations data from spring 2012, the Department will publish data on the destinations of young people after (i) Key Stage 4 and (ii) 16-19 programmes of study. The first publication will cover learning destinations: for example, progression to school sixth form, sixth form or further education college, or higher education. Employment destinations will be included from spring 2013.

1.5 On course level information, schools and colleges are responsible for making appropriate information available for students. In many areas local authorities work with providers to develop local prospectuses, covering all courses available in the area. Under new arrangements from September 2012, schools will be responsible for ensuring that young people have access to information on all suitable education and training options in the area.

1.6 Schools will be under a duty from September 2012 (subject to the passage of the Education Bill) to secure access to independent, impartial careers guidance for their pupils in Years 9 to 11 and will be free to make decisions about the support that meets pupils' needs, engaging as appropriate in partnership with external, expert providers. The new duty includes a requirement to provide information on all 16-18 education or training options, including Apprenticeships.

1.7 In the Schools White Paper, the Government made clear that if any school sixth-form provider falls below the minimum levels of performance agreed across all post-16 provision, it will be subject to improvement action. This could result in the provider no longer receiving funding. The Department is reviewing the standards that should be applied to all 16-19 providers including school sixth forms and expect comparable floor standards (that include school sixth forms) to be in force by 2013. This will ensure there is a consistent approach to intervention where providers fall below minimum standards.

1.8 Minimum Levels of Performance (MLP) are applied across post 16 providers. The Department for Business Innovation and Skills and the Department are considering reforms to the standards to make them simpler to understand, to reflect improvements in success rates and to identify failure quickly so that appropriate intervention action is taken. Those that fail to meet required standards may be removed from the register of providers eligible to be considered for funding or taken out of the Young People's Learning Agency's (YPLA's) lagged funding arrangements and be subject to greater scrutiny and action in proportion to the scale of the problem. If the provider fails to improve, funding will be removed.

PAC CONCLUSION AND RECOMMENDATION 2

The framework of accountability for 16 to 18 education is complex and risks over-burdening providers.

For example: general further education colleges are answerable to two Departments, two funding agencies and a wider web of accountability including Ofsted, local authorities, governors and students. To manage the burden of audit and performance reporting, the Departments should clarify roles and eliminate duplication of demands on providers.

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

2.2 The Department is taking forward a significant programme of work to clarify roles and eliminate the amount of administrative burdens and bureaucracy on providers as well as removing duplication. The Skills Funding Agency (SFA) and the YPLA implemented a "Single Point of Contact" for general further education colleges and sixth form colleges in August 2011. This means all colleges are able to deliver education and training for young people and adults, but they only need to deal with a single agency for all accountability purposes including contract and performance management, payment, audit and intervention.

2.3 Both agencies are engaged in work with the sector to reduce the volume of burdens, including audit and management information and data burdens. The Department has already made the inspection regime more proportionate and based on the actual performance history of colleges. Outstanding colleges are exempt from annual inspection unless their performance drops. However, there may be instances where the needs of 16-18 year olds are different to the needs of adults and the Department may have to put different requirements in place to meet the needs of students.

2.4 Subject to the passage of the Education Bill, sixth form colleges will no longer be formally accountable to local authorities, but to the Department. Local authorities have a statutory responsibility to work with providers to secure education and training in their areas, taking into account quality and other factors. They have a key leadership role to champion the interests of all young people in their area.

PAC CONCLUSION AND RECOMMENDATION 3

Local authorities have a duty to secure provision, but they lack an effective means to influence providers.

The Department emphasises the duty and important role of local authorities. However, local authorities have limited powers and the effectiveness of their engagement with the sector varies. The Department must address this issue so that those with obligations are able to enact those obligations effectively.

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

3.2 It is not for the Department to dictate to local authorities how they should fulfil their role as they are best placed to assess the needs of 16-19 young people in their area. Nor is it the Department's role to dictate how local authorities shape and influence providers to respond to local needs. The YPLA's *Statutory Guidance: Funding Arrangements for 16-19 Education and Training* sets out local authorities' important strategic role in securing education and training for young people, including supporting the replacement of poor quality provision and filling gaps. Guidance relating to the 2012-13 academic year was published on 1 August 2011. The YPLA also provides local authorities with information on the supply and demand for 16-19 provision, including learner participation and attainment in their area.

PAC CONCLUSION AND RECOMMENDATION 4

Reducing funding does not in itself guarantee efficiency.

Reductions, if carefully managed, can help drive efficiency, but a consequence of unit pricing can be that institutions simply spend up to that amount. Cuts may also have unintended consequences, such as reducing the provision of courses that require more intensive resource. The Department should require providers to produce comparable cost information as benchmarks to increase the transparency of the costs of courses and drive efficiency.

4.1 The Government disagrees with the Committee's recommendation.

4.2 For schools, the Department's website already provides advice and tools on key topics including strategic financial management and effective workforce deployment. The Department does not provide specific guidance to governors on interrogating data about post-16 performance. However, governors have access to training on how to carry out their role effectively, including their role in considering performance information. Governors have access to published information that includes national benchmarks and should use this to compare the performance of their school with that of other, similar schools and other 16-18 providers.

4.3 The Government agrees that financial benchmarking is valuable and is aware that many schools, sixth form colleges and further education colleges carry out such benchmarking. However, the data on which schools benchmark is substantially different from that used by colleges. Requiring providers to provide information in a common format would impose a regulatory burden on them that would be inconsistent with the current Government's drive to reduce bureaucracy to free resources to be spent on the front line. YPLA regularly reviews the amount of teaching time needed to deliver particular qualifications given that staff costs make up the vast majority of costs providers incur. Funding for different qualifications is adjusted on the back of these reviews.

4.4 In line with the recommendations from the Wolf Review, 16-19 funding will move from funding based on individual qualifications to funding per learner. Funding is likely to reflect the average programme sizes the providers deliver though the exact details of this are subject to consultation. The cost of individual courses will not be relevant in a world where providers have the freedom to decide programmes of study for individual learners within the funding envelope they receive.

PAC CONCLUSION AND RECOMMENDATION 5

Smaller providers can best provide choice and realise economies of scale by collaborating, yet the incentives to collaborate are weak.

Larger providers benefit from economies of scale and can provide a wider choice of courses for their students. The evidence also suggests student achievement is higher in larger institutions. Some smaller providers achieve these benefits by collaborating in different ways, from informal co-working to establishing federations. Many do not collaborate, however, partly because of the market emphasis on competing for students. Furthermore, the inspection and assessment regimes are not aligned with collaborative delivery, with different parts of the same federation being subject to separate inspections. The Department should promote the benefits of effective collaboration between providers, and address anomalies between the way providers are configured and how their performance is assessed.

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

5.2 The Government agrees that collaboration is an effective means of ensuring that a wide range of courses are available and can improve efficiency by generating economies of scale and will seek to remove barriers to collaboration where possible. However, the Government believes that the decision of when and how to collaborate should be left to providers themselves. The Department has already asked the National College for School Leadership to develop materials to help schools and colleges collaborate to good and better effect.

5.3 The Government wants to see more choice and competition in the 16-19 education and training market – this will drive up quality and deliver better value for money across the sector. Small providers may collaborate to provide a wider range of choices for young people in order to stay competitive.

5.4 The 16-18 Performance Tables will continue to reflect outcomes from collaborative partnerships in addition to individual institution accountability.

PAC CONCLUSION AND RECOMMENDATION 6

Information to measure the performance of providers is not comparable, making it difficult to assess the value for money they offer and inhibiting the operation of a market driven by student choice.

The Department has plans to improve the comparability of information and to make it more accessible to students. It should require all providers to compile and publish comparable performance information to support the assessment of value for money. The information should be sufficient for prospective students to use in choosing the right course, thereby improving student engagement and retention.

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

6.2 As set out in the Schools White Paper, the Government is committed to publishing comparable measures of performance across all 16-19 providers. The Department is reviewing published performance measures for post-16 education and training, with the aim of having new arrangements, including comparable performance measures, in place by 2013. Where appropriate this will cover data relating to models of partnership delivery, such as collaboration through federations.

6.3 The Department wants all young people to have access to a wide range of information about the performance of all 16-19 providers, as recommended by Professor Alison Wolf in her report on vocational education. The Department intends to reform performance tables to include destinations data alongside new attainment measures and trend data, established on a comparable basis across all 16-19 provision.

6.4 The Department does not intend to require providers to compile and publish information, although it encourages them to do so.

PAC CONCLUSION AND RECOMMENDATION 7

There is a lack of clarity about when and how the Department requires intervention in the event of failure.

For a market to be effective, poor providers must be allowed to fail. Some poorly performing providers continue for too long before action is taken, with potentially serious consequences for their students. The criteria for intervention are clearer for colleges than for schools, with actions to tackle poor sixth forms in maintained schools at the discretion of the local authority. The Department should clarify how it will address failing providers, whether they are school sixth forms or colleges, and the criteria that will determine the extent and timing of intervention.

7.1 The Government agrees with the Committee's recommendation.

7.2 In the Schools White Paper, the Government made clear that if any provider, including school sixth forms, falls below the minimum levels of performance agreed across all post-16 provision, it will be subject to improvement action. This could result in the provider no longer receiving funding. The Department is reviewing the standards that should be applied to all 16-19 providers in order to establish, by 2013, a consistent approach to intervention where providers fall below minimum standards.

PAC CONCLUSION AND RECOMMENDATION 8

The Department has indicated that it believes that, by definition, it is better value for money to spend less on a replacement for the Educational Maintenance Allowance scheme, targeting it and removing deadweight costs. However, the potential impact on participation in education and training of the replacement for the Education Maintenance Allowance has still to be assessed, and the Committee will come back to this.

The Education and Skills Act (2008) requires all young people to continue in education or training up to the age of 18 from 2015. With participation by 16- and 17-year-olds running at 89% in 2009, there is still a way to go to reach 100% participation by 2015. The Education Maintenance Allowance, with a budget of over £560 million, was established to increase participation. The allowance is to be replaced in the 2011/12 academic year by a £180 million bursary scheme, which will be administered by providers. As the Department develops its implementation plan for this policy change, it must assess the impact on participation, particularly for disadvantaged young people, and the burden on providers of managing the changes, including the costs of administration.

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

8.2. From September 2011 young people aged 16-19 and in publicly funded further education in England are able to apply for support from the new £180 million 16-19 Bursary Fund. The most vulnerable - young people in care, care leavers, young people in receipt of income support and those in receipt of both Employment Support Allowance and Disability Living Allowance - will be eligible to receive £1,200 a year, which is more than they could have received under Education Maintenance Allowance.

8.3. Beyond that, schools and colleges have the flexibility to target support on those young people who face the greatest financial barriers to participation, and can make awards from the bursary to help them, for example, meet the costs of transport, meals, books and equipment. The Department has made clear that providers can use up to 5% of their allocation of funds to meet the costs of administering the new scheme.

8.4 The Department will be monitoring the impact of the new arrangements to make sure that they reach and support those students with the greatest need, and do not place undue burdens on providers. The Department will be commissioning an independent evaluation, covering a range of qualitative and survey information, to assess the reach and effectiveness of this support in addressing the financial barriers that some young people, especially the most disadvantaged, face to continuing in education.

Forty Third Report

Ministry of Defence (MOD)

The use of information to manage the defence logistics supply chain

Report Summary from the Committee

The Ministry of Defence (the Department) sends supplies to forces deployed overseas for military operations, such as in Afghanistan and Libya, and to personnel stationed in permanent bases or taking part in training exercises. Staff deployed on operations determine what supplies are needed by front line troops, which are then sent to them through a supply chain that stretches back to manufacturers. The Department spent at least £347 million in 2010-11 on transporting supplies overseas, but this underestimates the full cost as the cost of military supply flights is not included. Some 130,300 individual deliveries were made to Afghanistan alone in 2010.

This report assesses the Department's performance in managing the supply chain to front line troops. The Department rightly puts a strong emphasis on ensuring troops get the supplies they need. Equally, providing an efficient supply chain would release resources for the front line. The Committee believes the Department must place greater emphasis on securing value for money and that there is room for it to find efficiencies in the supply chain without jeopardising operational effectiveness. Over decades the Committee's reports have identified persistent problems with late deliveries, unnecessary costs and missed targets.

At present, the Department does not have the information to identify where savings could be made. It does not know the full costs of its current activities or the cost of alternative supply options, information it needs if it is to begin improving value for money. The failure to collect basic data about where supplies are stored has directly contributed to the Department's accounts being qualified for three consecutive years.

Successive reports by this Committee have identified significant problems with the Department's logistics information. Since 1986, the Department has repeatedly assured the Committee that it was aware of the gaps in its information and was introducing better systems to close them. Despite these efforts, the same problems persist.

The Department is now seeking to resolve these information problems through a major initiative known as the Future Logistics Information Services project, expected to be implemented by 2014. Until then, the Department will continue to store data in systems that are at critical risk of failure. Against the background of repeated failures to get to grips with asset tracking and allied information systems for logistics, it is vital that the MOD sustains its programme in order to secure value for money. Should this not be the case, the Committee will return to the issue.

Supplies are delayed because manufacturers miss their delivery schedules. In the six months to November 2010, over 40% of deliveries were 30 days or more overdue. The Committee has found in its past reports on the Typhoon that lack of supplies led to cannibalisation of other aircraft. The Department has yet to demonstrate that this is the best way to employ constrained resources.

Other measures which could improve the efficiency of supply operations include putting more pressure on suppliers to deliver on time, keeping stocks at lower levels to reduce the risk of them deteriorating, and benchmarking performance against relevant comparators such as other armed forces. It is important that the Department retains key skilled staff on the supply chain so that it can make improvements of this kind.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Defence on its use of information to manage the supply chain.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department has put a low emphasis on value for money in managing its supply chain.

The Department rightly gives primary importance to ensuring that the supply chain supports the military's operational effectiveness, but the Committee believes there is scope to make efficiency gains without jeopardising operational effectiveness. In its evidence to the Committee, the Department was unduly dismissive about whether savings could be made across its supply operations given it has done little analysis to identify possible savings.

However, the Committee welcomes Bernard Gray's clear acceptance of his personal responsibility for failures of supply chain performance and look to him to deliver improvements. As a matter of priority, the Department should implement measures to capture the full cost of its supply operations, quantify the full range of potential savings it could make, and take the actions necessary to manage the supply chain more cost-effectively.

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

1.2 The Department's principal focus is upon effectiveness on operations. The Department is constantly reviewing the supply chain to ensure value for money. In 2010, for example, over £34 million savings were achieved by establishing a Sail-Fly line of communication with containers being moved to Cyprus by the current Liner Service Contract or Defence RORO vessels, and then onwards by charter aircraft direct to Camp Bastion. However, it is acknowledged that improvements are required to manage the supply chain more cost effectively, enabled by modern logistics information systems with greater integration with financial systems. A programme to deliver this enhanced logistic information system capability is underway and will deliver incremental improvements between 2011 and 2015.

1.3 The Department is currently re-structuring the supply chain function in order to deliver further business improvements. This will see the division of the existing Joint Support Chain into two separate 2* organisations: an operations-focused Joint Support Chain, and a commercially-focused Logistic Commodities and Services (LCS) organisation, with responsibility for commodity procurement and for contracted and in-house service provision to meet the Defence requirement, in order to enable additional cost savings to be made.

1.4 The Department is also in the process of implementing a new Supply Chain Modelling tool which when fully operational in 2012 will assist with the cost comparison of various supply routes and methods of delivery from MoD warehouses to the front line. This will deliver improved cost information to commanders with the responsibility of managing the operational supply chain day to day, and enable priorities and decision-making to be influenced not only be operational effectiveness but also by the prime cost drivers.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has made little progress in resolving long-standing problems with its supply chain information, despite previous assurances to this Committee.

Over the past 25 years, the Committees reports have highlighted persistent problems with late deliveries, missed targets and inadequate cost and performance information. The Committee welcomes the Department's commitment to bringing together and upgrading many of its IT systems through the Future Logistics Information Services project, and the information provided to the Committee since the hearing about the project's milestones and costs. However, past plans to upgrade these systems have come to nothing as the Department has focused on other priorities. To ensure progress is made this time, the Committee will hold the Department to its promise to report back to it on progress in six and twelve month's time.

2.1 The Government agrees with the Committee's recommendation.

2.2 The Department recognised that there has been historical underfunding in the Department's logistics information systems and made the investment decision in the 2011 Planning Round to fund the replacement of the range of obsolete base inventory and warehouse systems. A comprehensive and funded programme is therefore now underway, which includes the Management of the Joint Deployed Inventory (MJDI) system for deployed assets, the Joint Asset Management Engineering Solution (JAMES) to improve the management of land equipment assets, as well as the Future Logistics Information Services project which will deliver the new Base Inventory and Warehouse Management Service capability.

PAC CONCLUSION AND RECOMMENDATION 3

The Department does not know the full cost of its supply chain routes.

The Department sets target times for deliveries based on how urgently supplies are required. However, it does not have the cost information it needs to make informed decisions about alternative ways of running its supply operations. For example: the Department knows the cost of some of the air and surface supply routes into Afghanistan, but without more complete information it is not able to compare the relative costs of different delivery routes. The Department should collect comprehensive information on the cost of all potential supply routes and use this information to identify the most cost-effective routes for both urgent and lower priority deliveries.

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

3.2 The Department's principal focus is upon effectiveness on operations. However it is acknowledged that improvements are required to manage the operational supply chain more cost effectively. Work has recently been initiated as a Defence Research Goal with industry to enable a more comprehensive analysis and use of costs in the management of the supply chain and a DSTL project to deliver a cost capture model is now underway. Further improvements will be enabled by the replacement logistics information systems as they are delivered over the next three years.

3.3 The Department is also in the process of implementing a new Supply Chain Modelling tool which when fully operational in 2012 will assist with the cost comparison of various supply routes and methods of delivery from MoD warehouses to the front line. This will deliver improved cost information to commanders with the responsibility of managing the operational supply chain day to day, and enable priorities and decision-making to be influenced not only be operational effectiveness, but also by the prime cost drivers.

PAC CONCLUSION AND RECOMMENDATION 4

Deliveries for operations in Afghanistan are often late due to delays in receiving goods from suppliers.

Failure to receive goods in time can have adverse knock-on effects. For example, the Committee have heard of instances in other operations where delays in receiving spare parts for equipment such as Typhoon aircraft have resulted in other planes being cannibalised to ensure sufficient parts area available. The Department should set the terms of its contracts with suppliers so that manufacturers are better incentivised to deliver supplies in good time.

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

4.2 The Department's standard practice is to include timeframes for delivery of equipment and services within its contracts with industry. However, it should be noted that the unpredictable nature of military operations and the difficulty in forecasting repair requirements for new vehicles, in advance, has resulted in provisioning delays from suppliers. This challenge is acknowledged and is addressed by continually reviewing performance of vehicles / failure reports, stock held in theatre and provisioning arrangements with suppliers. The use of modelling techniques on protected mobility vehicles, for example, has resulted in spares holdings forward in theatre and additional spares procurement which has improved provisioning arrangements.

PAC CONCLUSION AND RECOMMENDATION 5

The Department often holds large stockpiles of supplies on operations, which results in some supplies deteriorating before they are used.

The Department acknowledged to us that it does not collect data on the amount of stock that may be damaged in such circumstances. The Department should measure the condition of stocks in theatre and their deterioration rates to inform decisions about appropriate stock levels.

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

5.2 The Department acknowledges that the high ambient temperatures and harsh operating conditions, particularly in forward locations, has resulted in some degradation of stock in the past. Until late 2010, some Theatre Force level stocks held in Camp Bastion were kept in sub-optimal storage facilities. Storage of supplies in Theatre has been addressed as part of the HERRICK Campaign Support Plan (HCSP), established as a recommendation of the HERRICK Campaign Support Review in June 2009 initiated by the Defence Logistic Board in January 2009.

5.3 Since 2010, the Bastion Supply Solution has improved the storage of General Stores, Equipment Support materiel and aviation stores with the provision of purpose built storage facilities in Camp Bastion. These facilities have enabled the move of stock that was previously stored in approximately 1000 ISO containers. The Force Primary Depot build commenced in October 2010 and further improvements in temperature controlled storage within the Force Primary Depot are planned which will further improve the lifespan of specified stocks.

5.4 The Department constantly reviews the required stock levels to be held in theatre. This ensures that the majority of immediate demands in theatre are being met within available theatre stock and that stock levels are adjusted in light of the typical delivery times for transporting stock to theatre. The Department acknowledges that stock deterioration should be tracked more accurately. The known shortcomings in the current logistics information systems do not currently allow a reliable cost figure to be easily derived across all of the materiel accounts. However, in line with the undertaking provided at the Committee's Hearing we are in the process of establishing a more effective system for managing this.

PAC CONCLUSION AND RECOMMENDATION 6

While the Department does some benchmarking against the private sector, it does not benchmark its supply chain performance against other armed forces.

Benchmarking against comparator organisations can identify better ways of working. The Department should seek to benchmark the cost and performance of its supply chain against other nations which maintain armed forces of similar complexity, such as the USA and France.

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

6.2 The Department has initiated Supply Chain benchmarking work. ACDS (Log Ops) has been appointed to lead the Department's Supply Chain benchmarking work on behalf of CDM and initial discussions with Defence Analytical Services and Advice (DASA) emphasised the complexity of determining like-for-like comparison. As the Defence Audit Committee (DAC) has acknowledged, multi-national baselines, systems and targets are all different. Nevertheless, metrics have now been developed in specific areas including supply chain reliability, and supply chain velocity. These have been communicated at a senior level to the Department's four principal allies – the US, France, Australia and Canada. The US and Canada have agreed to assist and detailed staff engagement is progressing; responses are awaited from France and Australia.

6.3 As a consequence of this exchange, ACDS (Log Ops) has been invited to join the US-led Joint Supply Chain Forum the inaugural meeting will be held in early October 2011 which will discuss benchmarking and data analysis. Allies understand the requirement for benchmarking to enhance the performance of the UK Supply Chain. However, the potential that one nation's performance may be perceived as being poorer than another could lead them to withhold information if it was going to be released into the public domain.

Forty Fourth Report

HM Treasury (HMT)

Lessons from PFI and other projects

Report Summary from the Committee

The UK has 700 PFI contracts delivering a wide array of public assets and services with 61 further PFI projects in procurement and many other projects where PFI is being considered. Restrictions on capital budgets have meant that many of the assets delivered by PFI, including hospitals, schools, prisons, courts and roads might not otherwise have been built.

In the present public expenditure climate there are legitimate concerns being expressed about the continuing financial cost of PFI for public organizations such as NHS Trusts. Some of the Government's case for using PFI has not been based on robust analysis, but on ill founded comparisons and invalid assumptions. On individual projects, the costs and benefits identified in business cases need to be revisited after contracts are signed and periodically thereafter, to inform future procurement decisions.

In particular, the Government should revisit the tax assumptions it builds into the cost and benefit case for PFI. Government assumes tax revenue for Government from PFI investments, but one of the largest PFI investment funds told us that 72% of the shareholders of its management company are registered offshore.

Taxpayers could get a much better deal from PFI, as demonstrated by the buoyant and profitable market in PFI deals. The taxpayer's position is made worse by poor transparency of investor and contract information alongside patchy public sector commercial skills. The Committee suspects that initial investors are able to make excessive profits from selling PFI shares, yet the Committee lacks the information to know for sure. Freedom of information provisions do not currently apply to private providers of public services though investors told us they are willing to make more detailed information available. The Committee believes that there is a strong case for sharing these gains with the Government. The Committee looks to the Treasury and Departments to make full use of existing contractual rights of access and further investor information to increase transparency and find ways for taxpayers to get a share of these gains.

At present, PFI deals look better value for the private sector than for the taxpayer. Private sector funds have built up portfolios of PFI projects from the large market that government has created. The private sector manages these projects as a portfolio, benefiting from potential economies of scale without any obligation to share such volume gains.

The Government, in contrast, has a fragmented approach and is not making use of its bulk buying power. The Committee accepts that contracts have got tighter over time and that the Treasury is seeking further efficiency savings, and would urge a bold and speedy approach. Achieving any savings on existing contracts will depend on voluntary agreements with investors and suppliers. The Committee look forward to the results of a pilot project seeking to identify opportunities for public sector wide savings from existing contracts. The onus is on the Treasury and Departments to negotiate tangible savings without putting the quality of public services at risk.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Treasury, the Major Projects Authority and certain prominent investors on lessons from PFI and the implications for future projects.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Although PFI has delivered many new public buildings and services, it has been far too easy for the Government to use it as the only form of financing available without clearly proving whether it is value for money.

Alternatives to the standard PFI approach could involve: cheaper sources of finance; using selected elements rather than the entire, complex PFI contract; and trials of PFI and non-PFI approaches for similar projects. The Treasury must properly consider all the alternatives to PFI and should rigorously explore radical improvements to the PFI model.

The use of PFI has been based on inadequate comparisons with conventional procurement which have not been sufficiently challenged. The justification of proceeding with PFI in the future needs to have regard to a range of important factors.

Assessments of new projects should include: a more transparent and complete comparison of alternative funding, the current high cost of using private finance; a rigorous assessment of the transfer of risk to investors; how substantial long-term financial commitments will be accommodated within the public sector's need to make spending cuts; and the potential for improvements in the delivery of conventional projects. The Treasury should issue new guidance setting out a more rigorous method for assessing the value for money of proposed PFI projects that includes these factors by autumn 2011.

1.1 The Government disagrees with the Committee's conclusions, but agrees with the Committee's recommendations.

1.2 The majority of investment in the UK's public services has been, and will continue to be, procured through conventional means. PFI has, however, been used to deliver infrastructure across a range of sectors and there are now around 700 signed contracts across the UK. The transfer of risk to the private sector has generally worked as anticipated, with facilities, in most cases, being delivered to time and to budget and the public sector has been protected when projects have gone wrong, with losses being borne by the private sector.

1.3 The Treasury has for some years sought to develop and refine the standard advice on PFI, often drawing on the PAC's recommendations. The Government has already taken a number of significant steps to improve the cost effectiveness and transparency of PFI; for example, abolishing PFI credits at the Spending Review 2010 to create a level playing field for all forms of public procurement; introducing new assurance and approval arrangements in April 2011 to strengthen the approval process of all projects; and, in July 2011, including PFI liabilities in the unaudited Whole of Government Accounts to improve transparency. In addition, the Government has announced a plan to deliver £1.5 billion of savings from the existing stock of PFI contracts in England. The Government is considering further measures to reform PFI and improve the way in which private finance is used to deliver public infrastructure.

1.4 The Treasury agrees that value for money is of primary importance when undertaking a new project. PFI projects are subject to a strict Treasury approval and scrutiny process, which includes a value for money assessment. The Treasury's Value for Money Assessment Guidance (the VFM guidance) is clear that the quantitative assessment is used as a support tool for making an overall assessment. The numerical output from the quantitative assessment should not be considered in isolation as a standalone case for, or against, the use of private finance, and must be considered in the context of qualitative judgements about the suitability of a project to be delivered using private finance.

1.5 The Treasury is reviewing the VFM guidance including the approach to assessing the case for using private finance to deliver public infrastructure. The Treasury intends to improve the guidance to make the assessment process more robust. Allowing for consultation with departments and the National Audit Office, the revised guidance should be published in 2012.

PAC CONCLUSION AND RECOMMENDATION 2

Tax revenue is being lost through the use of off-shore arrangements by PFI investors and the effect has not been adequately assessed. The Committee is concerned that the Treasury has no plans to address this matter.

Some PFI investors reduce their exposure to UK tax through off-shore arrangements. Yet the Treasury assume tax revenue in their cost-benefit analysis of PFI projects. The Treasury could not tell us if PFI investors had paid tax in the UK on profits and on equity gains, or whether corporation taxes had been collected from PFI companies. The Treasury should measure the tax revenues from PFI deals and should ensure that this is taken into account in future assessments of PFI against conventional procurement.

2.1 The Government does not agree with the Committee's conclusion and recommendation.

2.2 All appraisals of proposed capital contracts take account of tax. Managing Public Money directs procuring authorities to ensure that procurement decisions do not rely on any tax advantage that a particular bid may enjoy because of the tax status of the proposed contactor.

2.3 In the case of PFI, the initial appraisal of a project takes into account the additional tax receipts that arise from the use of PFI, compared to a publicly funded project. Supplementary guidance to the Green Book provides a framework for how to do this; and the Green Book makes clear that PFI and publicly funded options must be appraised on the basis of a level playing field. The main objective of the framework is to estimate the difference in tax liabilities between public and private financing of the same project and to ensure that options are considered on a like for like basis. The tax adjustment for a typical PFI structure is between 3% and 8% of the net present cost of the public sector financing option. The PFI option will only be pursued if it is better value for money than the publicly funded alternative including the tax adjustment.

2.4 The Government seeks to ensure that the UK tax system is competitive for all companies and that the UK is an attractive place to do business, while retaining proportionate anti-avoidance protection. UK resident PFI contractors, facilities management services and fund management companies, regardless of their shareholders' registered jurisdiction, will be charged UK corporation tax on profits earned within the UK. At the same time, investors in contracting firms can legitimately seek to minimise their tax liabilities and may use non-UK entities to do so. These considerations apply to all contractors in capital projects, whether they involve PFI or not.

2.5 Some contractors may choose to change their tax circumstances after a project is commissioned, legitimately taking account of the freedoms available. This may happen for any kind of contractor, whether PFI or not. It would be anticompetitive and contrary to EU law for the Government to prevent any such changes.

2.6 More generally, the Government is fully committed to making sure that everyone contributes to reducing the deficit by paying their fair share of tax. The Government has underlined its commitment to tackling non-compliance by investing over £900 million in HMRC over the spending review period. This should bring in around £7billion each year by 2014-15 in additional tax.

PAC CONCLUSION AND RECOMMENDATION 3

The public sector has insufficient information on the returns made by PFI investors and no mechanism for sharing in gains when the investors sell their shares.

Partial information we have seen suggests initial investors can quickly make high profits from selling on their shares in PFI projects, indicating that the taxpayer may be getting a poor deal in the original PFI contracts. The Treasury should introduce arrangements for sharing gains on the sale of PFI equity shares in new PFI projects. We consider there is also a case for a code of conduct for sharing gains from share sales in existing contracts. A similar code was implemented on refinancing to ensure that high investor returns did not damage the prospects for the Government being able to continue to enter into PFI deals. The Treasury should agree with investors how data on investor returns, including the value at which shares change hands, can be captured and made available to the Treasury.

3.1 The Government partially agrees with the Committee's conclusion and recommendation.

3.2 The Treasury does not agree that it would be desirable to seek a share of gains arising from the sale of shares in existing contracts. Retrospective action such as this would undermine the binding nature of public sector contractual commitments. There would be a significant negative impact on the confidence of investors, particularly foreign investors, in the UK market and new investment in UK infrastructure would be discouraged.

3.3 The Treasury does agree, however, that greater transparency of PFI investor gains and losses from PFI projects, as well as of secondary market trading in PFI equity, would be helpful to inform public sector judgements about whether new PFI project pricing is reflective of the prevailing market and is likely to represent value for money. Consideration will be given to the balance of risk and reward for PFI equity investors, including the sharing of gains, as part of Ministerial decisions on the procurement and financing models to be used for future public infrastructure projects.

PAC CONCLUSION AND RECOMMENDATION 4

Transparency on the full costs and benefits of PFI projects to both the public and private sectors has been obscured by departments and investors hiding behind commercial confidentiality.

The Treasury cited commercial sensitivities for not allowing freedom of information provisions to apply to the private sector. Once contracts have been let, commercial confidentiality should not restrict the ability of the public, Parliament and decision makers to access information. Freedom of information should be extended to private companies providing public services. The Treasury should define commercial confidentiality and the exceptional circumstances where it applies.

4.1 The Government disagrees with the Committee's conclusion and recommendation.

4.2 The Government does not currently have any plans to extend the Freedom of Information Act (FOIA) to contractors. However, the Government is committed to increasing transparency and accountability in its spending and in its procurement processes. The Government's Open Data Consultation is consulting on an extension to the types of organisations to which an open data policy would apply. The FOIA will also be subject to post-legislative scrutiny to see how it is working in practice. In light of the evidence drawn from both sets of work, the Treasury will consult with the Cabinet Office and the Ministry of Justice as further policy in this area develops.

4.3 The FOIA provides an exemption for information if any harm would, or would be likely to, arise from its disclosure, to the commercial interests of any person including the public authority holding it. This is subject to a public interest test. Where a member of the public considers that information has been withheld inappropriately, those decisions may be challenged to the Information Commissioner and beyond. It is not for the Treasury, but for case law and the Information Commissioner, to interpret the intention of the FOIA in respect of the exemption for commercial interests.

PAC CONCLUSION AND RECOMMENDATION 5

The public sector has failed to make best use of commercial skills.

Departments should have developed commercial experience from using PFI but the Committee still sees some examples of projects and contracts which are clearly lacking in commercial awareness. The Major Projects Authority and the Treasury should identify and publish lessons from the PFI experience to improve the public sector's commercial skills across all projects. This should include safeguarding commercial skills capability during the current public sector reorganisation to ensure there is adequate contract management of the PFI portfolio.

5.1 The Government disagrees with the Committee's conclusion, but does agree with the Committee's recommendation.

5.2 The Government has recognised the need to make better use of commercial skills and has established a number of work streams within the Efficiency and Reform Group (ERG) of the Cabinet Office to improve commercial skills in central Government. In particular, the Government is focused on building procurement and project management skills to improve the successful delivery of projects.

5.3 In support of this work, the Major Projects Authority is developing a Major Projects Leadership Academy (MPLA) to provide a dedicated training programme, delivered together with a service provider, to develop Senior Responsible Owners and Project Directors as project leaders to successfully deliver the Government's £300 billion portfolio of Major Projects. In response to the findings of a 'lean' review of procurement in November 2010, the Cabinet Office has developed a 'licence to source' programme of learning aimed at increasing the capability of procurement professionals on the use of 'lean' techniques. The Cabinet Office has also been piloting a two-way commercial interchange programme with industry to bring private sector expertise into Government.

5.4 The Treasury continues to consider how improvements can be made in the use of PFI. The Treasury has regularly issued guidance on PFI and will continue to do so. This guidance reflects the public sectors ongoing experience, and the lessons that have been learnt from the existing PFI portfolio.[2]

PAC CONCLUSION AND RECOMMENDATION 6

The Treasury must address the scope for greater efficiencies from PFI projects.

Any savings on existing contracts will be dependent on voluntary agreements by the private sector which may involve service cuts. The Treasury should update the Committee by November 2011 on the extent of the savings to be achieved, where and how they have been achieved, and how it is minimising the risk of compromising service quality in individual PFI projects and across the programme. The Committee wishes to be advised of any companies that do not agree to make savings and expect the Treasury to consider whether the Government should continue to do business with these companies.

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

6.2 A plan to deliver £1.5 billion savings across the 495 operational PFI projects in England was announced by the Treasury in July this year. The Government is committed to ensuring taxpayers get value for money from PFI contracts and this initiative is part of an ongoing programme of reform to improve the cost effectiveness and transparency of PFI contracts.

6.3 The operational savings programme will build on the lessons from the pilot project reviews undertaken in health and defence and will target savings from over-specified or unnecessary services, areas where cost can be removed without adversely affecting services to the customer, and in increasing efficiency of use and management of PFI assets.

[2] PPP guidance published by HM Treasury can be accessed at http://www.hm-treasury.gov.uk/ppp_guidance_index.htm

6.4 The Treasury is in discussion with PFI investors and contractors to seek their agreement to a voluntary code of conduct on operational savings. This will include enhancing the financial transparency of existing PFI projects, implementing current cost transparency standards to older contracts, and implementing fit-for-purpose change procedures to contracts which do not have them to provide greater flexibility and improve value for money when variations to contracts are required.

6.5 If the Government were to decline to do business with companies which do not agree to make savings, the Government faces the risk of being in breach of procurement law. Consideration is currently ongoing on ways in which behaviours and performance in contracts can safely be reflected in future engagements.

PAC CONCLUSION AND RECOMMENDATION 7

There is a tension between the fragmentation of public service delivery through the localism agenda and making best use of the Government's bulk buying power.

It is notable that PFI investment funds are managing many of the 700 PFI contracts as a portfolio, whereas the public sector is not. The Treasury must set out how it will maximise the Government's buying power to improve value for money for users and taxpayers in the context of the declared policy on localism.

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

7.2 The Government recognises it always needs to manage competing agendas. There is no intentional conflict between localism and making the best use of the Government's buying power, but the Government recognises that the objectives are potentially conflicting, and will work to ensure that the impacts are minimised.

7.3 The Department for Education and Partnerships for Schools are considering how the new Priority Schools Building Programme (PSBP), announced in July 2011, might be delivered on a centralised basis. The intention is to facilitate cost reductions through greater standardisation and ensuring that projects are procured and managed by experienced practitioners. The Government will review the programme as it progresses, and will consider the appropriateness of a more centralised approach in other areas if the PSBP demonstrates better value for money than a more decentralised approach to procurement.

Forty Fifth Report

Department of Health (DH)

The National Programme for IT in the NHS: an update on the delivery of detailed care records systems

Report Summary from the Committee

The National Programme for IT in the NHS (the Programme) was an ambitious £11.4 billion programme of investment designed to reform how the NHS in England uses information to improve services and patient care. The Programme was launched in 2002, and the Department of Health (the Department) has spent some £6.4 billion on the Programme so far. This report is concerned with a central part of the Programme, where the aim was to create a fully integrated electronic care records system, which is expected to cost around £7 billion in total. The original objective was to ensure every NHS patient had an individual electronic care record which could be rapidly transmitted between different parts of the NHS, in order to make accurate patient records available to NHS staff at all times.

This intention has proved beyond the capacity of the Department to deliver and the department is no longer delivering a universal system. Implementation of alternative up-to-date IT systems has fallen significantly behind schedule and costs have escalated. The Department could have avoided some of the pitfalls and waste if they had consulted at the start of the process with health professionals. The Department has failed to demonstrate the benefits achieved for the £2.7 billion spent to date on care records systems.

The Department has accepted it is unable to deliver its original vision of a standardised care records system with an electronic record for every NHS patient. It is now relying on individual NHS Trusts to develop systems compatible with those in the Programme, which means that different parts of the country will have different systems. However, the Committee is concerned at potential inconsistencies, and the Department should address how they should be dealt with, and what it will cost local NHS organisations to connect up. The Department should review whether to continue the programme and consider whether the remaining £4.3 billion would be better spent elsewhere.

The Department has not got the best out of its suppliers, despite having paid them some £1.8 billion since 2002. One supplier, Computer Sciences Corporation (CSC), has yet to deliver the bulk of the systems it is contracted to supply and has instead implemented a large number of interim systems as a stopgap. The Department has been in negotiations with CSC for over a year, and told the Committee that it may be more expensive to terminate the contract than to complete it, although the Committee also noted that CSC has informed the United States Securities and Exchange Commission that it may receive materially less than the net asset value of its contract if the NHS exercises its right to terminate the contract for convenience.

The other supplier, BT, has also proved unable to deliver against its original contract. The Department agreed a revised contract reducing the number of systems and increasing the price for each system BT had to deliver. The Department is clearly overpaying BT to implement systems: BT is paid £9 million to implement systems at each NHS site, even though the same systems have been purchased for under £2 million by NHS organisations outside the Programme.

One factor which contributed to these failings is the Department's weak programme management. The Committee is concerned that, given his significant other responsibilities, David Nicholson has not fully discharged his responsibilities as the Senior Responsible Owner for this project. This has resulted in poor accountability for project performance.

NHS trusts will take over responsibility for care records systems from 2015-16, but they do not currently have the information they need about potential future costs. After the implementation of forthcoming health reforms, the organisations currently managing the Programme will no longer exist and the risks will transfer to NHS trusts. However, at present these trusts have no direct contractual relationship with existing suppliers and no information about the likely cost of using care records systems beyond 2015.

The Committee are further concerned about the problems it and the National Audit Office (NAO) have faced in getting timely and reliable information from the Department. Information provided has frequently been late, has contained inconsistencies and has contradicted other evidence. This has hampered the Committee’s ability to scrutinise the Programme on behalf of Parliament.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department of Health and its contractors BT and CSC on the delivery of care records systems under the National Programme for IT in the NHS.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department has been unable to deliver its original aim of a fully integrated care records system across the NHS.

Poor progress since 2002 has meant the Department has had to reconsider what the expenditure can deliver. Many NHS organisations will now not receive a system through the Programme which will not provide for the transmission of individual case records across the whole NHS. The Department should review urgently whether it is worth continuing with all elements of the care records system, to determine whether the remaining £4.3 billion could be used to better effect to buy systems that work, are good value and deliver demonstrable benefits for the NHS.

1.1 The Government agrees with the Committee's recommendation.

1.2 The National Programme for IT in the NHS (the Programme) has successfully delivered a number of national applications and essential infrastructure upon which the NHS now relies; these include the Spine, N3 network, NHSmail, Choose and Book, Secondary Uses Service and Picture Archiving and Communications Service. However, it is clear that the top-down approach to implementation of local systems has not delivered the benefits expected and that the NHS has not been sufficiently engaged in the delivery of local care record systems.

1.3 This was a conclusion also reached by the Major Projects Authority in its recent review of the Programme but that substantial change was necessary to take account of the Government's emphasis of putting patients and clinicians first through greater localised decision-making. The Review also suggested that although certain elements of the Programme should be retained, they needed to be reconstituted under new management and through a new organisational structure. The remaining parts should be reviewed and a forensic assessment of the commercial and financial position carried out to determine the best way forward.

1.4 The Department is therefore accelerating the dismantling of the Programme as announced in September 2010. In doing so, it is working closely with an Oversight Committee set up following the Major Projects Authority's review. This is chaired by the Minister for the Cabinet Office and supported by officials from the Department, the Major Projects Authority and the NHS who are working to ensure maximum value is secured through this process.

1.5 In addition, a full review of all Department of Health informatics applications and services is presently being carried out. In future, the portfolio will only contain those elements which are fully compatible with the aim of developing a vibrant marketplace for healthcare IT. The Department's stance is that it no longer centrally manages delivery of IT services or applications unless there is a single clear requirement to do so across the NHS.

1.6 The responsibility for the development of local implementation plans has now transferred to local NHS organisations working directly with suppliers. Opportunities in the South have been opened up with contracted systems now delivered in the community and mental health services and 90% of GP practices have a clinical system that is connected to the national infrastructure providing them with the capability to book appointments electronically, transfer records between practices and issue electronic prescriptions. The Department will continue to encourage greater local NHS responsibility for implementation of local systems which began with NLOP (National Programme for IT Local Ownership Programme).

PAC CONCLUSION AND RECOMMENDATION 2

There has been a substantial reduction in how many NHS bodies will receive new systems but the Department failed to secure a comparable reduction in costs.

This casts the Department's negotiating capability in a very poor light. In London, the Department's negotiations with BT resulted in far fewer systems to be delivered for only a marginal reduction in fee. The Committee are worried that the Department will fare no better in its current negotiations with CSC, which has delivered only 10 of 166 of its 'Lorenzo' systems in the North, Midlands and East. The Department has been in negotiations with CSC for over a year, and told the Committee that it may be more expensive to terminate the contract than to complete it, although the Committee also noted that CSC has informed the United States Securities and Exchange Commission that it may receive materially less than the net asset value of its contract if the NHS exercises its right to terminate the contract for convenience.

Given the Department's failure to secure a good deal in its contract renegotiation with BT, and its weak position with CSC, the Committee considers it essential that the Major Projects Authority now exercises very close scrutiny over the Department's continuing negotiations with CSC, and that Government gives serious consideration to whether CSC has proved itself fit to tender for other Government work.

It is important that CSC, particularly given its proposed purchase of iSoft, does not acquire an effective monopoly in the provision of care records systems in the North, Eastern and Midland clusters. This could result in the Lorenzo system effectively being dropped as the system of choice and many Trusts being left with little choice but to continue with out-dated interim systems that could be very expensive to maintain and to upgrade, or to accept a system of CSC's choice. CSC should not be given minimum quantity guarantees or a licence to sell a product other than that procured and selected by the Programme within the LSP contract.

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

2.2 The Department is working with the Cabinet Office and all suppliers to secure best value for money for the taxpayer and will continue to do so as it develops how informatics support will be delivered in future to a modernised NHS. To comment further, publicly, at this time on the concerns raised by the Committee could compromise these discussions.

2.3 However, the Department does not accept the Committee's conclusions about the failure to secure a good deal in its contract negotiations with BT. The Department made clear in its evidence to the Committee that a claim that the price of Cerner Millennium in the South was 47% higher than in London was not comparing like with like, since the baseline used to determine this figure was inappropriate. The claim failed to take properly into account changes in the BT delivery model for Cerner Millennium and that the green-field sites systems in the South were of a significantly bigger scale and complexity and had a different underlying technical solution from those delivered to the London trusts.

PAC CONCLUSION AND RECOMMENDATION 3

The Department is unable to show what has been achieved for the £2.7 billion spent to date on care records systems.

The Department failed to meet its commitment to report to the Committee by summer 2010 on the benefits delivered by the Programme. A statement of benefits to March 2010 was not provided to the NAO until May 2011 – more than a year out of date. The Department should, by September 2011, provide the Committee with an updated statement of benefits to March 2011, which the Committee will ask the NAO to audit.

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

3.2 The original concept of the Programme was to deliver an integrated care record service. In 2008, this terminology was refined into a detailed component and a summary component. Work is progressing rapidly on the latter component - some six million people now have a summary care record and over thirty million patients have been written to about creating their record. The Department will however provide an updated statement of benefits along with a revised financial baseline. This will form part of the review of the portfolio of applications and services, which will be provided in future. The Department will work closely with the National Audit Office on this and agree a suitable timeframe for its production. The Department will keep the Committee fully informed of progress.

PAC CONCLUSION AND RECOMMENDATION 4

The Committee are very concerned at the lack of evidence of risk management of security issues which may arise as a result of medical records being held electronically.

The Department must address possible compromises in data security.

4.1 The Government agrees with the Committee's recommendation.

4.2 The Department has provided the NHS with clear guidance on the management of information risk and appropriate security measures through a Code of Practice and a range of Good Practice Guidelines. The protection of sensitive patient information has always been a priority for the NHS. A recent joint letter from Sir David Nicholson, NHS Chief Executive and Christopher Graham, the Information Commissioner to NHS chief executives underlines this importance along with the intention of the NHS and Information Commissioner's Office to work together to support the delivery of good information governance.

4.3 Each large NHS organisation is required to have a senior information risk owner in line with Cabinet Office guidelines, supported by information asset owners and a well-documented asset register, risk register and risk management strategy. All NHS organisations, including the smallest, must also undertake an annual assessment of information governance performance. This includes risk management and security arrangements with a minimum performance level enforced contractually by commissioners of health and care services.

PAC CONCLUSION AND RECOMMENDATION 5

Weak management and oversight of the Programme have resulted in poor accountability for project performance.

Sir David Nicholson has not been able to fulfil his duties as the Senior Responsible Owner for the Programme effectively, given his significant other responsibilities, weakening accountability for the Programme's extensive delays and increasingly poor value for money. It is essential that there is proper accountability for the Programme, especially since the current health reforms, according to Sir David, make it "quite difficult to shift a system like that into that environment". Sir David should now expect much closer scrutiny and oversight of his actions by the Major Projects Authority, but he must remain Senior Responsible Owner for the Programme so there is a clear line of accountability and responsibility for performance as well as continuity in managing the substantial risks that remain.

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

5.2 The Government agrees about the importance of good governance and will be reviewing the current arrangements in the light of the recent announcement on the future of the National Programme for IT and the conclusions reached by of the Major Projects Authority in their review of the Programme. Sir David Nicholson will remain Senior Responsible Officer to ensure a clear line of accountability whilst this work is underway and new governance arrangements are put in place to support more local decision making.

5.3 The Department notes the Committee's observation that the extensive delays to the Programme have resulted in increasingly poor value for money but disagrees with this conclusion as applied to the Programme overall. Many elements have been delivered and are working successfully and the principle of payment on delivery has ensured protection for the taxpayer against the items that are late. Savings of £1.3 billion have already been made against the original estimate for the Programme and the items delivered and operating successfully account for a substantial amount of the £6.4 billion spent to date. This is a clear demonstration that payment on delivery is working. The Department does accept that the delivery of systems in the acute setting has proved more difficult than anticipated and that this element of the Programme has not progressed as well as other areas.

PAC CONCLUSION AND RECOMMENDATION 6

NHS trusts will take over responsibility for care records systems from 2015-16, but they do not currently have the information they need about potential future costs.

After the implementation of forthcoming health reforms, the organisations currently managing the Programme will no longer exist and the risks will transfer to NHS trusts. However, at present these trusts have no direct contractual relationship with existing suppliers and no information about the likely cost of using care records systems beyond 2015.

The Department should write to every NHS Trust making clear the detailed implications of their future responsibilities for care record systems, and in particular the financial liability to which each trust will be exposed. This information should include information about exit costs from the LSP contracts and future maintenance and running costs for those Trusts that continue with the Programme and this information must be provided within two months. It should also specify the support that the centre will provide to Trusts procuring outside the Programme, particularly where such systems can be shown to represent value for money to the NHS or greater functionality.

6.1 The Government agrees with the Committee's recommendation.

6.2 The Department will make clear to NHS Trusts their responsibilities for care records systems when the changes are announced for the future management arrangements for NHS informatics.

6.3 The Department's strategy is for NHS organisations to have responsibility for systems that best meet their local IT needs. This will allow NHS organisations to introduce smaller, more manageable change, in line with their business requirements and capacity. It will also address the delays, particularly in the acute sector, that resulted from the National Programme's previous focus on complete system replacement and will permit NHS Trusts to retain existing systems that meet modern standards so they can move forward in a way that best fits their particular circumstances.

6.4 The Department is planning how informatics will operate in the modernised NHS and this work is currently under development.

PAC CONCLUSION AND RECOMMENDATION 7

It is unacceptable that the Department has neglected its duty to provide timely and reliable information to make possible Parliament's scrutiny of this project.

Basic information provided by the Department to the NAO was late, inconsistent and contradictory. The Committee are surprised that in its memorandum to the Committee of 7 June 2011, two weeks after the hearing, the Department did not mention that it made an advance payment to CSC of £ 200 million in April 2011. The Department must provide timely and reliable information in future to support effective accountability to Parliament.

7.1 The Government agrees with the Committee's recommendation.

7.2 The Department notes the Committee's observations and is working with the National Audit Office to strengthen relationships to ensure better and more timely sharing of information in future and thereby avoid such situations occurring again.

7.3 The Department acknowledges the omission of information concerning the advance payment to CSC in April 2011 in its memorandum to the Committee on 7 June 2011 and apologises for doing so.

PAC CONCLUSION AND RECOMMENDATION 8

According to Sir David Nicholson, the Department may have to think about an interim step - a transitional body of some description- creating the impression of major uncertainty about how this work should be managed in the future.

The Committee will return to this issue in the future.

8.1 The Government notes the Committee’s intention.

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