



HM TREASURY

# TREASURY MINUTES

Government responses on the Nineteenth to the Twenty First and the Twenty Third to the Twenty Seventh Reports from the Committee of Public Accounts: Session 2010-11



HM TREASURY

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## Treasury Minutes on the Nineteenth to the Twenty First and the Twenty Third to the Twenty Seventh Reports from the Committee of Public Accounts Session 2010-11

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# Nineteenth Report

Department for Transport (DFT) and HM Treasury (HMT)

M25 Private Finance Contract

## Report Summary from the Committee

In May 2009, the Highways Agency (the Agency) signed a 30-year private finance contract for widening two sections of the M25 motorway, and maintaining the entire 125 mile length of the road, including the Dartford Crossing, and 125 miles of connecting roads and motorways. The contract has a present value cost of £3.4 billion. The Agency mishandled this project to address congestion on the M25 at a potential extra cost to the taxpayer of around £1 billion.

The invitation to tender for the contract excluded hard shoulder running as a solution for traffic congestion. The Committee is concerned that a private finance solution aimed at transferring risk to the private sector should have restricted innovation in this way.

The Agency's poor cost estimation meant that it lacked up to date data for the cost of construction and significantly over-estimated the market rate for operation and maintenance over a 30 year period. This undermined the Agency's ability to understand and challenge the bids received, and to compare a private finance solution with conventional procurement. The substantially lower costs quoted by the PFI bidders for operations and maintenance raise significant concerns about the maintenance regime the Agency employs in its other contracts and the value for money being achieved.

The decision in March 2008 to continue with the widening project rather than adopting an alternative cheaper solution was in part made because of the delays in trialling and evaluating alternatives. Hard shoulder running was first trialled in Europe in 1996. It took five years before the Agency announced its intention to trial this technique in 2001 and a further eight years before the Agency started to use hard shoulder running in 2009.

The Agency justified the widening deal through a flawed and biased cost estimation. The Agency now accepts that additional maintenance costs of £193 million used in the analysis should have been discounted to reflect the fact that these costs would be incurred over the 30 year life of the project. Had this been done, hard shoulder running would have emerged as the cheaper option, casting serious doubt on the Agency's decision to proceed with the widening contract.

It took nine years from 2000, when consultants were commissioned to produce a long-term sustainable strategy for the M25, to 2009 for the contract to be signed. Between 2004 and 2010 the Agency spent £80 million on consultants on this project. More should have been done to limit the costly delays to the project and the amount spent on advisers who will have benefited from the drawn out procurement. The Agency lacks the expertise to assess whether its advisers are providing value for money. Large amounts were spent on advice yet the outcome of the procurement has been very poor value for the taxpayer.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Transport and the Highways Agency on the M25 private finance contract, examining the procurement process and the use of advisers.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

The Committee does not agree with the Highways Agency's view that the private finance contract to widen, operate and maintain the M25 represents value for money.

*The Agency mishandled the procurement at a potential extra cost to the taxpayer of around £1 billion. It took nine years from the government starting to consider congestion on the M25 to the Agency letting the contract. By asking bidders to focus only on road widening, the Agency limited the alternative solutions bidders could offer, ruling out hard shoulder running. The Agency lacked robust information, particularly on maintenance and operation costs, which undermined its ability to assess and challenge the bids received. The delays in progressing the project also exposed it to the credit crisis resulting in higher financing costs of £660 million. The recommendations that follow are intended to help the Agency do better in future.*

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

1.2 Whilst the M25 private finance contract will ultimately deliver a value for money outcome, there were clearly shortcomings in the way the procurement was handled, which have impacted on the total net benefit that will be achieved, and therefore the Department and Agency agrees with the Committee that there are important lessons to be learned.

1.3 The M25 PFI contract is one of the largest and most complex PFI contracts to be undertaken by Government. Fifteen miles of the M25 have already been widened and 38 miles in total will have been widened before the start of the Olympics in 2012. The maintenance elements of the M25 PFI contract are also being delivered successfully, covering over 125 miles of motorway including the operation of the Dartford Crossing and 125 miles of connecting roads and motorways. Meanwhile, the option of hard shoulder running is being taken forward in the next four years for the other sections of the M25.

### PAC CONCLUSION AND RECOMMENDATION 2

The Agency spent £80 million on consultants over six years on this project.

*The Committee considers this expenditure to be excessive. More should have been done to limit the costly delays to the project and the amount spent on advisers who will have benefited from the drawn out procurement. The Agency should make more effective use of mechanisms to control the cost of its advisers, for example, through scoping their work into tightly defined packages, using target pricing, and managing contract performance closely.*

2.1 The Government agrees with the Committee's recommendation.

2.2 The Department and the Agency are committed to reducing both reliance and expenditure on consultants across the board. Better engagement with prospective bidders before formal invitation of tenders and reduced complexity of tender documents should help, as will the new forms of framework contracts the Agency has developed for the appointment and management of consultants and specialist advisers. Both the Department and the Agency are growing internal capability in a number of areas to reduce reliance on external advisers.

### PAC CONCLUSION AND RECOMMENDATION 3

**The Agency lacks the capacity to assess whether its advisers are providing value for money.**

***Large amounts were spent on advice yet the outcome of the procurement has been very poor value for the taxpayer. The Committee is not convinced that the Agency is in a position to identify poor quality advice or challenge the cost of the advice it receives. The Agency needs to develop its own commercial skills so that, in major procurements, it can challenge its advisers effectively, evaluate the quality of the advice received, and engage only those advisers who provide good value for money.***

3.1 The Government agrees with the Committee's recommendation.

3.2 More needs to be done to ensure that where there is a case for employing external advisers, their contracts are managed to ensure good value is achieved. The Agency is continuing to develop its internal commercial skills, and is introducing processes that will ensure, for example, that before committing to any new PFI projects it will have in place an internal multi-disciplinary team of appropriately qualified and experienced staff to manage the project, with the skills and experience needed to manage and challenge external advisors appropriately. The Agency is also developing better forms of contract, to link payment to successful outcomes, and to ensure better information is required to inform investigation of any instances where actual costs exceed planned target costs.

### PAC CONCLUSION AND RECOMMENDATION 4

**The Agency's poor cost estimation meant that it lacked up to date information on the cost of construction and significantly over-estimated the market rate for operation and maintenance over a 30 year period.**

***This undermined its ability to understand and challenge the bids received, and compare a private finance solution with conventional procurement. The Agency should identify the lessons from this contract and use them to seek reductions in operation and maintenance costs in its other contracts, particularly the 85% cent of the strategic motorway network that is not under a PFI contract.***

4.1 The Government agrees with the Committee's recommendation.

4.2 The Agency will continue to improve its cost estimation and use this information to drive down contract prices. Since 2008, the Agency has been investing in both parametric estimating and cost intelligence models for major projects. The cost intelligence model is based on work and cost breakdown structures, which enable the Agency to capture unit rates and to benchmark unit rates between contractors, projects and regions and track them over time. Rates from the model also feed into the parametric estimating system to ensure efficiencies that reduce rates are used as the basis of all future estimates.

4.3 The Agency is also capturing costs from its existing Operation and Maintenance (O&M) contracts, including PFI contracts. Cost information is being used to inform contract development and to check and challenge scheme target and actual costs. The maintenance cost and efficiency indicator is forecast to deliver unit cost reductions of 11% in 2010-11 as compared with 2009-10. Cost capture data will be used to routinely report area by area comparisons as part of the Agency's move to greater benchmarking and performance monitoring. This information will also be used to help to reduce maintenance costs to meet the reduced budget for maintenance agreed within the Spending Review settlement.

4.4 The Agency will continue to engage in dialogue with existing maintenance and PFI contractors to develop its understanding of their strategic commercial approach to the delivery of O&M over long term contracts and to apply lessons learnt to the Agency's contracting strategy in the O&M market.

## PAC CONCLUSION AND RECOMMENDATION 5

The advertisement inviting interest in tendering for the contract was too narrowly drawn as it excluded hard shoulder running as a solution for traffic congestion.

*The Committee is concerned that a private finance solution aimed at transferring risk to the private sector should have restricted innovation in this way. Public authorities must encourage innovative solutions and avoid the possibility of building in potential obsolescence through the specification. The Agency, the Department for Transport and the Treasury should check that all advertisements inviting interest in tendering are drawn widely so that viable solutions are not ruled out.*

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

### Department for Transport:

5.2 The Government is committed to improving the scope for bidders to offer innovative solutions to achieve policy outcomes. Before entering the procurement phase, each Highways Agency project will be subject to a review to check whether a more flexible approach to delivery is viable. Working with the Cabinet Office, the Agency will develop a better Official Journal of the European Union notice to be used when seeking expressions of interest in tendering from the market, to encourage and enable a flexible, outcome-based approach.

5.3 The Agency recognises the need to develop a form of tender assessment to deal with the risks of assessing different solutions that may not be directly comparable, so as to maintain a sound legal basis for making contract award decisions. This will be in place for any future PFI contracts. Further, the Major Projects Authority (MPA) will also have a role in ensuring all proposed major projects undergo appropriate levels of scrutiny and assurance, which will include scrutiny of the procurement strategy.

### HM Treasury:

5.4 The Treasury does consider it important that procurement notices are drawn appropriately – so allowing for innovative solutions to public sector procurements and supports the steps set out above. However, the Treasury does not agree that this should form part of the Treasury approvals processes.

5.5 It is the responsibility of a project Senior Responsible Owner (SRO) to ensure that all procurement documentation is appropriately drafted to allow good value for money solutions to come forward during the procurement process. Further, the Treasury would expect the project sponsoring Department to assist the procuring authority in ensuring the documentation is appropriate, thereby maintaining a consistent approach across the relevant sector; and in ensuring that account is taken of any relevant new technology.

## PAC CONCLUSION AND RECOMMENDATION 6

The Agency persisted with its preferred solution of widening the M25 because of the time taken to trial hard shoulder running.

*Hard shoulder running was first trialed in Europe in 1996 and is now commonly used in Germany and the Netherlands to deal with traffic congestion. It took five years before the Agency announced its intention to trial this technique in 2001. It took a further eight years before the Agency started to use hard shoulder running in 2009. This Committee concluded in 2005 that the Agency was inhibited by a risk averse culture resulting in it having fallen behind other leading countries in adopting alternative traffic management measures. The Committee recommended among other things that the Agency should design pilots with clear objectives, budgets and timescales and evaluate the outcome quickly to enable faster roll out where appropriate.*

*The Committee is concerned that these recommendations have not been implemented and expect the Agency to do so now.*

6.1 The Government agrees with the Committee's recommendation.

6.2 Pilot schemes should be designed, so as to provide a sound, timely basis for taking decisions on roll-out of new techniques, without compromising the good safety record of the motorway and trunk road network. Following the 2004 NAO VFM Report: *Tackling Congestion and Making best use of England's motorway and trunk road network*, the Agency worked with the NAO to develop detailed guidelines for the process of conducting and analysing pilots, which have been in place since 2007. The length of time needed to establish and evaluate the performance, including the safety record, of any new approach clearly needs to be proportionate to the risks involved.

6.3 The Agency has established good contacts with a number of other national highway authorities and seeks to share, and to adopt, best practice in traffic management through these contacts.

#### **PAC CONCLUSION AND RECOMMENDATION 7**

**The Agency appears to have been committed to a single procurement route and justified the widening deal through a flawed and biased cost estimation.**

*The Agency now accepts that additional maintenance costs of £193 million used in the analysis should have been discounted to reflect the fact that these costs would be incurred over the 30 year life of the project. Had this been done, hard shoulder running would, the Committee believes, have emerged as the cheaper option, casting serious doubt on the Agency's decision to proceed with the widening contract. The Committee is concerned that the Agency's staff engaged in the project had become committed to a widening project using private finance. In seeking to justify this, they lacked objectivity in their cost comparison. The Agency should establish rigorous, effective and objective mechanisms to challenge the evidence for key decisions, involving people with relevant expertise who are not part of the project team.*

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

7.2 Appraisal and decision-making should be rigorous, effective and objective. In 2009, the Agency strengthened its investment approval process through the regular involvement of a senior committee, consisting of the Chief Executive and Board Directors responsible for Finance and Procurement, which reviews all major investments before key stages in the development and delivery of a project. This provides an internal challenge at the highest level before any funds are committed. The appointment, in January 2011, of a non Executive Chair is specifically intended to strengthen governance arrangements. The MPA will also provide a challenge function for major projects of this scale.

#### **PAC CONCLUSION AND RECOMMENDATION 8**

**The Committee was unable to take evidence from the Senior Responsible Owner (SRO) because he had left the Agency and at the time of our hearing was employed by one of the project's major contractors and investors.**

*The SRO in this project left to work for a company that had previously provided advice on the project. That company is now owned by one of the project's major contractors and investors. The Committee notes that a condition of his new employment is that he works on rail rather than road projects, but it is not clear what procedures are in place to make sure that this commitment is honoured. The Committee also notes that Cabinet Office clearance was obtained for this move but there remain potential conflicts of interest. The Treasury, in its role of promoting best practice in privately financed projects, should examine existing guidance to clarify the rules to be applied when officials, who have worked on private finance projects, leave the public sector.*

8.1 The Government agrees with the Committee that conflicts of interest and the appearance of conflicts of interest should be avoided when former civil servants are appointed to other organisations. However, the Government disagrees with the Committee's recommendation.



8.2 The Government has recently updated and strengthened the procedures which apply to all civil servants for up to two years after leaving the civil service; these are set out in the Business Appointment Rules for Civil Servants and form part of the Civil Service Management Code. The Rules are very clear about the scrutiny civil servants at all levels must go through, including where they have had official dealings with a prospective employer during their civil service career.

8.3 The operation of the Rules is overseen by the independent Advisory Committee on Business Appointments (an advisory non-departmental public body sponsored by the Cabinet Office). The Advisory Committee audits departments' compliance with the Rules. It publishes details on its website about appointments approved and taken up by the most senior civil servants.<sup>1</sup>

8.4 The Government believes that the existing Rules on Business Appointments, which are the responsibility of the Cabinet Office, are sufficient and that it is not necessary for the Treasury to publish further guidance.

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<sup>1</sup> <http://acoba.independent.gov.uk>

# Twentieth Report

## Office of Communications (Ofcom)

### Ofcom: the effectiveness of converged regulation

#### Report Summary from the Committee

The Office of Communications (Ofcom) is the independent regulator and competition authority for the United Kingdom communications sector, which encompasses broadcasting, telecommunications and wireless communications. Ofcom was formed in 2003 from the merger of five previous regulators. Its operating expenditure in 2009-10 was £122 million, funded through broadcast licence fees and charges, and grant-in-aid from two government departments: the Department for Business, Innovation and Skills (£75.7 million in 2009-10); and the Department for Culture, Media and Sport (£0.6 million).

In most cases the communications market functions well and consumers enjoy the benefits of competition, such as choice and low prices for a range of products and services, and the Committee's report is presented in the overall context of that positive picture. However, there is scope for Ofcom to do more to tackle persistent problems such as the volume of silent calls, relatively low levels of switching between telecoms providers, and limited competition in fixed-line telephony.

Ofcom has successfully reduced its cost base, compared to its predecessors, despite having taken on a number of additional duties. A frequent justification for undertaking public sector mergers is to reduce costs through streamlining back-office functions and property requirements. Ofcom has achieved cost reductions but, because it has classified some of the benefits of the merger as efficiency savings, it is questionable whether the scale of these is as much as would have been expected, once the merger-specific savings have been taken into account.

Ofcom manages its expenditure within an overall cap, which is agreed each year with the Treasury. In most organisations the intended work plan will determine the budget, but in Ofcom it is effectively the other way round. This has the potential to incentivise Ofcom to make decisions based on keeping within the cap - rather than maximising value. This means that value for money - optimising the available resources to achieve intended outcomes - is not always the primary focus.

Ofcom needs to do more to demonstrate its focus on value for money and to allow the taxpayers and companies that fund its activities to assess its performance. Ofcom sets out in its annual work plan the activities it plans to undertake, but it does not specify its intended outcomes, explain how its activities will achieve those outcomes, or set out how it will measure success. This makes it impossible to assess whether Ofcom is delivering value for money.

On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from Ofcom on the management of its resources and the outcomes it delivers for citizens and consumers.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

**Value for money is the optimal use of resources to deliver the intended outcomes. Ofcom does not articulate the outcomes it expects to deliver, which means it is not possible to assess value for money.**

***Ofcom publishes a lot of information about consumer outcomes, but acknowledges that it needs to do more to define the specific results its work is attempting to achieve. Ofcom should set out in its Annual Plan what outcomes it intends to deliver, expressed in a clearly defined and measurable way, and indicating in advance what success will look like. The Committee welcomes Ofcom's commitment to undertake this work, and the Committee looks forward to seeing the results in its 2011-12 Annual Plan. Ofcom should then report regularly and publicly on its progress against these intended outcomes.***

1.1 The Government agrees with the Committee's recommendation.

1.2 Ofcom has made significant progress in the ongoing development of a comprehensive performance framework to enable the clear and transparent assessment and communication of the delivery of its intended outcomes. Ofcom's 2011-12 Annual Plan, published on 4 April 2011, clearly sets out the intended and measurable outcomes in respect of its strategic priorities for the year. A table of detailed outputs (actions planned by Ofcom) accompanied the publication of the Annual Plan, and this will subsequently be updated to provide a clear view of intended outcomes across Ofcom's work plan.

1.3 The performance framework provides Ofcom's Board, and senior management, with a clear assessment of progress toward - and success in delivering against - intended outcomes. A review of performance against the strategic priorities and major work areas set out in the 2010-11 Annual Plan will be provided in the 2010-11 Annual Report. This will provide a publicly available assessment of Ofcom's progress against the intended outcomes. This approach will be applied in subsequent years to ensure continued transparency of Ofcom's performance.

### PAC CONCLUSION AND RECOMMENDATION 2

**The expected financial benefits of merging five organisations into one were not defined at the outset, leading to confusion between expected savings and ongoing efficiencies.**

***In 2006, the National Audit Office estimated that the costs of creating Ofcom were in the region of £80 million but, because the expected financial benefits of the merger were not clearly defined at the outset, it is not possible to determine whether these costs have been recovered in full. This weakness is not uncommon in relation to public sector mergers, and this Committee commented on it in April 2010. The Government subsequently committed to "look closely at how it can ensure sufficient weight is given to value for money considerations and specific measurable benefits": the Committee would welcome a progress report from the Treasury.***

2.1 The Government agrees with the Committee's recommendation.

2.2 In its response to the 2010 report on Reorganising Central Government, the Government committed to "look closely at how it can ensure sufficient weight is given to value for money considerations and specific measurable benefits."

2.3 Since May 2010, the Government has carried out a number of organisational changes and has sought to ensure that value for money has been properly incorporated in the consideration of any proposed changes.

2.4 The explanatory documents published by the Cabinet Office following machinery of government changes have, where possible, included a section setting out an overview of the benefits and costs.

### PAC CONCLUSION AND RECOMMENDATION 3

Some of Ofcom's claimed efficiency savings have been double-counted, as the same savings have been counted across a number of years.

*For example, Ofcom appears to intend to keep counting indefinitely the savings from the disposal of surplus properties. Ofcom should in future report its savings to Parliament and the public, on a basis which is in keeping with the principles set out by the Treasury, and as used by other public sector bodies.*

3.1 The Government agrees with the Committee's recommendation.

3.2 There are a number of valid methodologies for assessing savings. These include present-value estimates of the net returns of a long-term investment such as a merger, which is the approach Ofcom has typically taken. However, Ofcom does not intend to count savings indefinitely. Ofcom will report its future savings publicly and to Parliament on a basis in keeping with the principles as set out by the Treasury.

3.3 The Treasury welcomes the commitment to report future savings in line with Treasury principles.

### PAC CONCLUSION AND RECOMMENDATION 4

The mechanism through which Ofcom's overall expenditure is agreed with the Treasury does not necessarily incentivise value for money.

*Other public sector organisations bid for a budget to fund their work plans, creating more tangible incentives to be efficient. Ofcom operates within an annual funding cap, which then drives its work plan. This makes it much more difficult to judge whether the money allocated to Ofcom is too much or too little and whether a 28% budget cut will damage Ofcom. The Treasury and Ofcom should review the current approach to determine whether it is the most appropriate mechanism for controlling Ofcom's overall expenditure, and report back to us by the end of 2011.*

4.1 The Government disagrees with the Committee's recommendation.

4.2 Ofcom's spending cap over the Spending Review 2010 period was agreed using the same process as that used in the Spending Review by Government Departments and a number of other public bodies. In response to Treasury guidance, Ofcom provided a bid to the Treasury detailing how it would meet certain savings scenarios. This included analysis of possible efficiency savings and the scope for targeted savings made from reducing or stopping activity in certain non-core areas. The Treasury and Ofcom then worked together to come to a settlement that would drive efficiencies in the organisation whilst minimising the impact on the delivery of Ofcom's core responsibilities.

4.3 The Government believes that this process drives value for money through the incentivisation of efficiencies and the analysis of where savings could be targeted with least impact on the regulatory outcomes for which Ofcom is responsible. The Government therefore does not believe it is necessary to review the current approach to determining Ofcom's overall expenditure at this stage.

## PAC CONCLUSION AND RECOMMENDATION 5

**It is unacceptable that Ofcom held a large contingency fund in 2009-10, but could not adequately explain to us how it had been allocated.**

***The Committee noted with some surprise that Ofcom was able to find £14 million in 2009-10 to offset some of its pension fund deficit, and that £7 million came from unused contingencies. Ofcom has not satisfied us, despite submitting further evidence since the hearing, that it allocates contingency funds to specific areas of its business on the basis of risk assessment, rather than allocating excessive amounts to general contingencies. Ofcom should avoid excessive 'general' contingencies and, where appropriate, make specific and transparent provisions based on risk and the level of certainty that they will be required. In its response, the Committee expects Ofcom to make clear the nature and value of the general and specific contingencies that it had in place at the start of 2009-10 and 2010-11.***

5.1 The Government disagrees with the Committee's recommendation.

5.2 Ofcom recognises the need to set any contingency element in its budget on the basis of risk. In line with other public bodies, it takes a prudent approach in setting its annual budgets to ensure sufficient funds are available to undertake planned work, but unforeseen demand on resources can and does arise. While public bodies should adjust planned activities to accommodate this, it is not always possible or tenable to achieve the required outcomes within the overall financial budget relating to those activities. It is therefore appropriate to take a prudent approach when setting budgets to include a separately identified and rigorously managed contingency sum in the overall budget.

5.3 In 2009-10, Ofcom included a total of £3.5 million of non-specific contingency in the approved annual budget. This represented 2.5% of the total budget. In addition, the budget for this financial year included a sum of £1.9 million specifically in respect of the assessed risks relating to Ofcom's ICT-transformation project. The 2009-10 budget therefore included a total sum of £5.4 million in respect of specific and general contingencies.

5.4 In 2010-11, the approved budget also included a sum of £3.5 million in respect of a rigorously managed non-specific contingency. This represented approximately 2.5% of the total budget. In addition, the budget for this financial year included a sum of £0.8 million specifically in respect of the risks relating to Ofcom's future ICT-sourcing strategy and a sum of £0.8 million in respect of risks relating to the work being undertaken to ensure the successful delivery of the Government's spectrum guarantees for the London 2012 Olympic Games and Paralympic Games. The 2010-11 budget therefore included a total sum of £5.1 million in respect of specific and general contingencies.

5.5 In 2009-10, Ofcom delivered savings of £7.5 million against its budget and therefore returned this sum to the taxpayer and stakeholders through lower fees and grant-in-aid payments. Ofcom estimates it will make savings of £14.9 million against its budget for 2010-11, and this, too, will be returned to the taxpayer and stakeholders through lower fees and grant-in-aid payments. During this period, Ofcom has sought to make savings, ahead of many other parts of the public sector, for example by implementing a two-year pay freeze.

## PAC CONCLUSION AND RECOMMENDATION 6

**Ofcom's staff costs are relatively high. Its total wage bill is higher than those of its predecessors, allowing for inflation, although staff numbers have fallen by over 18%.**

***As an organisation claiming to have a tight grip on costs, Ofcom should ensure that its approach to pay and related spending, such as travel and subsistence, is in line with current best practice in the public sector.***

6.1 The Government agrees with the Committee's recommendation.

6.2 Ofcom does ensure that its approach to pay and related spending, such as travel and subsistence, is in line with current best practice in the public sector. The total wage bill is higher than

that of the legacy regulators because Ofcom has consciously adopted a policy of recruiting fewer, better qualified employees.

6.3 Ofcom has frozen staff pay for the last two years, ahead of many other public bodies. It undertakes annual benchmarking reviews of employee remuneration against relevant public- and private-sector comparator groups to ensure an appropriate approach to, and levels of, remuneration. Overall remuneration budgets are set by the Ofcom Remuneration Committee - all members are independent non-executives - in the full knowledge of appropriate external relativities and the underlying economic environment.

6.4 Ofcom's expenses policy, which incorporates travel and subsistence, is regularly reviewed by the executive and is subject to approval by the Ofcom Remuneration Committee. The policy is benchmarked against current best practice within the public sector, specifically the Treasury Expenses Policy, and utilises reimbursement rates provided by HMRC, where relevant.

#### **PAC CONCLUSION AND RECOMMENDATION 7**

**Ofcom has announced a budget cut of 28% over the next four years, and a reduction in staff numbers of 170. There is a high level of risk associated with such cuts.**

***Ofcom should ensure that its cost reductions are based on a full understanding of the relative costs of alternative cuts and of the effect of these cuts on the effectiveness of Ofcom in serving consumers. The Committee looks to Ofcom to produce a robust plan for implementing the necessary changes in a way that minimises the detriment to consumer outcomes.***

7.1 The Government agrees with the Committee's recommendation.

7.2 Ofcom launched an Expenditure Review Programme in July 2010 to consider all areas of expenditure while maintaining its capability and effectiveness. Its response to the budgetary challenges of its Spending Review settlement focuses on three core areas: stopping or substantially reducing activities; redesigning programmes and projects for greater efficiency; and reducing support and supplier costs.

7.3 The Ofcom executive developed a robust and detailed plan to deliver the required savings during the period to October 2010. Integral to this was a clear assessment of risks and the necessary mitigating actions in accordance with Ofcom's established risk-management framework. In a drive to reshape and refocus the organisation, and therefore mitigate and manage risk inherent in such programmes, the majority of the savings will be delivered in the first year of the Spending Review period (2011-12).

7.4 The Ofcom Board approved the detailed plans in October 2010 and is an integral part of the ongoing assessment and governance of the programme to ensure delivery of financial targets while maintaining effectiveness and minimising the risk of detriment to citizen and consumer outcomes.

7.5 Individual programme initiatives are monitored and progress reviewed quarterly with the Executive Committee and biannually with the Ofcom Board.

## PAC CONCLUSION AND RECOMMENDATION 8

Outcomes for consumers in communications markets have been broadly positive.

*However, the Committee is concerned that Ofcom needs to do more to tackle some issues, including silent calls, consumer switching, and competition in fixed-line telephony:*

- The maximum fine that Ofcom may impose on organisations persistently making silent calls has recently been increased; Ofcom has also indicated to the industry that its enforcement regime will be much tougher from February 2011.*
- The Committee is concerned that it is too difficult for consumers to switch telecoms providers, Ofcom is currently undertaking a strategic review to look at the reasons for this.*
- The level of competition in fixed-line telephony is relatively limited. This is understandable to a certain extent given, for example, the nature of the infrastructure, but the Committee believes that consumers could be getting a better deal than they are.*

*In addition to these areas, three of the goods and services most complained about to the consumer helpline Consumer Direct are within Ofcom's purview: mobile phone service agreements, telephone landlines and internet service providers. The Committee would like Ofcom to write to it in June 2011 to update on progress and developments in all six of these areas.*

8.1 The Government agrees with the Committee's recommendation.

8.2 Ofcom will write to the Committee in June 2011 to update it on progress and developments in all six of these areas.

# Twenty First Report

Ministry of Justice (MOJ)

**The youth justice system in England and Wales: reducing offending by young people**

## Report Summary from the Committee

Central government and local authorities spent £800 million in 2009-10 dealing with youth crime, primarily through the Youth Justice Board nationally and Youth Offending Teams locally. 10% was spent on trying to prevent young people becoming offenders. Most of the rest was incurred in dealing with offending behaviour, including over £300 million on custody, which is used to deal with 3% of offences. The National Audit Office has estimated that the total costs to the UK economy of offending by young people could be up to £11 billion a year.

In recent years, the Youth Justice Board has been effective in leading reform within the youth justice system and diverting resources to the offenders most at risk of committing future crimes. Since 2000, the number of young people entering the youth justice system, the number held in custody and the amount of reoffending committed by young people, have all fallen. Youth custody, which is expensive relative to other ways of dealing with young offenders, has fallen during a period when the number of adults in custody has continued to rise. This is a particularly noteworthy achievement, and one in which the Board has played a central part.

Some areas of difficulty remain, however, particularly with more serious offenders. Young people are now more likely to reoffend after a serious community penalty than they were in 2000 and three in four of those leaving custody will reoffend in the following year. Dealing with these offenders is difficult, but it has been made more so by poor quality assessments and sentence planning in one third of cases, together with a lack of research into the relative effectiveness of different programmes. This also makes it particularly difficult to decide which activities to retain, and which to cut, following the 2010 Comprehensive Spending Review.

The Ministry of Justice (the Department) has decided to abolish the Youth Justice Board, though it did not take into account the Board's performance in making this decision. The Committee has some concerns that reorganization at this time could impact on building on the progress achieved to date. Following the abolition, it will be the role of the Ministry to maintain the successes that the Board has achieved in its oversight of the youth justice system, and to address effectively areas where more needs to be done.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Justice and Youth Justice Board on the operation of the youth justice system in England and Wales.



## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

**The youth justice system has been successful in reducing the number of criminal offences committed by young people over the last ten years, an achievement in which the Youth Justice Board has played a central role.**

***There have been substantial reductions in the number of young people entering the system and the number of offences committed by young people, although it is not known to what extent these reflect genuine reductions in crime, or displacement, whereby criminal offences are now being dealt with by non criminal sanctions. In addition to these reductions, the number of young people being sentenced to custody has also fallen substantially. All those involved in these successes should be commended.***

1.1. The Government agrees with the Committee's conclusion.

1.2. Some of the reduction in first time entrants into the system and the reduction in the number of proven offences will be due to displacement, including through effective diversionary interventions. However, there is evidence of genuine reductions in crime as well. Reductions in youth crime are likely to be included in the reductions in overall crime as shown by both the British Crime Survey and police recorded crime figures. Furthermore there has been a significant reduction in the volume of reoffending by young people.

1.3 The Youth Justice Board (YJB) has played an important role over the last ten years as a national oversight body in establishing and supporting local Youth Offending Teams (YOTs) and improving the commissioning of the youth secure estate. Local partners have played the fundamental role as the front-line deliverers of youth justice, helping young people to turn away from crime and where appropriate diverting them away from the criminal justice system.

### PAC CONCLUSION AND RECOMMENDATION 2

**Those young offenders serving custodial sentences or more serious community sentences remain highly likely to reoffend.**

***There has been little improvement in the reoffending rate for those leaving custody, with three in four offending again within a year. At the same time the rate of reoffending for those on more serious community sentences is getting worse despite an overall reduction in the number of offences they commit. The Ministry should set out a clear and measurable strategy for how it will work to reduce the risk of reoffending by these young offenders.***

2.1. The Government agrees with the Committee's recommendation, but only partially agrees with the conclusion given the improvements shown by the most recent National Statistics on reoffending.

2.2. The latest National Statistics on the reoffending of juveniles, for the 2009 cohort, were published on the 17 March 2011. The figures show a continuing reduction in the overall reoffending rate for juveniles. Between 2000 and 2009 the re-offending rate fell 3.3 percentage points from 40.2% to 36.9%. Between 2008 and 2009 the re-offending rate fell 0.4 percentage points from 37.3%. There was a reduction of 2.4% in reoffending rate for custody between 2008 and 2009 but the rate for community sentences increased 0.6%.

2.3. The 2009 cohort figures show a continuing reduction in the total volume of reoffending by juveniles, including reductions in the volume of reoffending for young people on custodial and more serious community sentences. The overall volume of reoffending has fallen 27% between 2000 and 2009. For custodial sentences it has fallen by 29% and for community sentences it has fallen by 19%. For community penalties, this suggests that while a higher proportion of offenders are committing at least one offence, those that are re-offending are committing fewer re-offences overall.

2.4. It will not be until future reoffending figures are available that any impact on reoffending from the new Youth Rehabilitation Order, the first ever Sentencing Guideline for youths and the YJB's *Scaled Approach* programme introduced in November 2009 will be shown. The whole approach is designed to ensure that community sentences are better tailored to the needs of the individual, that custody is a last resort and that YOT intervention with young people on community sentences more closely match and address their individual risk of reoffending.

2.5. The Government is committed to reducing reoffending rates and set out proposals for reforming the youth justice system and reducing youth reoffending in the Green Paper, *Breaking the Cycle: Effective Punishment, Sentencing and Rehabilitation of Offenders* published in December 2010. The Green Paper included proposals to ensure the effective use of sentencing for young offenders and to incentivise local partners to reduce youth offending and re-offending using payment by results models. Later in May, the Government will publish its plans to take forward the proposals to reduce youth reoffending, including for young people on community and custodial sentences, in its response to the Green Paper consultation.

### **PAC CONCLUSION AND RECOMMENDATION 3**

**A third of assessment and sentence plans undertaken by Youth Offending Teams are not good enough, according to inspections by Her Majesty's Inspectorate of Probation.**

***The assessment of young offenders, and the resulting sentence plans to tackle the causes of their offending, are key determinants of how resources should be targeted. The Youth Justice Board should use the lessons learned from these inspections and its own performance monitoring to drive improvement in weaker Youth Offending Teams.***

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

3.2. Since the YOT Core Case Inspection programme began in April 2009, the YJB has been collating lessons learnt from those inspections and from its own monitoring to identify those areas that require urgent improvement action. As a result of this, YJB performance improvement activity with both individual and groups of YOTs in 2010-11 has focused heavily on improving assessments. YJB has rolled out a programme of Assessment, Planning, Intervention and Supervision activity and it will be monitoring the impact to identify improvements. In addition, in March 2011, the HM Inspectorate of Probation (HMIP) published aggregate findings to date from the ongoing Core Case Inspection programme. This report has been shared with YOTs to help inform their work.

3.3. In line with the proposals set out in the Green Paper, *Breaking the Cycle: Effective Punishment, Sentencing and Rehabilitation of Offenders*, YJB is currently developing a revised approach to YOT performance improvement work. The new approach aims to be more locally determined and locally driven, better focused on value for money and with lighter touch requirements. The principles of the new approach will be set out in the Government's response to the consultation on the Green Paper.

3.4. It is proposed to develop and test the new approach to performance improvement during 2011-12 with full implementation from April 2012 onwards. YJB and the Ministry of Justice (the Department) will continue to work closely with HMIP in supporting the improvement of YOTs and in developing the new approach to performance improvement work.

### **PAC CONCLUSION AND RECOMMENDATION 4**

**The Board has limited evidence of what interventions work, making it difficult to achieve better value for money from the £800 million spent in the system.**

***Without evidence of effectiveness, there is a risk that reductions in funding for frontline services could result in cuts to the most successful interventions. We welcome the commitment from the Board and the Ministry to maintain research spending. They should focus on research that will enable them to assess which interventions are most effective and use the findings to direct funding into what is known to work.***

4.1 The Government partially agrees with the Committee's conclusion, but does agree with the recommendation.

4.2 There is good quality international evidence on the cost effectiveness of intervening with children at an early age to reduce offending in later life and with teenagers who are at risk of offending, for example: Family Nurse Practitioner Partnerships and Functional Family Therapy. There is also research that shows that family interventions such as Multisystemic Therapy can reduce reoffending among young chronic offenders, and some of these approaches are currently being tested in a UK context. The YJB has invested in research, which has produced promising findings on how to rehabilitate and manage young offenders to reduce their reoffending behaviour. It is, however, acknowledged that between 2006-09 there was significantly less research on interventions published by the YJB and it is acknowledged that there is a need to further develop the youth justice evidence base to help facilitate the targeting of resources.

4.3 The Government is committed to continuing to invest in youth justice research. The level of investment will be subject to available resources, but there will continue to be a youth justice research programme.

4.4 The Department and YJB established a joint Youth Justice Analysis Programme in 2010 bringing together youth justice research across the YJB and the Department to more effectively co-ordinate the use of youth justice research resources. The current programme of research includes a YJB led project examining the impact of interventions in the youth secure estate (the Young People, Interventions, and the Secure Estate project) and a Department led project examining interventions in the community (the Juvenile Cohort Study).

4.5 Going forwards, the YJB and the Department's Youth Justice Analysis Programme will bring together on-going research projects and information on emerging and promising practice to further develop the evidence base around effective interventions in youth justice. The Youth Justice Analysis Programme (including the YJB research team) work-plan for 2011-12 will take into account the Committee's recommendation. While the workplan is still to be finalised it is likely to include statistical analysis to assess the relative effectiveness of youth criminal justice system disposals on proven levels of reoffending, as far as it is feasible given the available sample sizes.

4.6 In addition to the research programme, the YJB is currently undertaking a project to revise its overarching framework for the identification and dissemination of effective practice in the youth justice system. The research programme set out above will support the new framework when it is in place. A scoping exercise has been undertaken by the YJB with stakeholders to explore where and how improvements can be made to the framework and the YJB will start during 2011-12 to deliver some of the key stages in the new effective practice framework. This will include the collaborative identification with the youth justice sector of priorities for information, identifying and sharing emerging and promising practice in relation to these priority areas and developing materials and resources to fill those identified gaps. The aim is for the full model to be ready for implementation from April 2012 onwards.

#### **PAC CONCLUSION AND RECOMMENDATION 5**

**70% of young offenders suffer from significant communication difficulties, but current forms of assessment do not give this sufficient weight.**

***The justice system assumes a level of understanding on the part of young offenders that will in many cases be lacking. This increases the risk that young people will not engage with or understand the requirements of their sentence plan. We welcome the commitment to review the assessment process and recommend that an explicit assessment is made of communication difficulties. Where such difficulties are identified, speech and language therapy should be considered as part of the sentence plan.***

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

5.2 The YJB is currently undertaking a project to review the current assessment and intervention planning framework and to develop a new framework. The proposals will be formulated into a business case for approval by July 2011, following which implementation of the project will be started. The

speed of roll-out of the new framework will be subject to assessment of the business case and to available resources.

5.3 In relation to speech, language and communication needs, it is proposed that the new assessment framework includes a discrete section for gathering relevant information in such a way that the needs of young people are accurately identified irrespective of whether or not they relate to offending behaviour. This will involve the inclusion of a specific section on speech and language. The project will also seek to improve intervention planning by bringing all activities associated with addressing individual young people's behaviour together into one plan.

#### **PAC CONCLUSION AND RECOMMENDATION 6**

**The Board lacks sufficient knowledge of what interventions are being used by Youth Offending Teams and how well they are working and, consequently, it cannot disseminate best practice effectively.**

***It cannot be value for money for Youth Offending Teams to have to develop interventions independently when they have similar content and are aimed at the same risk factors. The Board should be much more active in building its knowledge of commonly used interventions, understanding their effectiveness, and disseminating this information to Youth Offending Teams across England and Wales, including by providing example course material and content.***

6.1 The Government partially agrees with the Committee's conclusion but does agree with the recommendation.

6.2 Since its establishment the YJB has used information from the research it has commissioned and from commissioned reviews of other available research to publish guidance to YOTs, including its *Key Elements of Effective Practice* series that many YOTs say they have found helpful. However it is recognised that there is a demand for more information about what specific interventions contribute to reducing offending and for more effective dissemination of information about the effectiveness of interventions.

6.3 The YJB, ahead of the proposed transition of its functions to the Department, is undertaking a project to review and redesign its overall approach to effective practice. A key element of the new framework will be the effective dissemination of information about effective practice to YOTs and the secure estate. The aim is for the full framework to be ready for implementation from April 2012 onwards.

#### **PAC CONCLUSION AND RECOMMENDATION 7**

**The Board's performance management systems and remedies are focussed too much on process and not enough on outcomes.**

***Significant resources have been spent helping teams whose processes look weak but who nevertheless appear to be achieving positive results. The Ministry's future performance management regime should focus more clearly on outcomes and identifying the factors that have led to changes in them.***

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

7.2 The Green Paper, *Breaking the Cycle: Effective Punishment, Sentencing and Rehabilitation of Offenders* set out the Government's intention to slim down central oversight of YOTs and ensure that performance monitoring in the future focuses on three key outcomes:

- reducing the number of first time entrants to the youth justice system;
- reducing reoffending; and
- reducing custody numbers.

7.3 The YJB is currently developing a revised approach to YOT performance improvement that will focus on these outcomes, will move towards a lighter touch performance monitoring system and increase local accountability for delivering services. It is proposed to develop and test the new approach to performance improvement during 2011-12 with full implementation from April 2012 onwards.

#### **PAC CONCLUSION AND RECOMMENDATION 8**

**The planned abolition of the Youth Justice Board has arisen from a policy decision and not as a result of any assessment of the Board's performance.**

***The Board has developed and maintained a distinctive focus on youth in the justice system and has contributed to positive outcomes in recent years. There is a risk that some of the factors that made the Board successful will be lost in the transition. The Ministry should identify the strengths in the way the Board has operated and publish a plan showing how the best elements will be retained within the new structure for youth justice.***

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

8.2 The Government's proposal to abolish the YJB was informed by the Government's three tests for NDPBs rather than a separate assessment of performance. A separate independent body is no longer required to oversee the youth justice system. Ten years on there is a mature local delivery system for youth justice and Ministers can best lead this directly through the Ministry of Justice.

8.3 The Government will ensure that the strengths of the YJB are retained in the new structure for youth justice and that a distinct youth focus is maintained in the future. As far as possible, the skills and experience of the current YJB staff will be retained and the main functions of the YJB will be transferred to the Department including:

- overseeing local Youth Offending Teams;
- disseminating effective practice;
- commissioning a distinct secure estate; and
- placing young people in custody.

8.4 The Transition Programme Board, which has been established to oversee the process, jointly chaired by the Department and the YJB, is ensuring that the strengths of the YJB are identified and will be incorporated within the new structure for youth justice. The Government will set out how this process is being taken forward in its response to the consultation on the Green Paper.

#### **PAC CONCLUSION AND RECOMMENDATION 9**

**The abolition of the Board raises a question about how a national focus on reducing offending by young people and reducing the use of custody will be maintained.**

***Many of the mechanisms that could be used to influence or direct Youth Offending Teams are under consideration as part of the current reforms. The Ministry should ensure that it has the capacity to drive change on national priorities, and that it has the mechanisms and local intelligence it needs to work with Youth Offending Teams to improve value for money.***

9.1 The Government agrees with the Committee's recommendation

9.2 The national focus on reducing offending and the use of custody will be bolstered by the YJB's functions being brought into a central Government Department, rather than operating at arms-length from Ministers.

9.3 The Government has made clear that the main functions of the YJB will continue should responsibilities be transferred to the Department including overseeing local YOTs and disseminating best practice. The aim is to build on the operational experience of YOTs and the YJB and bring this into the Department. The Government is committed to creating an outward-facing, dedicated section within the Ministry of Justice that will focus entirely on youth offending. By being within the Department this will have increased influence with key partners in the Department and across Whitehall to ensure a holistic and comprehensive focus on youth justice at national and local levels.

9.4 The Government is committed to reducing central burdens on local areas. However, it is clear that effective oversight of YOTs needs to be maintained, focused on key outcomes including reducing offending and reducing custody numbers.

**PAC CONCLUSION AND RECOMMENDATION 10**

**Prevention work has had an impact on reducing the number of first time entrants to the youth justice system, but funding is being reduced.**

*Cutting prevention funding now increases the risk of the unintended consequence that more crime could occur in the medium term, with the cost likely to outweigh any short term savings. The Board and the Ministry should encourage investment in prevention where reducing youth crime has been identified as a local priority. They should consider offering match-funding, piloting the use of other incentives such as payment by results, and sharing the proceeds of reduced custody levels.*

10.1 The Government agrees with the Committee’s conclusion and recommendation.

10.2 The Government is continuing to provide funding to YOTs via the Youth Justice Grant, and this funding can be used for prevention work, as well as reducing reoffending. The Government is also providing significant others sources of funding that can be used for prevention, including the Department for Education’s £2 billion Early Intervention Grant (EIG). The EIG enables local areas to decide how to invest in a range of programmes for children, young people and their families against local priorities, including preventing youth crime.

10.3 The Government’s proposals for developing payment by results approaches into the youth justice system set out in the Green Paper will act as an incentive for local areas to invest in the most effective activities which prevent young people offending and re-offending. There are a number of proposed approaches including: transferring the budget for custodial remands to local authorities and charging them for remand where it is required; offering pilot areas an opportunity to share in the savings to the Department, if they successfully reduce demand on the youth justice system; and the Youth Justice Reinvestment Pathfinder Initiative which provides upfront funding allocated from the central custody budget to pilot areas to invest in alternatives to custody. The areas involved in the pathfinder initiative will be announced shortly.

# Twenty Third Report

## Ministry of Defence (MOD)

### The Major Projects Report 2010

#### Report Summary from the Committee

The Committee has reported before that the defence equipment programme is unaffordable, with commitments exceeding forecast budgets over a ten year period by £36 billion. The Committee has also highlighted before the hugely damaging consequences of the Ministry of Defence's (the Department's) short term decisions to keep in year expenditure within voted limits and the need to understand the full cost implications of these decisions. Such decisions increased the cost of the Department's major projects by £3.3 billion in 2009-10 alone. The scale of problems created by this financial imbalance masks the improved performance of the majority of projects against cost and budget.

In October 2010, the Government published its Strategic Defence and Security Review (SDSR). The SDSR offered the Department an opportunity to bring its plans into balance with the expenditure limits set in the Comprehensive Spending Review. The Department has already cancelled projects such as the Nimrod MRA4 and Sentinel aircraft, accepting greater operational risks in some areas and writing off nearly £5 billion of taxpayer's money. The Committee will look further at the decision to cancel the Nimrod, which is to be scrapped with £3.6 billion wasted. Looking beyond these headline decisions, implementing the SDSR will require further decisions and the renegotiation or cancellation of a significant number of existing contracts to make the programme affordable.

The Department has a poor track record in taking such decisions on the well informed basis necessary to optimise value for money. Responsibility and accountability for projects are often eroded by frequent changes of Senior Responsible Owner.

The Department failed to understand fully the financial consequences of the decision taken in December 2008 to delay the Queen Elizabeth Class aircraft carriers. In 2010, the Department reported a further cost increase of £650 million, bringing the total overrun on the aircraft carriers to £1.6 billion, a new benchmark in poor corporate decision making. The Committee welcomes the Comptroller & Auditor General's (C&AG's) announcement that the National Audit Office will undertake a review of the Carrier project. The Committee plans to take evidence on his report later this year to understand fully the circumstances in which key decisions were made and their consequences for value for money.

In 2004 the Department removed funding for Tranche 3 of its planned procurement of Typhoon aircraft from its budget in the full knowledge of the robust contractual obligations it was under. The decision was based on the highly optimistic assumption that other partner nations would also not wish to purchase the final tranche of aircraft, so the requirement would be waived. This was another poor decision which led to additional costs for the taxpayer. In 2009-10 the Department had to commit an extra £2.7 billion on the Typhoon project, including the purchase of 16 additional aircraft, to honour its commitments. The resultant cost increase has contributed to the £36 billion gap in the defence budget. The Committee looks forward to taking further evidence on the Typhoon project in the spring.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Defence on their progress in meeting cost, time and performance targets for its 15 top-spending military equipment projects.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

The structural imbalance between commitments to purchase equipment and the available budget has obliged the Department to take tough decisions to manage its in-year expenditure by delaying and re-scoping individual projects. Such decisions are the root cause of the £3.3 billion in-year cost increase in the 2010 Major Projects Report.

*The Strategic Defence and Security Review (SDSR) provided the Department with an opportunity to re-examine its commitments and make them affordable within the available budget. The scale of the budget shortfall has meant the Department has had to take difficult decisions to dispose of both the Nimrod MRA4 anti-submarine aircraft and the Sentinel surveillance aircraft, writing off nearly £5 billion in taxpayer's money and losing two important military capabilities.*

*Such decisions are never desirable. The fact that the Department has been pressured to make them offers a compelling argument why it must address the problems which have affected defence procurement for decades and on which our predecessors have commented extensively. If it does not, the cycle of failure will continue, with badly needed capabilities being delivered later than planned and cost increases crowding other capabilities out of the equipment programme.*

1.1. The Government notes the Committee's conclusion.

1.2 The over-programming in the forward equipment plan is being addressed. The SDSR and Planning Round 2011 have made significant inroads into the gap in the Defence Budget. However, the Secretary of State has always been clear that although the SDSR had made substantial progress towards closing the gap, there was further to go. The Department expects the Defence Reform Review (DRR) to help close the gap further.

1.3. Mechanisms are being put into place to improve the Department's acquisition practices. This includes continuing implementation of the measures outlined in the Strategy for Acquisition Reform, published in February last year, focussing on a number of areas, including: improving management information, better provision and use of costing information, increasing transparency through a NAO affordability assessment of the equipment and support programme and developing more rigorous control of the equipment programme.

1.4. Whilst £4 billion has been written-off on Nimrod MRA4 in-year, the Sentinel aircraft will on current plans remain in service supporting operations in Afghanistan until 2015.

### PAC CONCLUSION AND RECOMMENDATION 2

A balanced and affordable defence programme is vital to achieving value for money from defence acquisition. It is an area where the Department has failed to deliver, with adverse affects on value for money and military capability.

*The Treasury agrees with the Committee that affordability is a vital concept in any Accounting Officer's duties. The new Accounting Officer must at all times have affordability at the forefront of her mind and be prepared to act decisively if she sees it is threatened.*

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

2.2 The Permanent Under-Secretary for Defence is clear that ensuring Defence projects are affordable is one of her key priorities.

2.3. The Department will publish an annual assessment of the costs and affordability of the equipment programme. This will be accompanied by an independent audit from the NAO. The



Department is committed to greater transparency and to impose the discipline required to making, and keeping, its plans affordable.

### **PAC CONCLUSION AND RECOMMENDATION 3**

**Senior Responsible Owners (SROs) for major defence projects typically move post every two to three years, eroding accountability. It also seems common for the Department to appoint a single individual to be responsible for a wide range of different major projects - a task no one person can properly fulfil. "Responsible" means that such individuals should be held to account for delivering the project within an agreed budget and should have the authority to direct those involved in delivering the project. Neither is true in Defence.**

***The Department should ensure that SROs remain in post during key phases of a project lifecycle. It should consider, as part of the work of the Defence Reform Unit, how to give them the authority and information they need to manage the delivery of the equipment for which they are accountable.***

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

3.2 SROs are appointed for all the Department's capability programmes, not projects, and the primary responsibility is to realise the expected benefits from delivery of a programme associated with a number of projects across the Defence Lines of Development (for example: equipment, infrastructure, training).

3.3. The Department's SRO guidance states that the SRO should remain in place for the duration of the programme or be replaced only when a distinct phase of delivery is complete. However, the Department recognises this as an issue, particularly for military officers appointed as SROs and this will be considered as part of wider Defence Reform work. In addition to programme delivery, the Department is also examining how to provide greater accountability for project delivery and the requirement for executive authority to be exercised at this level and how this could best be achieved.

### **PAC CONCLUSION AND RECOMMENDATION 4**

**Implementing the Strategic Defence and Security Review (SDSR) will require the Department to make further difficult decisions, including cancelling projects or re-negotiating contracts, as it works out what more it needs to do to balance the defence budget.**

***The Department has already started to re-negotiate a large number of contracts. Transparency will be important to reassure Parliament, taxpayers and the Armed Forces that the Department is achieving value for money in making and implementing these tough decisions. The Committee notes that the Department has already committed to provide Parliament with an annual statement of the affordability of the equipment plan on which the C&AG will provide a commentary. The statement is an important step in the right direction but will only give part of the picture.***

***The Department should write to the Committee with a note by the end of April 2011 setting out in detail its forecasts of the costs of implementing the SDSR, the status of contract cancellations and renegotiations and how it has assessed the value for money of the decisions it is taking.***

4.1 The Government has prepared a note, which was submitted to the Committee at the end of April 2011.

## PAC CONCLUSION AND RECOMMENDATION 5

**When the Department signed the contract for the aircraft carriers, it was aware that the overall defence budget was unaffordable.**

***The decision is a compelling example of the Department's failure to exercise adequate governance and control over its expenditure programme. In future, before entering into new contracts, the Defence Board should consider the effects of decisions on the affordability of the overall defence budget. The Treasury also has an important role here to keep the Department honest and should offer a more robust challenge to the affordability and value of such decisions.***

5.1 The Government agrees with the Committee's recommendation.

5.2 The Department does consider investment decisions in the context of the wider affordability of the defence budget. The Defence Board Sub-Committee on Equipment is specifically tasked by the Defence Board with ensuring the affordability of the forward Equipment Programme. The Department is taking steps to bring the forward Equipment Programme into balance, and is committed to annual independent audit by the NAO on these plans. All investment decisions for equipment projects with an acquisition cost over £100 million are subject to approval by the Treasury and are required to demonstrate affordability and value for money.

5.3 The Treasury takes a strong interest in the wider affordability of the defence budget, and this will remain an important factor when considering investment decisions. The Treasury will therefore continue to offer a robust challenge to the affordability and value for money of such decisions.

## PAC CONCLUSION AND RECOMMENDATION 6

**Just seven months after it signed the Carrier contract, the Department made a decision in distress in an attempt to balance the defence budget and delayed the project without understanding the £1.6 billion cost implications.**

***That such an important decision was taken based on inadequate information about the longer term costs and consequences points to an organisational culture in which there is a lack of clarity about accountability and responsibility. The Department should make all key decisions - about entering into, cancelling or deferring equipment acquisitions - based on a complete analysis of the financial and operational consequences. The need for such analysis becomes more, not less, vital when decisions are made under pressure.***

6.1 The Government agrees that key decisions should be made based on analysis of the best available information.

6.2 The Government agrees that the decision to defer the Carrier Programme added cost to that programme. When the decision was taken, it was recognised that it would lead to an increase in overall costs. The decision was based on the best analysis available at the time, within the constraints which applied to the conduct of the Equipment Examination. The objective at the time was to reprioritise investment to deliver those capabilities of the most immediate urgency. The detailed working through of the decision was subjected to the Department's usual investment scrutiny procedures, and required re-approval in the normal way.

6.3. The Department's resource management processes are currently being reviewed.

## PAC CONCLUSION AND RECOMMENDATION 7

The Department is in the process of carrying out detailed costings, but the decision to fly a different type of aircraft off the carriers was not based on a full understanding of the costs.

*The Department was confident that the additional costs incurred in fitting catapults and arrestor wires to the carriers would be more than offset by procuring lower-cost aircraft. An inadequate understanding of costs is indicative of more deep rooted problems in the way the Department takes decisions. If not addressed, this will jeopardise the chances of delivering better value for money from the defence budget than has been achieved to date. In future the Department, working closely with the Treasury, should only take key decisions when it has sufficient financial and other management information to demonstrate the actions it chooses to take are both affordable and represent value for money.*

7.1 The Government notes the Committee's conclusion and agrees that key decisions should be taken on the basis of financial and other information.

7.2 The Department is confident that the decision to change Joint Strike Fighter (JSF) Variant and convert the aircraft carriers with catapults and arrestor gear was supported by sound analysis and data. Although the planning assumption was made in 2002 that the Department would operate the Short Take-Off Vertical Landing (STOVL) JSF variant from the carriers, work continued to gather data and conduct detailed analysis on the implications of acquiring the Carrier Variant pending a Main Gate decision that was expected in 2011. The decision on the final choice of variant was always planned to be taken in early 2011 – the SDSR process simply brought that decision forward to October 2010.

7.3 During the SDSR the Department refreshed this work and conducted further assessments of technical risks and estimated costs associated with JSF variants and carrier conversion options. These had levels of uncertainty associated with them which it was known would need to be narrowed and refined through further work. But this was not judged to call into question the conclusion that, taking into account the cost of carrier conversion, the Carrier Variant of JSF would deliver greater capability at lower through life cost than STOVL. This decision was taken by the National Security Council, and the analysis underpinning it was shared across Government.

## PAC CONCLUSION AND RECOMMENDATION 8

The 2004 decision to remove the £1 billion of funding for the third tranche of Typhoon combat aircraft was a high risk decision based on over-optimism, which cost the taxpayer dear.

*It did not reflect the reality that the Department would incur significant costs whatever course of action it chose to pursue. In 2009, the Department committed a further £2.7 billion to buy 16 additional aircraft, a significant contributor to the £36 billion "black hole" in the defence budget. At our hearing, officials found it difficult to justify this decision on military capability grounds. At present the Department does not hold any budgetary contingency to enable it to manage the cost implications of risks such as that which transpired on the Typhoon project. As it gets its budget back into balance, the Department should take a corporate view of risks to affordability and delivery across its equipment programme and establish, in consultation with the Treasury, a tightly controlled financial contingency to deal with the risks which emerge.*

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

8.2 The cost of the Typhoon project has not increased as a result of the 2005 decision to remove Typhoon Tranche 3 funding from the project. However, the Department accepts that buying the additional Tranche 3 Typhoon did add an additional unplanned pressure on the Defence Budget which required the Department to reprioritise planned expenditure.

8.3. The £2.7billion added back into the programme in 2009 was not simply for the purchase of the additional 16 aircraft. The money re-inserted into the programme also includes provision for a range of other requirements including installation of additional power, cooling, and structural reinforcement for future capability upgrades. The procurement of Tranche 3 also saves significant expenditure on upgrading the Tranche 1s and at the time represented the best solution for the UK in balancing our current military output requirements and international obligations against affordability.

8.4. The Director General Finance and Chief of Defence Materiel are currently investigating the feasibility of creating a financial contingency within the Equipment Programme. This would be predominantly focused on the latter years of the ten year programme.

#### **PAC CONCLUSION AND RECOMMENDATION 9**

**In an uncertain strategic environment and with a constrained budget, the Department is right to think in terms of delivering the so-called "80% solution" quickly.**

***The Department has a history of altering the planned numbers and capabilities of the equipment it requires, which delays when equipment becomes operational. These factors often lead to significant cost increases, in part due to the rigidity of the contracts, and an increased risk that the equipment, particularly when introduced late into service, will become obsolete. Instead, procurement should deliver rapid and cost-effective equipment, enabling the Department to respond with more agility to changing operational needs, while retaining the flexibility to develop the capability further should it be required.***

***The Defence Board is the key decision-making body in the Department and it should test every proposal it receives to make sure it is not "gold plated", does not have undue risk, is affordable within likely spending constraints and has sufficient flexibility to adapt if required.***

9.1 The Government agrees with the Committee's recommendations.

9.2 These issues are being addressed as part of Defence Reform work on equipment acquisition. The Department is increasingly looking to acquire equipment which has the scope for incremental improvement through life.

9.3 The Investment Approvals Board on behalf of the Defence Board tests every proposal to ensure it is not "gold plated", does not have undue risk, is affordable and has sufficient flexibility. To ensure that this is addressed from the very start of a project's life the Department has recently introduced Project Start-up and Foundation Milestone Reviews.

# Twenty Fourth Report

Department of Health (DH)

Delivering the Cancer Reform Strategy

## Report Summary from the Committee

Each year in England, around 255,000 people are diagnosed with cancer and around 130,000 die from the disease. The NHS spent £6.3 billion on cancer services in 2008-09. Tackling Cancer has been a priority for the Department of Health (the Department) since its ten year NHS Cancer Plan was published in 2000. In 2007 the Department published its five year Cancer Reform Strategy (the Strategy) to deliver improved patient outcomes.

Over the last ten years, the NHS has made significant progress in delivering important aspects of cancer services, with falling mortality rates and consistent achievement of the cancer waiting times targets. Since publication of the Strategy in 2007, improvements have also been made in reducing the average length of stay and numbers of patients treated as day cases. A significant increase in resources has contributed to these improvements, but the progress has also been achieved through clear direction and high profile leadership underpinned by strong performance management linked to waiting times and mortality targets.

The Committee welcomes the Department's and NHS's commitment to improving the outcomes for cancer patients. The Committee is concerned, however, that early diagnosis does not happen often enough, whilst cancer survival rates have improved and mortality rates have fallen, the gap in survival rates between England and the best European countries has not been closed. There remain wide, unexplained variations in the performance of cancer services and in the types of treatment available across the country.

It is disappointing that ten years after the publication of the NHS Cancer Plan 2000 there remain significant gaps in information about important aspects of cancer services, in particular information on chemotherapy, on follow-up treatment, and on the stage that a patient's cancer has reached at the time of diagnosis. The Department cannot yet measure the impact of the Strategy on key outcomes, such as survival rates, and does not know if it is commissioning cancer services cost-effectively, due to poor data on costs and because outcomes data are not sufficiently timely.

The Committee was surprised that value for money has not been a stronger focus for commissioners, both in securing services to meet the health needs of their local population or in assessing the performance of its suppliers. Few commissioners make best use of the information available and most do not know whether their commissioning is cost-effective.

The Department has recently refreshed its approach to delivering improvements in Cancer Services, with the publication in January 2011 of *Improving Outcomes: A Strategy for Cancer*. The Committee considers it a priority that the Department should continue to improve information on cancer-related activities. The Committee looks to the Department to develop robust mechanisms to ensure the collection of high quality, comprehensive and timely data to raise awareness of cancer, provide transparency in the performance of commissioning consortia, and ultimately drive improved outcomes for cancer patients.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department on its and the NHS's performance in delivering cancer services; on improving information on activity, cost and outcomes of cancer services; and how the Department intends to deliver cost-effective cancer services in the new NHS.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

The Committee fully supports the work that the Department has done over the last ten years to make tackling cancer a priority and welcomes the progress made by the Department and NHS in reducing mortality rates and consistently achieving the waiting times targets.

*The Committee also notes the National Audit Office's value for money conclusion that further improvements can be achieved by tackling variations in service delivery and raising performance to the standard of the best. The key driver of further improvements is the need for high quality, comprehensive and timely data that is understood and used to make decisions about how services should be configured. In the transition to a new NHS structure, the Department must maintain the momentum it has recently established in improving information on cancer related activities. The recommendations that follow are intended to help the Department further improve delivery of cancer services and improve outcomes for cancer patients.*

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

1.2 The Department welcomes the Committee's recognition that progress has been made in improving cancer services and outcomes over the last ten years. The Department agrees that variations in service delivery need to be tackled, and performance raised to the standard of the best; and that, to drive further improvements, the momentum must be maintained in the programme to ensure that high quality, comprehensive and timely data are available and used when decisions are made about the delivery of services.

1.3 The Department's commitment to the delivery of such data was set out clearly in the consultation document: *Liberating the NHS: An Information Revolution*, in October 2010. The Department is aiming to publish the Government's Response to the consultation in spring 2011. In *Improving Outcomes: A Strategy for Cancer*, published in January 2011, the Department set out how its overall strategy for information would be delivered, initially in 2011-12, in terms of cancer services. The NHS Commissioning Board (NHSCB) responsibility will be to support continuous improvements in quality and outcome of NHS services and in undertaking this will need to assess information needs in relation to cancer, but the Department expects that it would wish to build on the work planned for 2011-12.

1.4 The Department's priorities for 2011-12 are set out in the Strategy. They include collating and publishing high quality information that commissioners and providers need to plan and deliver the right services and the best possible outcomes, for example: data about incidence, prevalence and survival and about different aspects of cancer services and the outcomes they deliver. This work will continue to be carried out through the National Cancer Intelligence Network (NCIN). The NCIN, in conjunction with the National Cancer Action Team (NCAT), will also be doing further work to ensure that the data are provided in a style that meets the needs of commissioners and providers and that they are supported effectively to use them.

1.5 Quality Accounts provide a mechanism to help providers identify and focus on the issues, which will make the biggest different to the quality of care they provide. In 2011, the Department will produce a guide for cancer networks to enable them to help providers to use Quality Accounts more effectively to improve cancer services and outcomes.

## PAC CONCLUSION AND RECOMMENDATION 2

Early diagnosis is still not happening often enough and this is reflected in poor one year survival rates for most cancers compared to other countries.

*Whilst cancer survival rates have improved and mortality rates have fallen, the gap compared to the best performing countries in Europe has not been closed. The Department estimated that around 10,000 deaths from cancer could be avoided each year if the one year survival rates in England were the same as the best performing countries. Key to improving survival is improved awareness and early diagnosis.*

*The Committee welcomes the Department's plans to pilot and evaluate public awareness campaigns about the symptoms of cancer at a local and regional level. The Department should report back to the Committee by the end of 2011 on the outcome of the pilots and the impact that raising public awareness of the symptoms of cancer has on achieving earlier diagnosis.*

*The Committee is concerned that there is an eight-fold variation between GP practices urgently referring patients with suspected symptoms of cancer to specialists. The Committee accepts that there will be variation between GPs as some will choose to refer patients to specialists whilst other GPs will carry out their own diagnostic tests. However, the Department should ensure that commissioners investigate as a matter of urgency those GP practices that have both high and low referral rates and compare their referrals with their use of diagnostic tests.*

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

2.2 Whilst the Department agrees with the Committee about the importance of commissioners investigating GP practices with very high or very low usage of the two week urgent referral pathway for suspected cancer, its role is to provide the information about referral patterns, for commissioners to use and the data about GP usage of diagnostic tests are not yet generally available.

2.3 The Department set out, in *Improving Outcomes: A Strategy for Cancer*, its plans to save an additional 5,000 lives per year by 2014-15. This will mostly be achieved through earlier diagnosis, both of symptomatic cases and of asymptomatic cases, which are picked up through screening. The Department is providing more than £450 million over the Spending Review period to diagnose symptomatic cancer earlier. This extra funding will give GPs increased access to key diagnostic tests to rule out or confirm cancer, as well as supporting campaigns to encourage the public to present earlier with possible symptoms of cancer and initiatives to support GPs in diagnosis and prompt referral.

2.4 The Department will have the evaluation data from the regional pilots of the bowel cancer symptom awareness campaign by the summer and from local projects to encourage earlier presentation by people with symptoms that could be lung, bowel or breast cancer by late autumn. It will therefore have the necessary information to report on the impact of its work in this area by the end of 2011.

2.5 From October 2010, the Cancer Commissioning Toolkit (an online toolkit providing data about cancer services and outcomes for NHS commissioners and providers) has included GP practice profiles for cancer. These profiles include data on practice usage of the urgent referral pathway for suspected cancer and allow commissioners to investigate whether individual practices are high or low referrers. Through the National Cancer Action Team, work has started with a number of GP practices with low referral rates, to help them analyse the reasons for this. This work will continue in 2011. In addition, further work is underway to make the profiles more accessible and to work with commissioners and GP practices to find out what support would be most helpful to them in terms of analysing their usage of the urgent referral pathway.

2.6 As set out in *Improving Outcomes – a Strategy for Cancer*, the Department is committed to establishing a new data collection, which will show GP practices' usage of key diagnostic tests. This will enable them to benchmark their usage in the same way that they can benchmark their usage of

the urgent referral pathway. When the data on use of diagnostic tests are routinely available, this will also be included in the Cancer Commissioning Toolkit and the GP practice profiles.

### PAC CONCLUSION AND RECOMMENDATION 3

**There remain wide, unexplained variations in the performance of cancer services and the delivery of treatment across the country.**

***There are wide variations in, and poor understanding of: the extent of emergency admissions; the use of urgent referrals; cancer screening coverage; the use of radiotherapy machines; and chemotherapy treatment. The Department should work with commissioners to get a firmer grip on the reasons for variations and what impact this has on patient outcomes. In order to reduce the risks of a postcode lottery in access to treatment and services, the Department should identify and implement clear and practical actions that can be taken to spread good practice quickly so that the worst performing Primary Care Trusts (PCTs) can be brought up to the standards of the best.***

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

3.2 While many of the variations are unexplained, some are understood. For example, screening uptake is generally lower in socially disadvantaged areas. Equally, the productivity of radiotherapy machines in some sparsely populated areas is always going to be below the optimum because they serve a relatively small population, but it is important to have machines located there in order to protect patients from travelling very long distances, often daily, over significant periods. Because of the current poor quality of chemotherapy data, it is difficult at present to assess the extent of variations in chemotherapy treatment.

3.3 While the Department cannot work with all commissioners to look at the reasons for variations, the Government agrees that commissioners should have the information they need to support their own analysis of those reasons and, where good practice material is available to help tackle problems, this information should be disseminated as far as possible. In the immediate future, until the NHS Commissioning Board is established, this will be within the remit of the Department.

3.4 To help support commissioners understand the variation in their spend, the Quality, Innovation, Productivity and Prevention (QIPP) Right Care work stream published the NHS Atlas of Variation in November 2010<sup>2</sup>. The aim of the Atlas is to put variations in activity, expenditure, safety and quality firmly on the health service agenda for the next decade. It will do this by stimulating commissioners and health service professionals to search for unwarranted variation and then tackle the causes of, and drivers for, that variation.

3.5 As part of the Transforming Inpatient Care Programme, NHS Improvement (NHSI) is working with a range of NHS organisations to support them in reducing emergency admissions and length of stay for cancer patients. NHSI has nearly completed its programme to encourage take up of the 23 hour / day case model for breast cancer surgery, which reduces the length of stay for breast cancer patients, while improving the quality of their care. The Impact Assessment for *Improving Outcomes – a Strategy for Cancer* sets out the estimated bed days that could be saved and the associated savings in expenditure if all trusts had lengths of stay comparable with the best quartile.

3.6 While it is largely for commissioners and providers to take the necessary steps to introduce the appropriate pathways to deliver the potential savings, NHSI is providing a range of support for trusts to develop, test and spread improved pathways, for example: it is currently looking at how to reduce emergency admissions for urology and lung cancer patients. In addition, next year both NHSI and the National Cancer Action Team (NCAT) will continue to support trusts to introduce Enhanced Recovery Programmes, which result in shorter lengths of stay and quicker recovery for patients undergoing elective surgery. The Department will ensure that good practice material from the NHSI and NCAT work is disseminated widely.

<sup>2</sup> [http://www.rightcare.nhs.uk/atlas/qipp\\_nhsAtlas-LOW\\_261110c.pdf](http://www.rightcare.nhs.uk/atlas/qipp_nhsAtlas-LOW_261110c.pdf)



3.7 The Department recognises the potential to use radiotherapy machines more productively. The NCAT has been tasked with establishing a project to look at radiotherapy productivity and capacity and to help the NHS to achieve maximum productivity.

3.8 Through the NCIN, the Department and the NHS CB will continue to ensure that commissioners and providers have the comparative data they need to identify when they are performing less well than they should. A number of GP consortium pathfinders have volunteered to work with the Department to identify the information and support that they will need to commission cancer services effectively. As well as establishing, supporting and holding to account GP consortia, the NHSCB's responsibilities include supporting continuous improvements in quality and outcomes of NHS funded services; promoting choice and public and patient engagement; directly commissioning certain services including primary medical care, other family health services, specialised commissioning, offender and some military health; allocation of and accounting for NHS resources and promoting equality and reducing inequalities in access to healthcare.

#### **PAC CONCLUSION AND RECOMMENDATION 4**

**It is very disappointing that ten years after the publication of the NHS Cancer Plan 2000, there are significant gaps in information about important aspects of cancer services. The lack of information inhibits effective decision-making and limits patient choice.**

***There are shortcomings in the availability, consistency, timeliness and quality of key data such as on chemotherapy which accounts for a fifth of the overall cancer budget. The Department lacks a coherent strategy to address these gaps and limitations. The Department should develop a cancer information strategy which includes common standards for the quality and timeliness of data on cost, activity and outcomes. It should clarify how it intends this information to be used to improve patient outcomes and to inform patient choice.***

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

4.2 While ideally all the information needed to support effective decision-making would be available, it has been necessary to prioritise some aspects of desired improvements over others. Ten years ago, the focus of the Cancer Plan was on improving treatment, establishing Multi-Disciplinary Teams and reconfiguring services. The Cancer Reform Strategy in 2007 marked a shift towards addressing the more effective use of resources and better use of information. *Improving Outcomes – a Strategy for Cancer* moves the Department further forward in terms of delivering the information needs of commissioners, providers, clinicians, patients and the public. The approach to cancer data will be in line with the forthcoming Government response to the *Information Revolution* consultation and the corresponding *Information Strategy for Health and Adult Social Care in England*, which will take forward the information agenda more generally.

4.3 The National Cancer Intelligence Network (NCIN) has already succeeded in improving the coordination of information by bringing together data specialists, organisations and datasets and linking clinical, demographic and performance data from a range of sources. This has resulted in the generation of new analyses and insights, as well as the provision of clearer and more accessible information for cancer commissioners. The Department recognises that there is more to be done to improve the quality of cancer information and in stimulating its use to improve patient care. The Department will work with the NCIN to publish a document that brings together all that is currently being done to improve cancer information, with proposed timelines for delivery.

4.4 The chemotherapy dataset is now on schedule for a mandated collection from April 2012, with pilot collections underway. The Information Standards Board (ISB) process means that the Department is unable fully to mandate the collection before April 2012. The Department is committed to improving the accuracy of costing for chemotherapy, and is working with an advisory group to improve the costing guidance for chemotherapy in time to inform the 2010-11 reference costs collection. The Department is now moving forward on a range of new data collections and analyses, including GP usage of diagnostic tests and the proportion of cancers diagnosed via emergency routes. In doing so, the Department needs to consider the burden on NHS organisations of collecting information and ensure that all collections deliver benefits that outweigh this cost.

4.5 The Department's Programme Budgeting data provide information on cancer expenditure by PCT. Commissioners can compare cancer expenditure and a range of activity and outcomes information through the Programme Budgeting benchmarking tools. The Department is planning to develop the collection for 2010-11 data, so that expenditure is broken down by care setting which, combined with the improvements to information sets on specific service elements, will provide much richer and more accurate information to inform commissioning decisions and improve patient outcomes.

#### **PAC CONCLUSION AND RECOMMENDATION 5**

**A particular problem is the paucity of data in most regions about the stage that a patient's cancer has reached at the time of diagnosis.**

***This information, known as 'staging data', is key to making better use of resources and improving outcomes, yet only the Eastern region has anything like acceptable coverage. The Department needs to convey to cancer registries and, in turn, to clinical teams the value and importance of recording accurate staging data at the point of patient diagnosis. The Department should ensure that staging data is complete and timely in at least 70% of cases in each region by the end of 2012.***

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

5.2 The Operating Framework for the NHS in England 2011-12 has made it clear that providers are expected to include staging data in the information they feed to cancer registries.

5.3 Cancer registries are expected to have staging data for at least 70% of their cases by the end of 2012. The registries have established a project to deliver against this requirement.

#### **PAC CONCLUSION AND RECOMMENDATION 6**

**The Department cannot measure the impact of the Strategy on key outcomes, such as survival rates, and does not know if it is commissioning cancer services effectively, because cost and outcomes data are not sufficiently timely.**

***Cancer registries should be required to provide data to the Office for National Statistics within six months of the end of the relevant calendar year to enable the Department to speed up the provision of comprehensive national and regional outcomes data to commissioners.***

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

6.2 The Government agrees that the length of time it takes to get survival rate information means that this is not a good method of rapidly monitoring changes in performance. However, even if Cancer registries provided data more quickly, which they have committed to do, the time lag will continue to be significant, which is why the Department is developing proxy measures.

6.3 In relation to costs data, the Government accepts that commissioners think that they need more timely data to inform their planning and commissioning, but believes that they can access more timely costs data if they chose to and should routinely review activity and cost expenditure. In addition, NHS Comparators provides timely benchmarking information every three months on primary care prescribing and inpatient expenditure at PCT and GP practice level. The developments to the Programme Budgeting collection will mean that this benchmarking information is more timely in future years. The timeliness of survival rate data is not an issue, as outcomes do not change significantly year on year.

6.4 The National Cancer Intelligence Network (NCIN) has already worked with the registries to agree that the current 18-month target for 2009 registrations will be pulled back to 15 months. This needs to be formalised with a new National Core Contract, which will aim to ensure that 2010 registrations will be complete in 12 months, and 2011 registrations by six months.

6.5 To enable improved timeliness and quality, the flow of national data sources into the registries is critical. As part of the new National Core Contract, the Department proposes to mandate all registries to use key national feeds, supplemented by emerging specialist/local data feeds. Where possible national feeds should be processed once, on behalf of all, to eliminate duplication. A specification is being written with the registries to make this transition. The Department will take the opportunities offered by the new Public Health Service and NHS Commissioning Board to implement a stronger governance model across all registries, to ensure a new core contract is agreed and is delivered consistently, nationally.

#### PAC CONCLUSION AND RECOMMENDATION 7

**Many commissioners do not do enough to understand costs and value for money in their delivery of cancer services.**

***The Committee is concerned that only a fifth of PCTs had assessed the value for money delivered by their providers and that 12% had no plans to carry out such an assessment. In moving towards commissioning by GPs, the Department should work with the NHS Commissioning Board to set out clear standards requiring commissioners to demonstrate how they are obtaining value for money. The Department should say how it will measure improvements and what incentives and penalties will be used to ensure that value for money is at the heart of commissioning decisions.***

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

7.2 Moving forward, it will be fundamental for commissioners to fully understand the costs and value for money of their services, with the challenging financial climate the NHS faces, despite the Government protecting the NHS, with cash funding growth of £10.6 billion (over 10%) by 2014-15. To make the necessary investment in patient care, services will need to be more productive and efficient.

7.3 Almost half of cancer spend is on inpatient stays, the next biggest item is cancer drugs. To improve value for money (VFM) from the services they commission, the NHS should focus on inpatient stays. Cancer networks have been working with a significant number of providers to reduce admissions and inpatient bed days, the major drivers of costs for cancer. At the moment, PCTs are required to look at the efficiency and effectiveness of services. Where they focus their efforts in doing this is a decision that is made locally. Many may be looking at the issue of emergency admissions more generally and not looking specifically at cancer admissions.

7.4 The Department provides a range of resources to help commissioners understand costs and VFM in the delivery of cancer services. For example: the QIPP Right Care programme has published PCT Health Investment Packs, which highlight variations in cost, activity and outcomes and showcase how commissioners can use the Programme Budgeting benchmarking tools to understand this information. The Health Investment Network website provides a range of information for commissioners, including tools, user guides, analysis and case studies to support evidence based decision-making. GP commissioners' profiles are also provided.

7.5 The Department will accelerate work to develop tariffs for chemotherapy and radiotherapy during 2011-12 and will investigate the potential development of a range of tariffs to incentivise high quality, cost-effective services.

7.6 The NHSCB's role in establishing, supporting and holding to account GP consortia will include supporting the development of a comprehensive and effective system of GP consortia. The Board will hold consortia to account for delivering improvements in outcomes and against their financial performance in terms of VFM, and intervene where there is failure or the risk of failure. The Department will set a Mandate which will include key outcomes and information about available resources, and the process for arriving at the Mandate will include consideration of the effect of measures to improve efficiency but the pursuit of value for money will be for local commissioners to drive.

## PAC CONCLUSION AND RECOMMENDATION 8

The numbers of cancer survivors is expected to increase from 1.7 million in 2010 to 2 million by 2020, yet the Department is unable to measure whether it is delivering on its commitment of more cost-effective provision of follow-up and care outside hospital.

*The Department expects commissioners to identify more cost-effective ways of providing follow-up services to increasing numbers of cancer survivors and intends that meeting the increased demand for such services should be cost neutral. The Department should improve its information on outpatients and other forms of follow-up care by requiring such activity to be properly coded. The Department should also identify and disseminate examples of good practice where savings and benefits to patients are identified and evaluate what impact alternative approaches to follow-up care have on hospital activity.*

8.1. The Government partially agree with the Committee's conclusion and recommendation.

8.2 Despite the good Spending Review settlement for health, the NHS faces the challenge of achieving up to £20 billion efficiency savings by 2014-15 in order to keep up with pressures on the service from an ageing population, improvements in technology and better drugs. This is an unprecedented challenge, but every penny saved through efficiency measures can be reinvested to meet the additional demands. The challenge also means there will be a drive towards delivering services away from expensive inpatient units, and closer to patients' homes.

8.3 The consultation document *Liberating the NHS: An Information Revolution* set out the central role of information in improving outcomes for patients and service users, and the need for clinically governed standards and accurate recording of data with data generated at the point of care by clinicians and other care professionals, wherever possible. The Department will look at the recommendation in relation to coding of outpatient data within this context.

8.4 Through the National Cancer Survivorship Initiative, the Department is developing and testing new models of follow-up care. NHS Improvement is working with a range of sites around the country on this, and evaluation evidence will be available by the end of 2011-12. By stratifying patients according to their needs, and making sure that all patients know whom to contact if they have concerns, the Survivorship Initiative believes that survivors' needs can be met more effectively, at a lower cost. Once this work is completed, the Department will disseminate examples of good practice along with the evidence of costs and benefits.

# Twenty Fifth Report

## Department for Work and Pensions (DWP)

### Reducing errors in the benefits system

#### Report Summary from the Committee

The benefits system is large and complex. There are around 30 different types of benefits and pensions, and £148 billion was paid out to 20 million people in 2009-10. The Department for Work and Pensions (the Department) estimates that £2.2 billion of overpayments and £1.3 billion of underpayments were made in 2009-10 as a result of administrative errors by its staff and mistakes by customers. Whilst the value of these errors as a proportion of total benefit expenditure is low, the amounts involved are still very significant sums of public money and have contributed to the Department's accounts being qualified for 22 consecutive years.

The Committee took evidence on two reports from the Comptroller and Auditor General looking at administrative and customer error in the benefits system. The Committee found that efforts to tackle error have had little success: despite the Department introducing a strategy to reduce errors in 2007, levels of error have remained constant since then.

The Committee recognises the difficulty of reducing error, given the complexity of the benefits system and the volume of payments being processed. The publication of a joint HM Revenue and Customs and Department for Work and Pensions fraud and error strategy in October 2010, along with additional funding of £425 million over four years, is an opportunity to inject a new impetus. The joint target of a 25% reduction in the cost of overpayments from fraud and error by 2015 is challenging, and whilst the Committee acknowledges the efforts being made by the Department, there is still concern that there is not yet a clear plan of action to achieve it which sets out specific interventions and milestones to monitor progress.

The target does not address underpayments, despite the hardship that benefit underpayments can create for people in need, and it is critical the Department does not neglect this important aspect of reducing error.

The Department must ensure that interventions to reduce error are targeted where they are most likely to get the greatest return. The Department has undertaken some work to understand the cost and impact of its measures to reduce error, but this has been neither comprehensive nor complete. In order for the Department to manage its programme of interventions cost-effectively, it must develop a rigorous approach to costing its interventions and assessing how each will contribute to the target.

Progress on reducing error requires a better understanding of where and why errors arise, and a greater focus on preventing errors occurring in the first place. The Department is not making use of all available sources of information, such as calls to advice lines or feedback from quality checking teams, to identify the reasons why staff make mistakes and where guidance and training efforts should be directed as a result. Greater use of risk profiling would help identify which customers are most likely to make mistakes on their benefit claims, allowing interventions to be targeted more effectively.

Wider welfare reforms have the potential to reduce errors in the long term by simplifying benefits administration, but waiting for the implementation of the Universal Credit is not an option. The reforms will not be implemented in time to contribute much towards the 2015 target, and it is therefore essential that the Department maintain its current focus on getting error levels down now.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

The cost of errors in the benefits system is considerable and has remained constant since 2006-07. Total overpayments in 2009-10 amounted to £3.1 billion. Of this total, staff and customer mistakes accounted for over £2 billion of overpaid benefits, while fraud accounted for another £1 billion of overpayments. The Department needs to step up its performance significantly if it is to meet its joint target to reduce the cost of overpayments due to fraud and error by 25% over the next four years. The Department and HM Revenue and Customs have an additional £425 million over this period to tackle the problem, but the Department has not clearly set out how it intends to spend and evaluate this extra funding.

*By May 2011, it should write to the Committee with a clear delivery plan setting out the interventions it will implement to meet the target, how it will monitor progress and the corrective measures it will take if progress toward achieving the target is inadequate.*

1.1 The Government agrees with the Committee's recommendation.

1.2 The Department is committed to reducing the level of fraud and error in the benefit system (currently 2.2% of benefit expenditure). The joint DWP / HMRC fraud and error strategy (strategy) sets out a whole new approach to this issue, and both Departments will be introducing a range of new initiatives focused on tackling fraud and error across the whole of the welfare system. In addition to this, the introduction of Universal Credit from 2013 will radically simplify the benefit system, making it much easier for customers and staff to keep claims correct, supported by a modern IT infrastructure. This will help to reduce both customer and administrative error.

1.3 The Department will provide the Committee with a copy of the delivery plan for the strategy by 31 May 2011. It will work closely with the NAO to develop this plan.

### PAC CONCLUSION AND RECOMMENDATION 2

The Department has focused on reducing overpayments and neglected underpayments, despite the hardship that underpayment of benefits can cause for claimants. The average weekly underpayment in Income Support for affected customers is £24, a considerable proportion (29%) of their weekly payment. There were an estimated £1.3 billion of underpayments due to customer and administrative error in 2009-10, but the Department does not have a target to reduce this total.

*The Department's drive to reduce overpayments must not be at the expense of reducing underpayments. It should set clear goals to reduce underpayments which are as challenging as its target on overpayments.*

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

2.2 The Department's actions to reduce levels of fraud and error are focused on improving levels of overall correctness, and will therefore address both over- and underpayments. As overpayments from benefits and tax credits are the largest area of loss, the strategy sets out a target to reduce these by 25% by March 2015. There is not a comparable target for underpayments, but this does not signify that the Department is any less committed to ensuring that its customers get the money to which they are entitled. In 2010-11 Jobcentre Plus identified and corrected 24,337 cases where there were underpayments totalling just under £11 million. The Pension, Disability and Carers Service identified and corrected 18,788 cases with underpayments totalling around £41.5 million.

2.3 Whilst the Department does not intend to set a formal, external target for reducing underpayments (the Government has removed outcome based targets and replaced these with action based Structural Reform Plans), it will consider developing a measure, similar to the one included in the strategy for overpayments, as part of its work on developing the delivery plan.

### PAC CONCLUSION AND RECOMMENDATION 3

The Department does not know which of its interventions have the biggest impact on reducing error because it has undertaken only a partial assessment of their costs and benefits. The Department has conducted cost-effectiveness assessments of some of its interventions, but these were incomplete and did not include all relevant costs. The failure to identify what works best undermines the ability of Departments to manage programmes cost-effectively and is something we see repeatedly across government. The Committee has made similar recommendations very recently in relation to both the work of youth offending teams and civil tax investigations.

*The Department should complete a full cost-benefit assessment of each intervention, and keep these up-to-date, so that resources can be targeted on the interventions that are most cost-effective at reducing error.*

3.1 The Government agrees with the Committee's recommendation.

3.2 The Department has already completed the first stage in its new, systematic process to assess and regularly review cost-benefit analysis for all of its fraud and error interventions. 'Work Programmes' have been produced for all key benefits, and set out for the first time, benefit by benefit, a comprehensive list of all fraud and error reduction activities that the Department is taking forward. These programmes allow the Department to understand more fully the range of actions that are in place, their costs, benefits, risks and key milestones.

3.3 To make these work programmes even more effective tools for analysing the Department's approach and impact on tackling fraud and error, the Department will be taking forward a range of additional actions over the coming months. These include:

- producing 'benefit diagnostics', which analyse the impact the Department's activity is having in a particular benefit and highlight any gaps or areas for concern;
- developing action plans to address identified gaps; and
- conducting root causes analysis to ensure activities continue to be correctly focused on the largest areas of loss.

3.4 The Department will have completed this full process for all its major benefits by March 2012.

3.5 The Department agrees that cost-benefit analysis is important in furthering its understanding of how best it should target its resources to tackle this issue, and it will continue to take a pragmatic approach to the level of detail required for this analysis.

### PAC CONCLUSION AND RECOMMENDATION 4

The Department does not have a sound understanding of where and why errors arise and is not doing enough to prevent errors entering the system in the first place. The Department needs to improve its use of data to help it identify sources of error and prevent mistakes from occurring.

*On administrative error, the Department should draw on available sources of information, such as staff feedback and calls to internal helplines, to detect where benefits processing staff are having problems. The Department should then use this information to revise guidance and training in order to help staff avoid making the most common mistakes.*

*On customer error, the Department should make greater use of risk profiling to identify those customers most likely to make mistakes on their benefit claims. The Department introduced risk assessments for Housing Benefit in 2003 and Income Support in 2010, but has yet to extend these to all benefits. The Department should then target appropriate actions, such as contacting customers to check if there have been changes in their circumstances which would affect their benefit entitlement, and evaluate such interventions.*

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

4.2 The Department already gathers a range of information from staff through on-line forums and surveys, through workshops and via networking and good practice groups, and uses this to both inform the development of new initiatives targeting fraud and error in the benefit system, and improve guidance and learning and development products for staff.

4.3 Jobcentre Plus has recently reviewed the quality of the data gathered by its internal staff helpline and has identified changes to the way in which information is captured. These changes will make the information much more valuable in terms of understanding any underlying problems processing staff are experiencing, enabling guidance to be reviewed and other preventative measures to be put into place.

4.4 The strategy commits the Department to taking more preventative action to stop fraud and error from occurring in the first place. Key to this is the development of an Integrated Risk and Intelligence Service which will increase the range of data to which the Department has access, and will use the best techniques available, from both the public and private sectors, to ensure that the Department uses this data to best effect to target its most high risk cases with appropriate and timely interventions.

4.5 The Department will also use data from HMRC's Real Time Information system in order to prevent fraud and error. The availability of real-time earnings information, in parallel with the introduction of Universal Credit, will significantly reduce the Department's reliance on customers to provide it with accurate and timely information about their income.

#### **PAC CONCLUSION AND RECOMMENDATION 5**

**Quality checks are an important measure for detecting and preventing error, but Jobcentre Plus's quality assurance arrangements are not independent enough. The Pension, Disability and Carers Service has a national quality checking team independent from local offices to ensure the standard and consistency of checks, while Jobcentre Plus relies on checks carried out by staff working in local offices.**

***The Department should make sure agencies learn from each other so that all agencies adopt best practice in their quality assurance arrangements. The Committee expects Jobcentre Plus to fulfil its commitment to implement a system of independent checks by April 2011.***

5.1 The Government agrees with the Committee's recommendation

5.2 Jobcentre Plus created a new independent checking tier in April 2011. The structure is currently at an early stage of development with further work to do in refining the checks undertaken, but staff have already been taken out of the operational management structure as the first step in providing the level of independence that the Committee was seeking. A new end-to-end check that covers all aspects of the delivery process is currently being developed for use by this independent checking team, prior to full national rollout from October 2011.

#### **PAC CONCLUSION AND RECOMMENDATION 6**

**Wider welfare reforms could reduce error in the long term by simplifying the benefits system, but could also distract the Department from its focus on getting error rates down now. The Department believes that the introduction of Universal Credit will minimise errors by simplifying benefits administration. However, Universal Credit will not start being phased in until 2013, and so will not be able to contribute much to the target 25% reduction in fraud and error over the next four years.**

***The Department must ensure that its commitment to reduce error remains a priority and is sustained while preparations for Universal Credit go ahead.***

6.1 The Government agrees with the Committee's recommendation.



6.2 The strategy clearly sets out the Government's commitment to reducing both fraud and error before and beyond the introduction of Universal Credit. Many of the error focused initiatives that will be introduced as part of strategy implementation will come into effect before 2013. For example: work to introduce a range of IT fixes to help staff better navigate and operate benefit IT systems has already begun, as has work on developing a new system of staff accreditation.

# Twenty Sixth Report

Department of Health (DH)

Management of NHS hospital productivity

## Report Summary from the Committee

Over the last ten years Government spending on the NHS increased by 70%, from £60 billion in 2000-01 to £102 billion in 2010-11, with around 40% spent on services provided by acute and foundation hospitals. This substantial increase in funding enabled hospitals to invest in more, better paid staff and improve their buildings and equipment. In return there have been significant improvements in the performance of the NHS, particularly in those areas targeted by the Department of Health (the Department) such as hospital waiting times and outcomes for patients with cancer and coronary heart disease. However, the level of hospital activity has not kept pace with the increased resources as hospitals focused on meeting national targets, but not on improving productivity, and productivity has actually fallen over the last decade.

Productivity is defined as the ratio of the volume of resources (inputs) to the quantity of healthcare provided (outputs), adjusted to reflect their relative costs and quality. Figures produced by the Office for National Statistics (ONS) estimate that, since 2000, total NHS productivity fell by an average of 0.2% a year, and by an average of 1.4% a year in hospitals. The taxpayer has therefore seen a better quality NHS as a result of the additional investment but, per taxpayer pound, is getting less in return. The trend of falling productivity will need to be reversed if the NHS is to meet the Department's productivity challenge, to deliver up to £20 billion of efficiency savings a year, by 2014-15, without compromising services.

One would expect productivity to fall at the start of a period of expansion as the inputs in the form of staff and resources can be increased rapidly, while increases in outputs tend to lag behind. But, in 2002 the Department promised that, in exchange for increased funding, it would deliver annual productivity improvements. The Department failed and we have had ten years of almost continuous decline. The ONS measure of productivity is the most authoritative there is, although the Department points to its shortcomings. The Committee accepts that it is challenging to make accurate adjustments for quality improvements. But, despite previous assurances to the Committee, the Department has failed to reach agreement with ONS on how the measure should account effectively for improvements in quality.

The Department promotes efficiency and productivity improvements in hospitals primarily through national pay contracts and by setting a fixed price, or 'tariff', for individual hospital procedures (Payment by Results). While Payment by Results does seem to have driven some improvements, the system only covers 60% of hospital activity and there is substantial variation in hospital costs and activity. The Department is introducing 'best practice tariffs' to promote greater hospital efficiency. On the one hand, this tariff system can promote efficiency and productivity, but on the other hand could prioritise price over quality.

Although potentially positive, the system will need to be carefully monitored to ensure quality is maintained, as the Department acknowledge that cutting tariffs could damage quality. National pay contracts have not yet been used to manage staff performance effectively, and consultants' productivity has fallen at the same time as they have had significant pay rises. The report also notes that hospitals have concentrated primarily on meeting national performance targets and not specifically on optimising productivity.

There are risks to the NHS being able to deliver up to £20 billion savings annually, for reinvestment in healthcare, alongside implementing a substantial agenda of reform. Productivity improvements will be key to delivering these savings. The Department points to areas where the reform agenda complements the delivery of savings; for example, by reducing management costs associated with Strategic Health Authorities and Primary Care Trusts, and in the requirement for hospitals to improve their performance prior to becoming Foundation Trusts. The Department and an expert independent witness told us that although the risks to delivering savings have increased in light of the planned reforms, the reforms have also increased its ability to improve productivity in some areas. The Committee expects to return to the issues of NHS efficiency savings and productivity in future reports.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department on NHS hospital productivity in recent years and on delivering improved productivity in future.

## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

The trend of falling NHS productivity will have to be reversed if the NHS is to deliver, by 2014-15, savings of up to £20 billion each year for reinvestment in healthcare. The Kings Fund estimate that this will require year-on-year productivity gains of around 6%. Meanwhile the NHS organisations charged with delivering these savings will be abolished as part of the NHS reforms.

*The following recommendations are aimed at the transition phase of the planned reforms, during which the Department of Health's central focus on productivity and efficiency will remain vital. The Committee will be reviewing progress in delivering these savings, including productivity improvements, in due course.*

1.1 The Government partially agrees with the Committee's conclusion

1.2 Productivity will have to improve in order to support the savings identified as part of the Quality Innovation Productivity and Prevention (QIPP) challenge to achieve up to £20 billion worth of savings required by 2014-15. The up to £20 billion figure includes savings on procurement, a staff pay freeze for those earning over £21,000 per year, treating people more effectively and preventing problems or conditions deteriorating in primary and community care settings and so reducing the demand for more expensive, reactive secondary care, as well as getting more output per unit of input used (productivity). The Department does not therefore rely on all of the savings being delivered through productivity as defined by the National Audit Office and the Office for National Statistics.

1.3 The NHS has been working on proposals to meet the quality and productivity challenge it faces since 2009 and all organisations that provide or commission NHS care have a contribution to make. Since the White Paper was published these local proposals have been developed in partnership with emerging Consortia. However, it is the staff working in those organisations, and in particular clinicians and clinical teams, that will deliver change and improvements to the quality of care that patients receive. That is why these proposals have been developed from the front line up and should be based on strong clinical leadership and engagement.

### PAC CONCLUSION AND RECOMMENDATION 2

Since 2000 total productivity fell by an average of 1.4% a year in hospitals as the level of activity (outputs) has not kept pace with the increased resources (inputs).

*Though the increased money going into the NHS has helped to reduce waiting times, improve facilities, and deliver higher quality care, the Department promised at the same time to improve productivity. It failed and, in future, the Department needs to have a more explicit focus on improving hospital productivity if it is to deliver its ambitious savings targets without healthcare services suffering.*

2.1 The Government agrees with the Committee's recommendation.

2.2 Productivity has been shown to have declined in hospitals from 2000 to 2008 by -1.4% per annum according to figures produced by the Office for National Statistics (ONS). The Department requires higher levels of productivity in hospitals in the future to achieve the savings it needs.

2.3 The Quality Innovation Productivity and Prevention challenge has identified up to £20 billion worth of efficiency savings that the NHS must make in the next 4 years. Part of the savings identified are for increases in Hospital and Community Health Service (HCHS) labour productivity and the Department will be monitoring performance against this. This will partly be aided by efficiency requirements in the national tariff, including 4% efficiency in 2011-12.

### PAC CONCLUSION AND RECOMMENDATION 3

**The Department has not yet agreed with the Office for National Statistics a measure for NHS productivity, despite previous assurances to this Committee. The Department does not believe that the existing measure sufficiently accounts for improvements in quality.**

***The Department should resolve differences with the Office for National Statistics (ONS) and agree measures for both NHS productivity as a whole and for hospital productivity specifically, which account effectively for changes in quality. This should be done in time for the ONS's 2012 annual report on NHS productivity.***

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

3.2 The Department and the ONS agree on how to measure productivity where data is fully available. This would look at the change in the volume of inputs relative to the change in the volume of outcomes received by patients. However, the Department is unlikely to ever be in such a position where this data is available, as this would require capturing perfectly the health outcome change for each and every patient seen, and find a way to be able to attribute this to the NHS. The measurement of healthcare productivity is more advanced than other public service areas, and it is recognised that UK health productivity measurement is more sophisticated than most other countries.

3.3 The Department must therefore concentrate on how to measure productivity with imperfect information, which is calculated using assumptions around activity and inputs that cannot be measured. The Department will work with the ONS to agree on the best method, including, where possible, expanding the coverage of quality which is measured.

3.4 Along with the ONS, the Centre for Health Economics (CHE) at York University also measures NHS productivity under a research contract with the Department. CHE and the ONS have a number of differences in how productivity is calculated. Figures produced by the CHE show different levels of productivity change in the NHS and hospital sector. The most recent publication from the ONS contains major revisions to their historic time series for total NHS productivity.

3.5 The Department will carry out a review of the two methods and attempt to reach consensus on the preferred methodology. If this is not possible, then the Department will decide which one best reflects changes in productivity across the NHS, which is most appropriate for assessing productivity performance, both in hospitals and the NHS on aggregate.

3.6 The Department agrees with the ONS that "Estimates of productivity change need to be interpreted alongside other forms of corroborative evidence, since a single measure of productivity change is unlikely to capture all the costs and benefits of health care."<sup>3</sup> The Department does not believe that the productivity measure alone can be used to determine the value for money of the health care system, and that other measures, such as cost efficiencies and quality indicators, should also be used.

### PAC CONCLUSION AND RECOMMENDATION 4

**The Department has given limited attention to the reasons for differing costs between hospitals for providing similar services, either to identify good practice or the scope for efficiency savings. In some cases, such as specialist hospitals, there may well be good reason for cost variations, but there will also be unidentified cases of good practice and of inefficiencies which could be addressed.**

***The Department should make clear the responsibility of hospital Boards to use and act on comparable data with a view to identifying scope for improvement. Once it has agreed the productivity measure, the Department should then publish hospital level productivity data. We expect the Department's oversight arrangements, under the reformed NHS, to include a role in both facilitating the sharing of good practice and in ensuring that under-performance is challenged.***

<sup>3</sup> *Public Service Productivity: Health Care*, Office for National Statistics, January 2008

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

4.2 The Department has collected average unit costs at the level of individual treatments since 1997-98, allowing hospitals to compare their costs with other hospitals, and in recent years has paid considerable attention to driving up the quality of these reference costs. The Department has developed clinical costing standards to promote high levels of consistency, and have encouraged the NHS to implement patient level information costing systems (PLICS).

4.3 In 2010, the Department, in partnership with the Audit Commission, reviewed the reference costs collection to understand better the uses of the data, and to assess their quality. Admitted patient care data (about £20 billion of the collection) were found to be relatively reliable, but other areas were more problematic. The Department is implementing an action plan to improve the quality and usefulness of reference costs. The published 2009-10 reference costs include a number of tools to allow organisations to identify areas where they are most and least efficient. The Department has extended the scope of the PBR Data Assurance Framework to include the audit of reference costs. The Audit Commission's auditors discuss any outlying data with hospitals as part of these audits, to help them identify areas for attention.

4.4 The Department has supported the sharing of good practice between hospitals through the work of the NHS Institute for Innovation and Improvement. The Productive Series helps hospitals focus on how to improve the efficiency and quality of care which is delivered, using tools developed such as the Productive Ward. The Institute also publishes benchmark information around fifteen efficiency indicators allowing hospitals to assess their performance against others across the country.

4.5 The need to understand cost variations and cost drivers also rests with individual organisations, which is why the Department has requested the Healthcare Financial Management Association (HFMA) to take on the development of the clinical costing standards through the establishment of a National Costing Development Group.

4.6 Even after allowing for quality, cost differences between hospitals providing similar services are likely to remain. The Department publishes a reference costs index (RCI), which is a measure of the relative efficiency of NHS hospitals. With all other factors being equal, hospitals with services largely in the scope of tariff, and with a below average RCI, should expect to generate a surplus under Payment by Results as their costs will be lower than the national tariff. In 2010, the Department asked the CHE at York University to review the additional costs associated with specialised care to inform the level of top-ups, which are made to the tariff. In the course of their analysis, York found substantial variation in the average cost of treatment across hospitals, which was not due to the provision of specialised services, nor to the characteristics of each hospital's patients. The Department accepts that more work is needed to understand the reasons for these differing costs.

## **PAC CONCLUSION AND RECOMMENDATION 5**

**National pay contracts have not yet been used effectively to drive productivity.**

**The Consultant Contract was put in place in 2003 with an expectation that it would deliver year-on-year productivity gains. Yet, while consultants have had significant pay rises, their overall productivity has continued to fall. Few hospitals have used the levers within the contract, such as job planning, to improve productivity.**

**Agenda for Change contracts, which cover the majority of other hospital staff, are also designed in part to deliver productivity improvements, but are not yet being consistently used to manage staff performance effectively.**

***In its response to this Report, the Department should explain what more it will be doing to support hospitals and Commissioners to use national pay contracts to deliver productivity improvements.***

5.1 The Government partially agrees with this conclusion.

5.2 Although some trusts are using the levers within the national pay contracts to improve productivity, the Government recognises that more needs to be done to achieve greater benefits.

5.3 The new contracts were designed to secure increased numbers of staff to deliver improvements in NHS services and give Trusts the tools, advice and guidance to match staff resources and activities to patient need and organisational objectives and improve productivity. The Department has used its Service Level Agreement with NHS Employers to ensure that ongoing support has been made available to employers. For example: NHS Employers has already collected and published good practice case studies in the use of the Knowledge and Skills Framework for Agenda for Change and on approaches to realising the benefits of the consultant contract through effective job planning. NHS Employers will shortly publish jointly with the British Medical Association further guidance on linking consultant job planning to organisational objectives.

5.4 In line with the Departments aim for a decentralised system, the main incentives to improve productivity will be through the tariff system and a transparent regulatory framework, not from central Government controls on providers' pay and internal processes.

#### **PAC CONCLUSION AND RECOMMENDATION 6**

**Hospitals have been unsuccessful in reducing emergency admissions, and those with a relatively high proportion of emergency admissions tend to have higher overall costs. The Department's productivity challenge includes a 10% reduction in the number of emergency admissions, and the National Audit Office estimates a potential saving of £300 million a year from reducing the proportion of emergency admissions in the lowest performing 75% of hospitals.**

***The Department should report back to the Committee by July 2012 on hospitals' progress in reducing emergency admissions and the consequent impact on hospital productivity.***

6.1 The Government partially agrees with this conclusion.

6.2 Reducing emergency admissions to hospital requires improvements to care across the entire health and care system and it is not the role of hospitals alone. More effective community-based treatment for people with long-term conditions, along with the establishment of ambulatory emergency care pathways, can help to reduce the number of patients who require emergency admission. This means the need for transformational change that can help deliver services that support people to self manage and receive appropriate information to share in decisions about their care.

6.3 The NHS has already started to turn around the previous increases in emergency admissions. Latest evidence suggests that during the second half of 2010, the rate of increase in emergency admissions slowed, so admissions in September-November 2010 were below the number in the same period of 2009.<sup>4</sup>

6.4 While demographic pressures continue to drive up underlying demand, there are a number of factors that are likely to limit emergency admissions going forwards:

- change to Payment by Results rules in 2010-11 limit payments to hospital trusts for this activity;
- from 1 April 2011, hospitals may not receive a payment for an emergency admission within 30 days of discharge from an elective admission, and local flexibilities may extend this to non-elective admissions;
- the GP contract for 2011-12 includes an element incentivising reductions in hospital activity; and
- the Quality, Innovation, Productivity and Prevention programme has a number of workstreams that will contribute. In particular, the long-term conditions workstream will focus on improving the quality and productivity of services for these patients and their carers, so they can access higher quality, local, comprehensive community and primary care. This will in turn, slow disease progression and reduce the need for unscheduled acute admissions by supporting people to understand and manage their own conditions.

<sup>4</sup> Source: Hospital Episode Statistics

6.5 These interventions are likely to have some effect in the short term and the Department will report back to the Committee in July 2012 on the progress of the system in reducing emergency admissions. Indeed, this data should be easily available as emergency admissions indicator in the NHS Operating Framework. However, the QIPP programme's transformational change is likely to mean more significant reductions will be realised after this date. The data available by July 2012 will only cover the period up to February 2012.

#### **PAC CONCLUSION AND RECOMMENDATION 7**

**The 'Payment by Results' system is a key element in influencing productivity improvements, but there needs to be greater clarity in defining how it will operate during the transition period and beyond. The NHS reforms envisage that Monitor, which currently regulates Foundation Trust hospitals, will become the economic regulator of the NHS and part of this role will be to set the prices of NHS services.**

***Before handing over responsibility to Monitor, the Department should set out:***

- ***its plans for extending the system to the 40% of hospital activity not yet covered;***
- ***how tariffs will be aligned with the expected efficiency gains; and***
- ***how it will mitigate the risk that, were there to be increased price competition, this might reduce the quality of service, or hospitals may decide not to provide some services.***

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

7.2 The NHS modernisation plans envisage that the NHS Commissioning Board will be responsible for the structure of payment systems and the economic regulator will set prices. The precise split of responsibilities between the two has still to be determined, but progress is being made on mapping all the functions, which form part of the end-to-end process for tariff setting to the new organisations. The Department is also engaging with a wide range of expertise and experience, including pricing and economic regulation in the utility sectors, to understand how the current Payment by Results system can be adapted and extended in the future to support the Government's NHS modernisation plans.

7.3 In the meantime, the Department has a clear set of priorities for Payment by Results in the transition period, which can be broadly summarised as expanding the scope of the tariffs, embedding efficiency and value for money in the tariff, incentivising quality and better outcomes for patients, and promoting integration and patient responsiveness.

7.4 In 2011-12 and 2012-13, the Department is introducing or mandating currencies for adult and neonatal critical care, ambulance services, chemotherapy, cystic fibrosis, radiotherapy and HIV outpatients, and mandatory tariffs for cystic fibrosis and renal dialysis. The system will extend from around 60% of acute hospital income currently to around 65% in 2012-13. Around 15-20% of acute hospital income comes from training, research and development, and other sources. Acute services remaining outside the tariff would be a mixture of specialised services such as burns and palliative care, and non-consultant led and other activity, where caution is needed because of the risks of activity inflation associated with introducing a tariff.

7.5 The national efficiency requirement in 2011-12 is 4%, offsetting pay and price inflation, which is assessed at 2.5% to give net price reduction of -1.5% to both tariff and non-tariff services. This is consistent with the £20 billion efficiency savings across the Spending Review period. 2% of the efficiency is embedded within the tariff through setting all tariffs 1% below the mean of reported average costs, better targeting of long stay payments, and more best practice tariffs.

7.6 Prices will remain fixed, so that competition continues to be on the basis of quality not price. This does not mean that there should not be some flexibility in the system, to allow for provision of services to patients, which would not otherwise be provided. In 2011-12 the Department has introduced a flexibility allowing commissioners and providers to agree a variation to price which is lower than the published tariff. This flexibility cannot be imposed through competitive tender, and the quality of service to the patient must not diminish in any way.

# Twenty Seventh Report

## HM Revenue & Customs (HMRC)

### HM Revenue & Customs: Managing civil tax investigations

#### Report Summary from the Committee

Some £15 billion of tax a year is lost through evasion, fraud and criminal attack. Civil investigations are an important element of HM Revenue & Customs' (the Department's) work to tackle this serious non-compliance. They are targeted on the minority of taxpayers who deliberately seek to evade their obligations. Effective investigations bring in revenue both from tax recovered and financial penalties imposed.

The Department has performed well and significantly increased the tax yield it generates on compliance and enforcement work in recent years. It has two directorates that do civil investigations alongside other work - Specialist Investigations for higher value, more complex cases, and Local Compliance for lower value cases. Together they brought in £8.5 billion in 2009-10, an increase of 49 % in real terms since 2007-08, while reducing expenditure by 10 % in real terms. This represents a strong performance and our findings and recommendations are designed to support further improvements in performance and value.

The level of penalties the Department has imposed in some cases has been low. Over one quarter of civil investigations of fraud resulted in a penalty of less than 10 % of the tax due, and in one in seven cases no penalty was imposed at all. Furthermore, the Department has not monitored whether agreements secured have translated into money collected, and the full value of outstanding debts has not been realised.

The Department recognises that it has lacked detailed information on the costs and returns of different types of enforcement activity. At present, it does not know, for instance, the costs and returns on civil investigations or the point at which further investment in a particular type of activity would produce diminishing returns. Similarly, it has only a limited understanding of the performance and capability of its various investigation teams.

Without this information, the Department cannot decide how best to deploy its resources. Yet, under the Government's latest spending plans, that is exactly what it must do. In the Spending Review, it has been set a stretching goal of bringing in an additional £18 billion of tax revenue from its work on evasion, avoidance and debt over the next four years. At the same time, it must make further efficiency savings across the Department, although around £900 million of these savings can be spent on additional compliance and enforcement work.

The Department's senior officials will need to show strong leadership to achieve the new target. They will need to pay close attention to the morale of staff during what will be a time of significant change, and also to provide them with the best tools possible to do their job. The proposed re-design of the referrals system should help with this, as should the new tougher penalty regime for those who make deliberate errors.

The Department is committed to increasing its collection rate for debts from civil investigations to at least 95 % which could help to convince potential fraudsters that evasion and fraud are not worthwhile. It has not yet set a timetable for achieving this improvement.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department on its management of enforcement resources; the potential to increase the tax collected through civil investigations; and how it plans to meet future commitments.



## Government responses to the Committee's conclusions and recommendations

### PAC CONCLUSION AND RECOMMENDATION 1

Over the last three years, the Department has increased yield while reducing costs through better targeting of its work.

*The Committee welcomes this positive progress. The Department faces a significant challenge over the next four years in reducing its costs while raising additional revenue of around £18 billion from increased efforts to tackle fraud, evasion and debt. A highly motivated workforce is crucial to its success. Strong leadership will, therefore, be needed to boost morale within the Department from its currently low ebb during this period of further change. The recommendations that follow are designed to help the Department strengthen its capability to achieve the higher levels of performance required.*

1.1 The Government agrees with the Committee's conclusion.

1.2 The Department welcomes the Committee's acknowledgment of the progress it has made in managing its civil tax investigations. The Department will continue to focus on tackling those who seek to evade their tax obligations by deploying its resources to areas of highest risk and utilising the full range of its enforcement powers.

1.3 Provisional estimates suggest that in 2010-11, the Department delivered at least £13 billion in additional compliance yield, and a further £3 billion in revenue protected from refusing wrong VAT repayment claims. Local Compliance and Specialist Investigations have accounted for almost £9.5 billion of this, while continuing to reduce costs. This represents an aggregate yield:cost ratio of 18:1, a further improvement on performance in 2009-10.

1.4 The improvements delivered over the last three years reflect the dedication and skill of the Department's compliance staff, although the Department recognises there is more to do to improve morale. Managers generally are now being assessed against new leadership behaviours and the Department is currently assessing the skills and qualities of its most senior people through a rigorous selection process. Detailed analysis of the People Engagement Survey commentary shows concern about internal bureaucracy and lack of empowerment. A major business design exercise is tackling these areas. The Department believes these initiatives will create and foster the leadership skills, and drive the proper engagement necessary, to improve morale and produce the performance needed to deliver an additional £18 billion over the four years to 2014-15.

### PAC CONCLUSION AND RECOMMENDATION 2

The Department has not had a sufficient understanding of the costs and returns of different enforcement activities.

*It is preparing detailed plans for achieving the additional tax revenue of £18 billion in its Business Implementation Plan, which will be published in April 2011. The Committee expects the Department to be clear about how it will use the £900 million planned spending on the tax gap and its assessment of risks. The Department should identify the costs and returns of different activities and the point at which it would reach diminishing returns. It should base its decisions on enforcement work on this evidence.*

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

2.2 The Department has a variety of performance data and measures which allowed it to assess progress against key targets and deliver improved performance year on year. However, the Department has recognised that more is needed to understand and manage performance effectively and has developed a more systematic approach to evaluating the full impact of interventions on the behaviour of taxpayers.

2.3 In April 2011, the Department published its Business Plan outlining how it will re-invest the £917 million to deliver the additional tax revenues of £7 billion per annum by 2014-15. The £7 billion builds over the four years delivering £2 billion in 2011-12, £4 billion in 2012-13, £5 billion in 2013-14, and £7 billion in 2014-15 giving a total additional tax revenue from the investment of £18 billion. Detailed delivery plans are based on an assessment of the risk and relative return on investment of various compliance activities and seek to optimise resource usage. The Department will continuously monitor and review its plans to track progress against key targets and will regularly update its Business Plan to ensure the transparency of its activity and performance.

2.4 The Department recognises the importance of establishing the correct balance of its operational activity, but is mindful of the difficulties in creating an absolute and precise model. The constantly evolving nature of fraud requires the Department to maintain a flexible compliance model, informed by the Department's National Risk Overview (NRO), and which allows it to respond quickly to new and emerging threats to the tax system. The Department will use the NRO, together with predictive modelling, to forecast outcomes in terms of compliance yield and effects on the net tax gap to ensure it focuses on the areas of highest risk and maximises the impact of its activities.

#### **PAC CONCLUSION AND RECOMMENDATION 3**

**Although its performance has been strong, the Department has not set sufficiently demanding targets for its investigation directorates.**

*To date, the two civil investigation directorates have exceeded their targets each year. Targets were sometimes set below the previous year's outturn. The challenge the Department faces over the next four years will require the directorates to stretch their performance further. The Department should set more stretching operational targets for investigation teams, based on a better understanding of their performance and capability. The Department should also apply learning from the improvements achieved in the Local Compliance directorate, which has almost doubled its yield to cost ratio, to the Specialist Investigations directorate, where the return has remained broadly constant.*

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

3.2 The Department recognises that it could do more to motivate performance. In 2010-11, it set both hard and stretch targets for both Local Compliance and Specialist Investigations Directorates designed to create both challenge and motivation for compliance staff. Indicators are that this has been successful and the Department will continue with this approach over the coming Spending Review (SR2010) period. For SR2010, the Department is committed to delivering additional revenue in each year rising to £7 billion a year by 2014-15. This represents a significant challenge and will require continued and sustained productivity improvements to deliver.

3.3 It is difficult to make like-for-like comparisons between individual Directorates. Local Compliance and Specialist Investigations undertake a vastly different range of work and have different skill sets and resource allocations. However, the Department will continue its efforts to improve yield cost efficiencies by sharing good practice across Directorates. In particular, Specialist Investigations will look at the improvements achieved by Local Compliance to identify learning points which can be applied to its own work. Specialist Investigations has already delivered a considerable improvement in performance in 2010-11 delivering £3.2 billion in additional tax revenues and achieving a yield:cost ratio of 43:1.

#### **PAC CONCLUSION AND RECOMMENDATION 4**

**Only 20% of cases referred to dedicated investigation teams were adopted, creating disillusionment among caseworkers.**

*In part, this low level of take-up by the investigation teams reflects capacity, in part it reflects the quality of the referrals. It is, however, demotivating to front line staff to have so many cases rejected. The Department plans to re-launch the system with revised criteria to better identify serious fraud and evasion cases. It should set an expected adoption rate and monitor the system closely. The Department should also review what happens to cases which are rejected.*

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

4.2 The Department recognises the need to refine the evasion referral process and improve the throughput and quality of cases referred. It has undertaken a thorough review of the operation of the evasion referral process in early 2010. Recommendations from that review have been accepted and work to implement changes has begun. Stage one, piloting the proposed changes, will be completed by June 2011. Stage two will be the launching of the new referral process to all Departmental compliance staff by July 2011.

4.3 The new system will provide more flexibility, meet the changing demands of the Department and assist in the delivery of better quality cases to specialist, civil and criminal investigation teams. This will speed up the adoption of cases by targeting and focussing on more specific areas of interest. It will also create better liaison between compliance staff involved in the process at all levels and ensure that cases selected are delivered to the correct directorate without delay.

4.4 The Department agrees the need to improve adoption rates and believes the commitment to deliver a fivefold increase in prosecutions, to around 1000 per year by 2014-15 alongside an increase in the number of Civil Investigation of Fraud cases will achieve this. For 2011-12 the Department is planning to set targets for the number of referrals under the new system and will monitor adoption rates. Under SR2010 proposals, the Department will increase the number of compliance staff, creating additional capacity to take up referred cases. In particular, the Department is now recruiting and training around 200 more investigators to undertake criminal prosecutions and will significantly increase the number of staff focussed on Civil Investigation of Fraud cases.

#### **PAC CONCLUSION AND RECOMMENDATION 5**

**Only one quarter of civil investigation of fraud cases were completed within the Department's 18 month target, and 15% took over three years.**

***The length of investigations will be influenced by the nature and complexity of the case but the Department should analyse the reasons for variation and set an objective to reduce the time taken to conclude civil investigations. It should consider setting target times for completing individual investigations and identify ways to streamline its approach.***

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

5.2 The Department accepts that it should keep the average age of cases to a minimum but recognises there is balance to be struck. It is vital that reducing the age of cases is not carried out at the expense of cutting corners in fraud investigations, which would not only cause revenue yield to be lost, but would also send the wrong message to non-compliant taxpayers. It is also important to recognise that there are two parties to the process and it is subject to judicial supervision.

5.3 The Department has introduced steps to improve efficiency, reduce elapsed times and set targets and measures for investigation cases. The Civil Investigations Fraud (CIF) process is currently under review, to identify further efficiencies and enhancements to the process. In addition, the Department is in discussion with professional advisers to seek improvements in the quality, completeness and time taken to submit disclosure reports. This will reduce the requirement for follow up action, or the need for Tribunal Hearings to conclude an investigation, and thereby reduced elapsed times.

5.4 The Department has successfully provided Agent Relationship Managers (ARM) in some work areas. These give tax advisers a single point of contact for advice on technical and procedural issues. This approach has been widely appreciated and significantly reduced elapsed times. The Department will consider how it can extend this process in a form which fits with CIF work.

## PAC CONCLUSION AND RECOMMENDATION 6

**Over one quarter of civil investigations of fraud resulted in a penalty of less than 10% of the tax due, and one in seven did not impose any penalty.**

***The Department expects the new penalty regime to result in higher penalties as the minimum penalty for deliberate evasion and concealment is 50%. The Department should track the level of penalties imposed to ensure that it is applying the new regime rigorously.***

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

6.2 Penalties are set by legislation and the Department is satisfied that these have been applied correctly. The Department has processes and procedures in place to ensure the penalty levels are correct, consistent, and can be defended before a tribunal if necessary.

6.3 The report refers to penalties based on the old penalty system. The Department recognised that the construction of the penalty system was leading to very low penalties in cases where there was good disclosure and co-operation. Thus the structure of the old penalty system did not reflect the underlying behaviour, which gave rise to the penalty in the first place. Legislation was therefore brought forward to introduce a new penalty system and this has now been implemented. The new system provides that in cases involving a deliberate and concealed understatement of a tax liability there is a minimum penalty of 30% for unprompted disclosure and 50% for prompted disclosure. More recent legislation increases both the minimum and maximum penalty where the offence took place in certain offshore jurisdictions.

6.4 From April 2010, all new penalties have been recorded in the National Penalty Processing System (NPPS). NPPS provides data on the origin and nature of the disclosure (prompted or unprompted) together with the underlying behaviour (for example: error, failure to take reasonable care, deliberate and deliberate with concealment) and reductions to the standard penalty given for co-operation and help. This, together with additional information from the Department's new case management system, "CaseFlow", on the origin and conduct of the compliance check, will provide an indication of resource usage. In addition, ad hoc data reports will allow analysis against any of these criteria.

6.5 For the coming Spending Review period, the Department will use its performance hub to monitor the type and level of penalties applied to ensure that they are being used effectively.

## PAC CONCLUSION AND RECOMMENDATION 7

**The Department does not have adequate systems for ensuring that the outstanding tax, interest and penalties due from civil investigations are paid.**

***Not ensuring debts are collected is unacceptable. The Department is working to achieve a collection rate of at least 95% in future, from a base of 90%. The Department should vigorously pursue the collection of debt and improve its systems so that it can track whether debts are paid. It should set a target date for achieving a 95% collection rate.***

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

7.2 From 2011-12, the Department will develop new mechanisms for tracking its performance in collecting compliance liabilities and it will seek to continually improve that performance, using increasingly sophisticated debt analytics to inform its segmentation and design of collection strategies, and to evaluate its performance. The Department will also include 'cash collected' as a performance measure and it is expected that this will drive improvements in the collection of compliance liabilities.

7.3 The Department is taking a number of steps which it believes will help it significantly improve its performance in collecting compliance liabilities as well as its ability to measure its performance. It is planning a new Compliance Campaign in 2011-12 specifically around Contract Settlements and Penalties. It is also strengthening the co-ordination of its compliance activities by ensuring that there is

closer working and liaison between investigators and debt specialists. This will see more upstream collection of liabilities and payments on account by investigators which will help prevent the generation of debt. In addition, debts that do arise will increasingly be pursued through the highly automated, segmented, debt campaigns that have significantly reduced the Department's debt balance over the last two years.

#### **PAC CONCLUSION AND RECOMMENDATION 8**

**The tax gap provides an important measure of the Department's long-term performance in tackling non-compliance, but a range of measures are needed to assess the impact of enforcement activities in the short term.**

***The Department intends to introduce a new set of performance measures in 2011. Among them will be a measure of the amount of extra tax actually collected as a result of compliance work, not simply the amount identified as owing. In assessing its performance, it should also improve its understanding of the impact of its work on taxpayer behaviours and levels of non-compliance, while keeping in view the broader objective to reduce the tax gap.***

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

8.2 The Department is addressing these criticisms in a new Performance Measurement Framework (PMF) implemented from April 2011. The new PMF has introduced a range of measures and targets to capture the full value of all the Department's compliance activities. It also provides incentives for staff to undertake work primarily intended to increase voluntary compliance and deterrence. Yield has been redefined into (i) Cash Collected and (ii) Revenue Protected (Revenue Protected covers a broad range of activities designed to prevent losses from occurring). There are specific output measures and targets for number of business assurance events, number of evaders identified and criminally investigated, and error reduction through improved guidance and product and process redesign.

8.3 The Department will monitor some key measures to understand whether it is achieving a broader deterrent effect, for example: the number of media stories reporting on the Department's criminal investigations. Calculation of the full impact of interventions on behaviour is very difficult. So for performance monitoring purposes the Department will concentrate on monitoring the delivery of key outputs designed to increase voluntary compliance.

8.4 The Department is also putting in place a systematic approach to evaluation that will provide more evidence about the full impact of interventions. This will involve statistical analysis of tax paid by those receiving interventions, the use of customer surveys that will ask about willingness to comply and perceptions of the probability of being caught if evading, and the sanctions if caught. This is a long term project that will continue throughout the Spending Review period and is in addition to in-year monitoring of progress via the reporting of outputs from individual initiatives and other management information. The Department expects to publish the first results of the Perceptions of Compliance by Autumn 2011 and aims to draw initial conclusions about the total impact of its activities, including the impact on voluntary compliance, under the Spending Review by Autumn 2012.



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