HM TREASURY

TREASURY MINUTES

Government responses on the Third to the Thirteenth Reports from the Committee of Public Accounts Session 2010-11

Cm 8014 February 2011

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Treasury Minutes on the Third to the Thirteenth Reports from the Committee of Public Accounts Session 2010-11

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Presented to Parliament by the Economic Secretary to the Treasury by Command of Her Majesty

February 2011

Cm 8014 £20.50

TREASURY MINUTES DATED 16 FEBRUARY 2011 ON THE THIRD TO THE THIRTEENTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2010-11

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk

This publication is also available on http://www.official-documents.gov.uk/

ISBN: 9780101801423

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2414242 02/11 8924 19585

Printed on paper containing 75% recycled fibre content minimum.

Third Report

Department of Health (DH)

Tackling inequalities in life expectancy in areas with the worst health and deprivation

Report Summary from the Committee

Inequalities in health outcomes between the most affluent and disadvantaged members of society are longstanding, deep-seated and have proved difficult to change. In 1997, the Government put tackling health inequalities at the heart of its health agenda and subsequently published a number of policy documents and related targets. In 2004 the Government set the Department of Health (the Department) the target of reducing the gap in life expectancy between 70 'spearhead' local authorities with high deprivation and the population as a whole by 10 per cent by 2010. The Department has not met this target and has been exceptionally slow to tackle health inequalities.

Whilst it is heartening to recognise the overall improvements in health over the last decade it is of great concern that inequality in health has increased. The Department should be commended for setting out to tackle a problem that has proved historically to be so intractable. However, the Committee find it unacceptable that it took it until 2006—nine years after it announced the importance of tackling health inequalities—to establish this as an NHS priority. Although it was known in 1997 that certain key interventions such as smoking cessation had the most impact on the health of those living in deprived areas, it took the Department until 2007 to produce evidence about how such treatments could be delivered cost-effectively.

GPs are crucial to improving the health of people in the most deprived areas. However, in many of these areas the number of GPs per head of population is well below the number in more affluent areas. The Department missed an opportunity to use the revised GP contract to ensure more doctors work in deprived areas, and has not focused its attention sufficiently on implementing the key interventions that would make a difference.

"Equity and Excellence: Liberating the NHS" sets out the Government's long-term vision for the NHS. In the transitional period while this change is managed, it is important that tackling health inequalities does not slip down the Department's agenda. The Department will need to set a clear framework of accountability at all levels of the health service if it is to be successful in addressing health inequalities in future.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department on why it had failed to meet its health inequalities target, the role of GPs, and the lessons of this for the new NHS.

Government responses to the Committee’s conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The gap in life expectancy between people in deprived areas and the general population has continued to widen.

Having set an objective to tackle a complex and intractable problem, the Department did not set about its task with sufficient urgency or focus. The Department did not deploy its own resources effectively or coherently, was too slow in making health inequalities an NHS priority, and set a performance measure that proved too blunt an instrument to target those most in need effectively. The Committee’s recommendations below are designed to help the Department make progress in tackling health inequalities within the new NHS structure it is putting in place.

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

1.2 The Department accepts that the NHS was not fully and effectively engaged in reducing health inequalities early enough. However, the task of developing the evidence of what worked, and expressing it in a form that was useful to the local NHS, in its decision-making, was challenging, requiring analysis and understanding of the complex driver of health inequalities, and the development of appropriate and targeted interventions.

1.3 Similarly, embedding this fully in the performance systems of the NHS, as they developed over time, was also not straightforward. The NHS policy and planning framework for 2003 to 2006 did set health inequalities as a priority for the NHS. However, the decisive development was the inclusion of health inequalities as a top six NHS priority in 2006 and the introduction of a health inequalities performance indicator, managed through Strategic Health Authorities (SHA’s). The target, at the time it was set, was appropriate given the data available, what was known about inequalities and how the performance system was designed.

1.4 In 2003, the first comprehensive three-year strategy for tackling health inequalities *Tackling Health Inequalities: A Programme for Action* was launched with the twin aims of contributing to the delivery of the target and supporting a long-term sustainable reduction in health inequalities. The strategy included 82 commitments from Departments across Government focused on the wider causes of health inequalities, 75 of which were met by December 2006.

PAC CONCLUSION AND RECOMMENDATION 2

The Department was too slow to develop an evidence base of cost effective interventions.

It knew at an early stage that certain key interventions cost little, but could have a major impact, but did not provide relevant tools and guidance until 2007. It also failed to put in place mechanisms to hold providers and commissioners to account over whether they apply these interventions, and even now implementation of the three most cost-effective treatments is inconsistent, with considerable variation by location. The Department and the NHS Commissioning Board should identify and implement the action needed to stimulate the wider adoption of these treatments so that GPs in all areas comply with accepted good practice.

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

2.2 Following the abolition of the Public Service Agreement (PSA) target on health inequalities, the Department has been considering what has been learnt on how to narrow health inequalities, including from the innovative work it undertook to develop the methodology on interventions. In the light of the publication of the two White Papers: *Equity and Excellence: Liberating the NHS* and *Healthy Lives, Healthy People: our strategy for public health in England*, and the consultations on these, the Department is developing new architecture for both the NHS and public health systems.

The Department is embedding health inequalities into the emerging systems.

2.3 The new proposals for commissioning devolve responsibility for commissioning the majority of NHS services to GP consortia supported by and held to account by the NHS Commissioning Board. Additionally, there is a new proposed role for the Public Health England. The proposals are subject to Parliamentary approval through the forthcoming Health and Social Care Bill.

2.4 The NHS Commissioning Board will have responsibility for quality improvement, which will include setting commissioning guidelines on the basis of quality standards developed with advice from the National Institute for Health and Clinical Excellence (NICE) and designing model contracts for consortia to use with providers and setting standards for the quality of NHS Commissioning. Duties will be placed on the NHS Commissioning Board to reduce inequalities in access to and outcomes from healthcare.

2.5 Work is underway to design the functions of the NHS Commissioning Board. Decisions about the detailed delivery will be made by the Board in due course.

PAC CONCLUSION AND RECOMMENDATION 3

The Department has failed adequately to address GP shortages in areas of highest need.

The Department should identify, as a matter of urgency, what measures it can take to drive up the numbers of GPs in deprived areas, including using direct financial incentives to encourage GPs into areas of greatest health need. The Department should implement an action plan to deliver this objective within a defined timeframe.

3.1 The Government agrees with the Committee's recommendation.

3.2 The previous focus on targets did not improve the situation. A new approach is needed to improve the health of the poorest, fastest.

3.3 The Government is committed to renegotiating the GP contract so that disadvantaged areas are properly equipped to deal with their population's health needs. The current GP contract includes a formula for weighting capitation payments, which ought in principle to provide incentives for GPs to take on patients from areas with higher needs. However, the impact of these incentives has been distorted by other elements of GP pay, including the Minimum Practice Income Guarantee (MPIG), which prevents overall funding being fairly related to local health needs. There is scope to improve the weighting of the formula, so that it better reflects their relative health needs.

3.4 The Government is committed to addressing these issues and will set out a timeframe for implementing the objective, following discussions with the BMA General Practitioners Committee.

PAC CONCLUSION AND RECOMMENDATION 4

Many GPs fail to focus their attention sufficiently on the more deprived people registered with their practices.

More affluent people are generally more likely to seek help from their GP, and be clearer about the services they expect to receive. The Department and the Commissioning Board should use the GP contract to link payments explicitly to GPs' success in improving the health of the neediest people in their practices and to encourage up-take of good practice preventative treatments for those with the greatest health needs.

4.1 The Government agrees with the Committee's recommendation.

4.2 The reforms made to the Quality and Outcomes Framework (QOF) prevalence adjustment in 2008-09 will mean that GP practices will see the full effects on the redistribution of payments as a result of the changes by April 2011. This will mean that those GP practices, which have higher recorded prevalence of conditions covered by the QOF in their population, will receive payments reflecting this. The arrangements, which have been agreed with the BMA, will be fairer way to reward practices, particularly for those in more deprived communities, which have higher prevalence of many of the conditions incentivised by the QOF.

4.3 Incentives for GPs are insufficiently focused on outcomes. The Government will reform the current payment system, so that GP practices are rewarded appropriately for improving patient outcomes and to ensure that all patients, including the most deprived, receive the quality of care that they need. The Public Health White Paper includes a proposal that, to increase the incentives for GP practices to improve the health of their patients, at least 15% of the current value of the QOF should be devoted to evidence-based public health and primary prevention indicators from 2013. The funding for this element of QOF will be within the Public Health England budget. The Government will discuss, with the profession, the implications of these proposals for the existing GP contractual arrangements.

4.4 The Government has proposed, as part of the White Paper *Equity and excellence: liberating the NHS* that the NHS Commissioning Board, supported by NICE, will develop a Commissioning Outcomes Framework, so that there is clear, publicly available information on the quality of healthcare services commissioned by GP consortia, their management of NHS resources and their progress in reducing health inequalities. As far as possible, outcomes will be chosen, so that they can be measured by different equalities characteristics. Specific measures will be developed to reflect the consortium's duties to promote equality and to assess progress in reducing health inequalities.

4.5 The White Paper consultation also includes the proposal that a proportion of GP practice income should be linked to the outcomes that they achieve collaboratively through commissioning consortia and the effectiveness with which they manage financial resources (a “quality premium”). These arrangements will be developed following discussion with the BMA in the light of consultation responses. The quality premium would be paid in the first instance to the consortium who would be free to decide how best to apportion it between its member practices. In order to ensure that consortia are rewarded and incentivised for improving care for all population groups, including those who are most vulnerable and for whom outcomes may be more difficult to achieve, there will be a need for an appropriate adjustment for case mix.

PAC CONCLUSION AND RECOMMENDATION 5

Two thirds of primary care trusts in areas with the highest deprivation still do not receive the money due to them under the Department’s funding formula.

The Department is seeking to move all areas towards the right level of funding based on an assessment of need, but significant imbalances remain. In developing the funding model for GP consortia and public health, the Department and the Commissioning Board should consider how funding shortfalls in the most deprived areas could be corrected.

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

5.2 Primary Care Trusts (PCTs) are moved towards their target allocations, but this takes place over a number of years. Moving below-target PCTs to target as quickly as possible must be balanced against the need to minimise financial instability in the NHS, recognising the unavoidable cost pressures that all PCTs need to meet. In 2010-11 just over half (56%) of PCTs in the most deprived decile (IMD 2007) were under target and just under half (48%) of PCTs in the two most deprived deciles were under target.

5.3 From 2013-14 onwards, the NHS Commissioning Board will be responsible for the allocation of resources to GP Consortia, this will include pace-of-change policy. The detail of how resources are allocated will be a matter for the Board. However, they will be made on the basis of securing equivalent access to NHS services in all areas relative to the prospective burden of disease and disability.

5.4 In addition, from 2013-14, Public Health England will allocate a ring-fenced health improvement budget to Local Authorities. The allocation formula for those funds will include a new ‘health premium’ to target public health resources towards those areas with the poorest health to reduce avoidable ill health and health inequality.

5.5 Shadow allocations to GP Consortia and to Local Authorities for 2012-13 will be published in late 2011, and actual allocations for 2013-14 in late 2012.

PAC CONCLUSION AND RECOMMENDATION 6

The NHS spends around 4% of its funding on prevention, although individual commissioners' spending on prevention is not readily identifiable.

In the new NHS structure the Department's intention is that the public health budget will be ring-fenced and Directors of Public Health will be responsible for how it is spent. The Department should develop a robust process so that there is transparency and accountability for this funding and should require Directors of Public Health to benchmark the costs and effectiveness of their public health activity.

6.1 The Government partially agrees with the Committee's recommendation. Transparency and accountability are critical and will be achieved in several ways, though not through a central requirement on benchmarking.

6.2 The ring-fenced funding for each upper tier or unitary authority will be published, as will the allocation methodology. The Department is consulting on a public health outcomes framework, which will set out indicators designed to enable progress to be measured towards a number of public health outcomes. A key criterion in choosing which indicators to include in the final outcome framework will be whether they can be measured at the local authority level.

6.3 Public Health England will publish progress against the outcome indicators for each local authority. This will enable the population locally to hold their council to account for local performance, and for Directors of Public Health and colleagues to assess their performance against comparator authorities

6.4 The Department proposes to introduce a health premium to incentivise action to reduce health inequalities. The health premium will apply to the part of the local public health budget which is for health improvement. The premium will be simple and driven by a formula developed with key partners. It will therefore be a transparent system for rewarding local authorities for the progress they make.

6.5 Public Health England will also publish evidence on what works, which will be available for Directors of Public Health to use when deciding on public health investments, and which will assist in benchmarking the effectiveness of interventions. The Department does not believe it is for central Government to require Directors of Public Health to benchmark the costs and effectiveness of their public health activity - this would be a local responsibility.

6.6 However, the Government envisages that the proposed Health and Well-Being Boards will develop joint health and wellbeing strategies, based on the assessment of need outlined in the local joint strategic needs assessment. There will be new legal duties on commissioners to have regard to both the Joint Strategic Needs Assessment and the joint health and wellbeing strategy in discharging their functions. The Health and Wellbeing Board could invite Directors of Public Health to explain the rationale for particular public health interventions.

PAC CONCLUSION AND RECOMMENDATION 7

Addressing health inequalities is a complex challenge requiring sustained and targeted action.

The Department's experience to date shows that greater focus and persistence will be needed to drive the right interventions. The Committee expects the Department to provide strong leadership and to continue to monitor the outcomes of those suffering health inequalities. As there is an inevitable time lag between public health interventions and observable outcomes, the Department should monitor the implementation of those activities which, in the short term, would be strong indicators of progress.

7.1 The Government agrees with the Committee's recommendation.

7.2 The Government proposed, as part of the White Paper *Equity and Excellence: Liberating the NHS,* that reducing health inequalities will be a core role for the Department and will lead work across Government. The NHS Commissioning Board would be mandated to reduce inequalities in access to and outcomes from healthcare.

7.3 A NHS Outcomes Framework will be developed to provide national accountability for the outcomes that the NHS delivers. The framework will not only be a mechanism to hold the NHS to account, but would also act as a catalyst to drive quality improvement and delivery of better outcomes across the system.

7.4 One of the underpinning principles in developing the NHS Outcomes Framework is the need to promote equalities and reduce inequalities of health outcomes. To encourage this, the outcome indicators, as far as possible, will be chosen according to whether data can be disaggregated by equalities characteristics and be geography so that outcomes for disadvantaged groups can be measured.

7.5 The Department is consulting on a public health outcomes framework, which will set out indicators designed to enable progress to be measured towards a number of public health outcomes. A key criterion in choosing which indicators to include in the final outcome framework will be whether they can be measured at the local authority level. Public Health England will publish progress against the outcome indicators for each local authority. This will enable the population locally to hold their council to account for local performance, and for Directors of Public Health and colleagues to assess their performance against comparator authorities.

PAC CONCLUSION AND RECOMMENDATION 8

The Department is not clear why some areas are performing better than others, or of the extent of the NHS' contribution in tackling health inequalities.

It is fundamental that there should be clear accountability within the new NHS structure to improve health outcomes in the populations with the highest levels of deprivation. The Department intends that each local authority will establish a Health and Wellbeing Board that will have power to hold commissioners to account. The Department should put in place an effective mechanism to hold the NHS Commissioning Board to account for tackling inequalities in access to healthcare and should seek assurance that local accountability arrangements are operating effectively. It should report back to the Committee in 2011 on these arrangements once it has finalised its plans.

8.1 The Government agrees with the Committee's recommendation.

8.2 The Secretary of State for Health will set the NHS Commissioning Board an annual mandate, which will cover the totality of what the Government expects from the Board including progress against the outcomes specified by the Secretary of State in the NHS Outcomes Framework, delivering improvements in choice and patient involvement, and tackling inequalities in access to and outcomes from healthcare.

8.3 Work is underway to design the functions of the NHS Commissioning Board. Any decisions about the detailed delivery will be made by the Board after it has been established.

Fourth Report

HM Treasury (HMT)

Progress with VFM savings and lessons for cost reduction programmes

Report Summary from the Committee

The £35 billion value for money target set as part of the 2007 Comprehensive Spending Review required public bodies to make sustainable cash-releasing savings, whilst maintaining the delivery of departmental priorities. The CSR07 Value for Money Programme (the Programme) set demanding criteria for what could be classed as a saving—for example, one-off savings were ruled out as they would not constitute sustainable cost reductions.

The £35 billion target represented savings of 3 per cent a year for each department's expenditure at the start of the period. By March 2010, two years into the three-year programme, departments and local authorities had reported only £15 billion of savings, less than half of the total needed to reach the £35 billion target.

Furthermore, the National Audit Office found that only 38 per cent of savings they reviewed represented realised value for money savings. Despite the importance placed on the Programme at the top of government, departments could not even measure adequately what savings they had made, and the Treasury failed to create a framework for reliable reporting. Neither the Treasury nor departments had an incentive to report only soundly-based savings. The programme did not enable departments to find cost reductions by rethinking the way services are delivered.

The current financial environment is fundamentally different from the position when the Programme was launched in 2007, with substantial cash reductions required over the next four years by most departments. The scale of savings needed will require much more radical action, but the results from this programme left the Committee with grave concerns as to whether departments are ready to implement effectively a programme of value for money savings. There is a serious risk that departments will rely solely on cutting front-line services to reduce costs, without adequately exploring the potential to reduce costs through other value for money improvements.

Notwithstanding that the Treasury may continue to delegate day to day responsibility for delivering savings to individual departments, in future appearances before the Committee it will expect to see evidence of the Treasury' leadership: taking full responsibility for the delivery of efficiency savings across government as a whole; demonstrating a full grasp of the causes of under performance in any department; and intervening where performance does not meet expectations.

The Committee is concerned at the implication from Treasury that it will simply reduce departments' budgets and then walk away from responsibility for the delivery of the level of savings required across government. Bearing in mind the disappointing performance of this Programme, the Committee believes the Treasury will need to take a very different approach to value for money improvement in the next spending period.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on progress with the Programme.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee expects efficiency improvements to make a major contribution to the cost reductions now required across Government. If Departments had been successful in making real savings of 3% a year, less painful cuts would be necessary now. Services will suffer because the Treasury did not get the framework right for the CSR07 savings programme. Accounting Officers should be, as the title indicates, personally accountable for delivering the full amount of savings committed to, and the Treasury should create a framework where that accountability is clear and unequivocal.

The following recommendations reflect how the Committee expects the Treasury and Departments to respond to the lessons from the CSR07 Programme.

1.1 The Government agrees with the Committee that efficiency savings will make an important contribution to the cost reductions now required across Government. It is important that both Treasury and other Government Departments learn from the experiences of the CSR07 VFM programme.

1.2 The Government has laid out a new and ambitious approach to efficiency designed to protect frontline services while driving down lower value spend. The Government has already removed some of the burdens, regulations and targets that were previously placed on Departments and frontline public sector employees. In addition, the Efficiency and Reform Group (ERG) has been established to help Departments identify and deliver savings in operational overheads.

1.3 The responsibilities of Accounting Officers are laid out in Chapter 3 of *Managing Public Money* (MPM). Duties include meeting the Treasury's requirements about limits on use of public resources.

PAC CONCLUSION AND RECOMMENDATION 2

The value for money savings target for CSR07 was not based on robust evidence about what Departments could realistically achieve, and it is not surprising therefore that performance has fallen well short of ambitions

Regardless of whether the Government adopts a headline efficiency target for the next Spending Review period, future value for money initiatives need to take a more sophisticated approach. The Treasury should set and agree expectations for each Department based on individual assessments of their circumstances, the improvements they have achieved to date, and their ability to deliver improved value for money.

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

2.2 Departments are responsible for managing their own spending. They are best placed to identify and deliver savings and will be responsible for driving efficiency and reforms. Going forward, the Treasury, along with the Cabinet Office, will move to more of a strategic oversight role, concentrating resources on where they will be most effective. The Government is committed to moving away from the old bureaucratic one-size fits all systems and top-down targets to more democratic accountability and empowerment of frontline staff in order to help departments achieve this.

PAC CONCLUSION AND RECOMMENDATION 3

Two years into a three year programme, Departments have reported only £15 billion of savings towards the £35 billion target set by Ministers

Departments should include contingencies sufficient to allow for the risk that, inevitably, some individual efficiency projects will be delayed or will fail to produce the intended benefits.

3.1 The Government agrees with the Committee's recommendation.

3.2 Departments did include risk management strategies and contingency plans in their CSR07 VFM Delivery Agreements. For example: the Department for Work and Pensions (DWP) and the Ministry of Justice (MOJ) had Departmental Risk Management Frameworks in place to help them mitigate against an inability to deliver their overall savings target.

3.3 The Treasury expects Departments to adopt appropriate risk management strategies to ensure they live within their SR2010 spending settlements.

PAC CONCLUSION AND RECOMMENDATION 4

Further, of the reported savings reviewed by the National Audit Office, just 38% fairly represented sustainable savings.

Departments should only report savings which have been subject to robust quality assurance.

4.1 The Government agrees with the Committee's recommendation.

4.2 The Treasury's guidance to Departments was clear. Only those savings that met the NAO's nine criteria should have been reported publicly.

4.3 The Government has moved away from target-driven regimes. Instead, Departments and frontline staff will have the freedom to deliver services in a more efficient and cost-effective way. The new approach to efficiency, set out in the Spending Review, has the Government leading by example in the areas it has direct levers to effect change, in particular cutting administration budgets and driving out inefficiency and waste in common areas of spend across central Government. This will be complemented by a package of reforms to improve transparency, accountability and financial management.

PAC CONCLUSION AND RECOMMENDATION 5

Many of the savings reported by Departments were unconvincing because Departments did not have financial and performance data to back up their claims, and savings could not be reconciled to their financial outturn or their original spending settlement

The low quality of savings claims suggests that there is still some way to go in improving the quality of financial information and management in the civil service. In order to live within lower budgets, Departments need to be able to predict better the impact of their actions on their bottom line and to demonstrate any impacts on performance. They need a clear understanding of factors affecting costs and the net financial effect of savings measures on the public purse.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Government is committed to helping Departments strengthen their financial management capability and embed a cost conscious culture. The steps being taken include making financial management training (e-learning) available to all civil servants, free of charge. The Government is also launching a Finance Transformation Programme that will focus on four areas to improve financial discipline:

- effective leadership, driving performance from the top;
- a cost conscious culture, so every decision is built on informed financial assessment;
- professionalism, so that all public servants demonstrate financial awareness; and
- expert central functions, ensuring a coherent approach to financial management from the centre of Government.

5.3 Furthermore, the Government is fully committed to transparency, and will publish an unprecedented amount of data on the performance of public services. Key to this will be the input and impact indicators published in departmental Business Plans that will enable the public to judge the cost and impact of key public services.

PAC CONCLUSION AND RECOMMENDATION 6

The Treasury's top-down design of the Programme, and limiting the timeframe to three years, did not create the right incentives for Departments to improve value for money in the round

There were few suggestions for improvements from front-line civil servants. Departments should create opportunities for staff to have a say in how service delivery can be made more efficient and to improve value for money. The Treasury should expect Departments to prepare a long term plan to reduce their costs, with realistic timetables. The Treasury should regularly monitor progress against milestones.

6.1 The Government agrees with the Committee's recommendation.

6.2 The target and criteria-driven CSR07 VFM programme was not effective in embedding efficiency in Departmental processes. Going forward, the Government, through its transparency framework, will facilitate the move from bureaucratic accountability to democratic accountability: replacing top-down targets and central micromanagement with information and choice.

6.3 The Government is also changing the way public services are delivered by redistributing power away from the centre and giving responsibility back to local areas, frontline staff, communities and individuals. In June, the Government invited public service workers and members of the public to suggest money saving ideas. Over 100,000 suggestions were submitted with public sector workers contributing 63,000 ideas.

PAC CONCLUSION AND RECOMMENDATION 7

The Treasury chose not to monitor Departments' progress in delivering savings in any detail, and demonstrated only a limited understanding of reasons for lack of progress in individual departments

For example, the Treasury could not explain the key reasons for the Department for Communities and Local Government's poor performance. This is at odds with the established principle of collective responsibility across Government, whilst the individual Department's reporting that it would not make its target, without identifying mitigating action, demonstrates a lack of ownership of its own target. When delegating responsibility to departments, the Treasury should establish information requirements with clear parameters of success, tailored to individual departments, to enable it to monitor progress and intervene where performance fails to meet expectations.

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

7.2 The CSR07 VFM monitoring regime included biannual reporting by Departments to the Treasury on priority projects that were considered high value or carried significant risks. The Treasury was aware of the problems that the Department for Communities and Local Government (DCLG) were having, delivering their savings target. The Treasury was involved in an on-going conversation with the Department about how to overcome these issues.

7.3 Departments are responsible for managing their own spending. They are best placed to identify and deliver savings and will be responsible for driving efficiency and reforms. Any monitoring should be proportionate to support savings being made. In future, the Treasury, along with the Cabinet Office, will move to more of a strategic oversight role, concentrating resources on where they will be most effective. The Government is committed to moving away from the old bureaucratic one-size fits all systems and top-down targets to more democratic accountability and empowerment of frontline staff in order to help departments achieve this. This includes providing relevant expertise and a cross-government approach to issues such as spending risks, supplier relations and major projects.

7.4 The Government is also committed to transparency, and enabling the public to hold it to account for where public money is spent. Business plans are one aspect this. A further measure is the publication of spend over £25,000 now shows where Departments are spending their monies, which will highlight potentially wasteful expenditure.

PAC CONCLUSION AND RECOMMENDATION 8

The Treasury acknowledges that it alone does not have the internal capability or resources to direct value for money programmes across Government

The Treasury will need to work in partnership with the new Efficiency and Reform Group to support and challenge departments to seek value for money improvements, provide appropriate expertise, disseminate best practice and establish a centralised approach in areas where it is most efficient to do so.

8.1 The Government agrees with the Committee's recommendations.

8.2 Departments are responsible for managing their own spending. They are best placed to identify and deliver savings and will be responsible for driving efficiency and reforms.

8.3 The Government agrees that the centre has a role to play. The Treasury knows that in many areas Departments cannot get the best deal themselves (for example: only by pooling buying power can you get the best economy of scale, when buying goods and services, and only by sharing expertise can you review ownership models (for example: mutual's). The Efficiency and Reform Group (ERG) has been set up to support Departments to deliver savings in cross cutting areas.

8.4 On 24 May last year, the Chancellor and Chief Secretary to the Treasury announced a set of processes, to be led by the ERG to achieve savings over this financial year through centralising procurement, freezing and reviewing projects and curtailing spend in discretionary areas such as consulting, ICT and marketing. The Government expects that Departments will save £3 billion from these measures over the full year if current practices continue, including:

- The Government has signed Memorandums of Understanding (MOUs) with top suppliers to Government, who between them represent over £9 billion of spend. When completed this work is expected to deliver over £800 million in savings this year;

- The Government's major project commitments have been reviewed and over £400 million of budget reductions for this year have been identified; and

- £350 million less has been spent on consultants so far this year, with expected savings from this and other moratoria of over £1 billion.

8.5 The Government is committed to moving away from the old bureaucratic systems and top-down targets to more democratic accountability and the empowerment of frontline staff in order to help Departments achieve savings. The Spending Review reduced budgets by 34% across Whitehall, and has focussed attention on ensuring that the cost of running Government falls.

PAC CONCLUSION AND RECOMMENDATION 9

Departments reported savings which did not stand up to external scrutiny, and there were no consequences for senior officials in those Departments that failed to deliver savings

There should be clear consequences for senior civil servants who fail to deliver planned improvements in value for money for taxpayers.

9.1 The Government agrees with the Committee's recommendations.

9.2 The Government has initiated a series of reforms to make civil servants more accountable for the public money that they spend. The Cabinet Office are currently working on ensuring that fiduciary responsibility is embedded across all levels of the civil service as well as reforms of the Senior Civil Servant appraisal system to make individual members of SCS more financially accountable.

PAC CONCLUSION AND RECOMMENDATION 10

The inability of Departments to improve value for money in a time of increasing budgets casts doubts on government's ability to reduce costs now while minimising the impact on front-line services

Departments reported few examples of savings from major changes to their business in CSR07. In reducing costs in the next period, departments need to fully exploit opportunities to improve value for money by delivering existing services in radically more efficient ways. They should not simply look to cut expenditure by cutting front-line services. Our parallel report on Achieving Sustainable Cost Reductions sets out what we expect to see departments doing to make the required reductions. There should be full and transparent reporting of the impact of cost reduction on services, and where Departments do cut service lines altogether, this should be based on a full understanding of the value that is no longer produced, in particular so that a cut in one area does not lead to additional expenditure elsewhere.

10.1 The Government is determined to deliver a better deal for taxpayers with savings delivered across all areas of spending to help Departments live within budgets agreed at the Spending Review. The Government's tough new approach to efficiency is designed to protect frontline services, while driving down lower value spend. Specific action has been taken to reform the way services are delivered to drive up efficiency. The steps being taken represent a significant shift from previous approaches.

10.2 To ensure that Departments take action to reduce their own overheads and to help protect spending on core frontline priorities, the administration budgets of central Whitehall Departments and their Arms Length Bodies (ALBs) – the cost of running Government - will be cut by 34% over the spending review period. By itself, this will save £5.9 billion a year by 2014-15 in real terms.

10.3 As power is devolved away from the centre, Central Government will change to become slimmer and more strategic. The recent review of public bodies has identified 118 bodies that can be merged and a further 192 that will cease to exist in their current form.

10.4 Work is underway in a range of areas to increase efficiency, including: centrally negotiating contracts with Government's largest suppliers with Government acting as a single customer; launching a first wave of Pathfinder mutual's to support the innovation and entrepreneurialism of frontline staff; and centralised commodity procurement.

10.5 The Government is also launching a Finance Transformation Programme that will focus on four areas to improve financial discipline.

10.6 A White Paper on public services was announced in the Spending Review. The Government believes the best way to improve public services is to open them up, shifting power away from Central Government and into the hands of front line staff, local citizens and the people who use them. Open public services will create more freedom for citizens and communities; increase the scope for innovation; reduce bureaucracy; and get better outcomes for less money.

10.7 Key to achieving these major changes is the involvement of a broader range of providers in public services, particularly social enterprises, charities, mutual's and cooperatives. The White Paper will set out how public services will be commissioned and run so as to involve these organisations as much as possible.

Fifth Report

Department for Transport (DFT)

Increasing Passenger Rail Capacity

Report Summary from the Committee

The Department for Transport is eighteen months into a five-year, £9 billion investment programme to improve rail travel, in particular by increasing the number of passenger places on trains by March 2014. This was to be achieved by a combination of longer platforms and other station improvements and more carriages coming into London and other major cities during peak hours. The Department is responsible for securing the extra places on trains from train operators. The Office of Rail Regulation is responsible for ensuring Network Rail delivers infrastructure efficiently.

The Department's latest plans show that all the relevant targets will be missed. There will be 15% fewer extra places delivered in London in the morning peak and 33% fewer into other major cities, compared to the numbers the Department stated would be needed just to hold overcrowding at current levels. Despite the impact of the present economic downturn on journey numbers, the Committee is concerned that the failure to meet the targets set will lead to substantial increases in already unacceptable overcrowding levels by 2014 and beyond. Rising demand for rail travel combined with serious cuts in public expenditure make it imperative that the rail industry becomes more efficient, otherwise the passenger will suffer. The Department told the Committee that levels of crowding, and ticket prices, depend on policy decisions about the level of government subsidy. The Committee is strongly of the opinion that this view is misguided as it ignores the scope for efficiency savings to release resources for front line services. The industry's ability to provide a good quality rail service, including acceptable levels of crowding, depends crucially on the efficiency of all players in the rail industry, and of Network Rail in particular.
Rail infrastructure costs more in Great Britain than in other countries. The Regulator has been in existence for more than a decade yet he still accepts that there is still "a very large potential for Network Rail to improve its efficiency".

The Regulator's ability to drive efficiency in Network Rail is limited by a lack of transparency of Network Rail's costs which, it seems to the Committee, is compounded by the Regulator's lack of urgency and effectiveness in challenging Network Rail's efficiency at a detailed level. Network Rail is a company without shareholders and is the monopoly provider of rail infrastructure. It is vital therefore that its costs are scrutinised and challenged robustly and independently on behalf of Parliament and taxpayers. The National Audit Office is ideally placed to do this.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Transport and the Office of Rail Regulation on the measures taken to tackle overcrowding and on obtaining value for money from the rail network.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

All but one of the fifteen English rail franchises have no requirements for the operator to meet demand without excessive overcrowding, and so the taxpayer usually has to provide additional funding for extra carriages.

For future rail franchises the Department should impose clear obligations on operators to avoid overcrowding, and to bear the costs of meeting that obligation themselves.

1.1 The Government agrees with the Committee's recommendation.

1.2 Train operators should take the lead role in responding to passenger demand, determining the appropriate service pattern and investing to add capacity. Whilst existing franchise contracts require train operators to plan to minimise overcrowding, the Government's new franchising policy, published on 19 January 2011, aims to create an environment where operators focus more on their passengers' requirements and less on Government prescription. Franchises of sufficient length will allow operators to recoup the cost of investment through increased patronage generating revenue growth. Each franchise is different, but the Government would aim to include obligations to manage crowding wherever this can deliver good results for passengers, whilst being affordable and good value for taxpayers.

PAC CONCLUSION AND RECOMMENDATION 2

The current round of planning relied heavily on buying extra carriages and on extending platforms to accommodate longer trains but this approach cannot go on indefinitely. Clearly, alternatives must be found to meet the capacity challenge in the future.

The Department should vigorously pursue and promote smart ticketing and other demand management techniques to reduce the inefficiencies of overcrowding in peak hours and underused rolling stock at other times.

2.1 The Government agrees with the Committee's recommendation.

2.2 The Department is actively exploring the scope for promoting smart ticketing in a way that will enable and encourage operators to develop smarter fare options, both to manage peak demand and also to recognise that traditional options such as period season tickets, might not offer an attractive deal to passengers with a more flexible work pattern, for instance travelling regularly but fewer than four or five days a week. There are a number of customer models that could be explored. Smart ticket technology should also benefit operators through generating prompt feedback of detailed information about passenger usage at different times of the day.

2.3 The Department has already included obligations to introduce smart ticketing technology based on the national ITSO standard in the franchise contracts for South West Trains, Southern, East Midlands, and London Midland, with a modified obligation in the Cross Country franchise to accept smart ticketing (recognising the fact that Cross Country franchisee does not manage any stations)..

2.4 The Government's new franchising policy is aimed at encouraging train operators to secure the most efficient utilisation of rail capacity, including the off-peak where capacity may exceed current passenger demand, responding to the commercial opportunities to be gained from reducing costs and growing demand where there is already capacity to meet it.

PAC CONCLUSION AND RECOMMENDATION 3

The Department's knowledge of how many people use which parts of the rail network and when is inadequate, sketchy and so gives a poor basis for decision-making.

The Department should require all new train carriages, whether procured by the Department itself or by franchisees, to be fitted with automatic passenger counting equipment to show how many people are travelling on what trains and when. It should require franchisees to provide useful and verifiable data from that counting. It should also report back to the Committee on progress to establish a computer system to capture, analyse and report on this data.

3.1 The Government agrees with the Committee that the industry, and the Department, need better information about passenger numbers.

3.2 The Department has, for some time, sought full or partial installation of automatic count equipment in new train fleets, in addition to requiring franchisees to provide detailed count data. Until more carriages have automatic count equipment information can often be provided through representative sampling - operators generally cycle rolling stock between services and routes so that counts covering all trains can be made over a set period.

3.3 Looking ahead, the development of smart ticketing systems, as noted above, might overtake the need for on-train counters. The Department will continue to explore the most cost-effective and efficient means for capturing and analysing timely passenger data and will report back to the Committee.

PAC CONCLUSION AND RECOMMENDATION 4

It is not clear to passengers where the money from increased fares has been spent.

For example, passengers in some parts of the Southeastern franchise are paying premium fares to support new services which do not stop at their stations and do little to alleviate overcrowding on the trains they use. The Department should provide transparent information on how many new passenger places it is delivering, on which trains and at what cost to taxpayers and fare payers.

4.1 The Government agrees with the Committee's recommendation.

4.2 There should be greater transparency about costs, subsidy and fare income at the route and franchise level. The Government's view is that this should be part of the railway industry's relationship with its passengers, rather than the product of Government prescription. The Department is actively exploring how best this can be achieved as part of the work in hand to establish a more sustainable railway.

4.3 The Government's view is that detailed provision of passenger capacity through timetable planning and rolling stock deployment should be determined by train operators in response to market demand, and should flex over time in response to forecast and experienced demand.

4.4 Whilst the Government is attracted to the prospect of a closer link between fare revenue and the costs of service provision, the costs of operation necessarily include the expenditure required to maintain and renew equipment (which can, in turn, generate benefits in terms of improved service reliability) as well as the costs involved in delivering capacity enhancement. In addition, the Government's new franchising policy seeks to encourage train operators to take a more active commercial lead in developing specific fare options, including the scope for smart ticketing, which will determine the price of individual fares.

4.5 Nevertheless, the Department will continue to explore the scope for promoting greater transparency so that passengers, and taxpayers, can be clearer about what they are getting for their money.

PAC CONCLUSION AND RECOMMENDATION 5

The Office of Rail Regulation does not have a grip on Network Rail's efficiency and appeared remarkably relaxed about the continuing gap in performance between Network Rail and international comparators

It is surprising that the Regulator, which has been in operation since 1994, accepts that there is still a 'very large potential' for Network Rail to improve its efficiency (for example a potential to reduce costs of platform lengthening by 25% compared to European peers), yet does not have a detailed bottom-up and complete understanding of Network Rail's costs. Particularly given that Network Rail is the monopoly provider of the rail infrastructure, there appears to be marked complacency in the Regulator's approach and he should do more to challenge the underpinning reasons for existing inefficiencies. The Department should take any steps which are necessary to enable the Regulator to do this.

5.1 The Government agrees with the Committee's recommendation that there is more to be done to challenge Network Rail's record on reducing industry costs.

5.2 The *Rail Value for Money Study*, chaired by Sir Roy McNulty, and guided by the Department and the Regulator, is examining the cost structure of the rail industry and will identify options for improving value for money. Sir Roy's work includes consideration of the regulatory structure of the industry, and the extent to which current arrangements deliver the right incentives to align and focus the industry on providing an efficient and cost-effective service to its passenger and freight customers. Sir Roy will be submitting his recommendations in the spring.

5.3 It is a matter of record that the operating, maintenance and renewals costs of the network increased significantly following the Hatfield accident. Much of this arose from increased levels of maintenance and renewals necessary to deal with the shortfall that built up whilst Railtrack managed the network. But there was also a worsening in efficiency. In its 2003 access charges review, undertaken after Network Rail took over Railtrack (in administration), the Regulator's conclusions were that Network Rail could achieve substantial efficiency improvements, amounting to 31% during the course of Control Period 3 (2004-09), against which Network Rail actually achieved 27%. In 2008 the Regulator concluded that Network Rail could achieve a further 21% efficiency improvement in the current Control Period 4 (2009-14), which Network Rail is on course to achieve.

5.4 This assessment for Control Period 4 represents two-thirds of the 35% efficiency gap that the Regulator identified in Network Rail in 2008-09. More recent benchmarking has confirmed that the efficiency gap in 2008-09 was in the range 34% to 40%. Expecting Network Rail to close two-thirds of the gap during Control Period 4 was a decision made carefully by the Regulator, taking into account all the obligations on Network Rail in that period, in particular the requirements to achieve further improvements in safety, train reliability, network enhancements to enable capacity increases, improved network availability and to deliver £8 billion of enhancements to the network. The Regulator also undertook 'bottom-up' engineering-based work to understand the significant efficiency gap exposed and this work confirmed the scope for Network Rail to improve its efficiency.

PAC CONCLUSION AND RECOMMENDATION 6

The unique and complex structure of the rail industry makes it inherently cumbersome and expensive, and provides little internal challenge to its vested interest in its own growth.

The Department should conduct a fundamental review of the rail industry's structure, to ensure better accountability and value for money, with the aim of reducing conflicts of interest, aligning efforts on maximising efficiency, and restraining the tendency to seek solutions through growth.

6.1 The Government agrees with the Committee's recommendation.

6.2 Sir Roy McNulty's *Rail Value for Money Study* is examining the cost structure of all areas of the rail industry and will identify options for improvement.

6.3 The Government's aim is to secure a sustainable railway that delivers an efficient service both in day-to-day operation and in delivering the enhanced capacity needed to respond to demand growth.

6.4 Sir Roy's work has identified a wide range of areas which offer the potential for cost savings. The Government will seriously consider all his recommendations and is committed, in the Department's business plan, to publishing a White Paper, with its conclusions in November 2011.

6.5 The Government has already published its conclusions on rail franchise reform, which gives a clear signal of the Government's appetite for change and its desire to see that change led on a commercial basis by the railway industry.

PAC CONCLUSION AND RECOMMENDATION 7

Governance arrangements for the railways do not provide enough independent scrutiny and transparency to drive value for money relative to the sums of taxpayer money involved.

The Department should take the necessary steps so that the Comptroller and Auditor General becomes the auditor of Network Rail, including full access rights so that he can report on value for money to Parliament.

7.1 The Government agrees with the Committee's recommendation.

7.2 Independent scrutiny and greater transparency are important, but the Government is not currently persuaded that the best way to achieve this is necessarily through extending the role of the Comptroller and Auditor General.

7.3 The Department will be exploring options for delivering greater transparency as part of the wider work to reform the railway.

PAC CONCLUSION AND RECOMMENDATION 8

It is unacceptable for Accounting Officers to challenge the findings of a National Audit Office report in evidence to this Committee, having previously agreed the accuracy of the report prior to its publication.

The Permanent Secretary must in future satisfy himself that facts and their presentation within National Audit Office reports are accurate before their publication, and not wait until the committee hearing to reveal new evidence. Such late presentation of evidence also prevents the NAO being in a position to provide us with independent evaluation of new material. The Treasury should reinforce to Accounting Officers the importance of providing supplementary material in time for the Committee to consider it and for the NAO to validate it.

8.1 The Government agrees with the Committee's recommendation. The evidence presented to the NAO covered the cost of 1,300 carriages, and the capacity provided by the 950 carriages for which the Department could demonstrate firm plans. The Department regrets that it failed to identify the juxtaposition of these separate facts in the report.

8.2 The Treasury issues guidance to Departments and public organisations stressing the importance of ensuring the NAO has access to accurate and timely information. The Treasury fully recognises the Committee's concerns and will continue to re-emphasise to Departments and public bodies the importance of this guidance in preparing for all Committee hearings.

Sixth Report
Department for Education (DFE)
Cafcass's response to increased demand for its services

Report Summary from the Committee

The Children and Family Court Advisory and Support Service ('Cafcass') has a vital responsibility to vulnerable children suffering huge disruption in their lives. Following the publicity around the Baby Peter tragedy in 2008, Cafcass experienced a significant and sustained increase in demand for its services, receiving around 34 per cent more care cases in 2009-10 than the previous year. This led to chaos across the family justice system, and exposed Cafcass as an organisation that was not fit for purpose in dealing with the increased number of cases.

Cafcass has undergone major changes since it was established nine years ago. Although judges in the family court are satisfied with the quality of the advice and reports that Cafcass's family court advisers provide, Cafcass has failed to get to grips with fundamental weaknesses in its culture, management and performance. These problems have been to the detriment of children: eight out of ten Cafcass areas failed Ofsted inspections, which in 2009 gave overwhelming evidence that the service it provided for children and families was inadequate.

In the period from September 2009 to June 2010, Cafcass took up to 40 days on average to fully allocate a care case to a family court adviser. In private law, around a third of section 7 reports to the courts are more than 10 days late. The data which Cafcass holds on cases centrally contain inaccuracies. Sickness absence is unacceptably high, and staff morale is low, reflected in the difficulty management has in achieving staff compliance with requirements of the organisation.

Cafcass was only able to respond to the increase in demand following the Baby Peter tragedy through the use of measures which allowed it to do less work or to delay work on cases. The President of the Family Division (the judge who is head of Family Justice) issued Interim Guidance that allowed 'duty allocation' of care cases as a temporary measure so that Cafcass could get on top of its unallocated workload. From 1 October 2010, the President and Cafcass have made a joint agreement introducing transitional arrangements for another year, pending the outcome of the Family Justice Review. The agreement aims to continue reducing delays in allocating cases, while minimising the use of duty allocations.

While there have been some improvements in Cafcass's performance, the Committee does not share the Department for Education's confidence that the substantial organisational problems will be overcome by 2011. Cafcass also faces the challenge of dealing with the relentless rise in open cases that is putting pressure on all organisations working in the family justice system. Renewed energy and vigour are needed to sort this situation out if Cafcass is to become the world-class organisation it aspires to be.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from Cafcass and the Department on Cafcass's response to changes in demand, its performance monitoring, and staff and their performance. The Committee would like to record its gratitude to the President of the Family Division and the Family Division Liaison Judge for Greater London for the valuable evidence they gave to the Committee on their views as customers of Cafcass.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Cafcass, as an organisation, is not fit-for-purpose.

Many areas still do not provide a timely service to the courts, and the average time to fully allocate care cases at 27 days, down from 40 days, is still well above what it should be. Cafcass and the Department should report back to the Committee in a year, when we will expect to see that they have completed firm actions and undertaken rigorous monitoring to achieve the large amount of improvement that is still required.

1.1 The Government agrees with the Committee's recommendation.

1.2 The Department will report on the actions that both the Department and Cafcass will undertake to make further improvements, particularly in terms of Cafcass's performance against the Key Performance Indicators (KPIs) set by the Secretary of State for Education for 2010-11 and 2011-12. The report will include any recommendations that the Government plans to take forward, as a result of the current Family Justice Review.

1.3 The Government does not agree with the conclusion '*Cafcass, as an organisation, is not fit-for-purpose*'. Cafcass has a statutory duty to protect children and ensure that their best interests are looked after during family court proceedings. Cafcass is committed to improving its services to children and families and was allocated an additional £10 million in this financial year to implement a transformation programme that will put in place more efficient work practices. Progress has already been made in reducing the stock of unallocated and old cases, and times taken to allocate new cases.

1.4 Cafcass's new National Business Centre (NBC) is on course to be fully operational by April 2011, which will allow new applications to be processed more efficiently. Further improvements have included:

- in November 2010, Cafcass took, on average, 15 days to allocate care cases substantatively;
- in the London service, as a whole, the size of the case backlog in May 2010 was 400 (both Public and Private Law); now reduced to 265 with the downward trend continuing. In some areas of London (east) there are no backlogs at all;
- over the past 12 months, Cafcass has closed approximately 500 more private law cases than were opened during the same period;
- the Central Intake Team in the new NBC is currently processing all residence and contact order applications within the Cafcass 48 hour timescale, with the time taken to process each application reduced from two hours to 40 minutes; and
- a Service Manager Leadership Programme has been introduced to ensure front-line Service Managers are able to meet future challenges as well as the continuing present challenge.

1.5 The Family Justice Review Panel is currently considering Cafcass's role in family law proceedings. The Panel will issue an interim report in spring 2011, which will be subject to public consultation, followed by a final report in autumn 2011. The Government will consider the outcomes of the Review in its future planning.

PAC CONCLUSION AND RECOMMENDATION 2

With duty allocation needing to reduce quickly and substantially, there is a risk that the reductions could result in the scale of unallocated cases returning to the unacceptable levels seen in summer 2009.

Cafcass should establish plans with clear milestones for every area to manage the reductions in duty allocation of care cases and take prompt action in circumstances where unallocated cases start to rise.

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

2.2 Cafcass's 21 service areas that continue to operate duty systems for the initial handling of care cases will work in conjunction with the arrangements agreed with local senior judiciary and the President of the Family Division, to bring to an end the use of duty allocations and unallocated cases.

2.3 The Department is satisfied that Cafcass has made significant progress in tackling the earlier problem of unallocated cases - only 19 care cases were unallocated as at 30 November 2010, of which only 11 cases were still in court proceedings. This represents a significant improvement on the figure of 979 unallocated care cases, which was the level experienced at the end of July 2009.

PAC CONCLUSION AND RECOMMENDATION 3

Cafcass did not see the crisis coming, nor did it have a contingency plan in the event of a significant increase in demand.

The specific impact of the Baby Peter tragedy was hard to predict, but the possibility of a sustained increase in cases was a scenario that Cafcass should have planned for. It should prepare robust contingency plans so that it is prepared to act when changed circumstances affect its business.

3.1 The Government agrees with the Committee's recommendation.

3.2 The Government considers that Cafcass, the Department and other organisations could not have predicted the sustained impact that the publicity around the Baby Peter case in November 2008 would have on demand for care cases. Cafcass's management could not have been expected to recognise earlier than they did that the increase in demand would be sustained.

3.3 While the majority of Cafcass resources continue to be allocated to front line service delivery, a small contingency reserve (£2 million in 2010-11) is available to be allocated to areas that experience unforeseen pressures. When the level of 2011-12 funding is confirmed, it is expected that Cafcass will continue this practice. However, such a level of provision would be unlikely to be adequate if there were to be a repeat of the 34% increase in care applications that was experienced in 2009-10. At that time, the Government intervened to provide additional financial resources. Because of its legislative framework, Cafcass cannot control or depress demand for its services in the way most organisations are able to, for example by introducing eligibility criteria. This is a genuine constraint.

3.4 Cafcass makes use of various types of social work practitioners, in addition to its employed staff. These comprise self employed contractors, agency social workers and 'Bank' staff. The 'Bank' is primarily staffed by recently retired staff. In 2009-10, £13 million was spent on self-employed contractors and agency staff, an increase of £3 million from the 2008-09 level. It is to these types of staff that Cafcass would turn to in future if it were necessary to spend the contingency budgets on increased workloads. In addition, Cafcass, working alongside Departmental and Ministry of Justice officials, to continue to model anticipated future demand on a joint basis.

PAC CONCLUSION AND RECOMMENDATION 4

Cafcass took far too long—until October 2008—to put in place an acceptable performance management framework and is still dealing with the legacy of under-performing staff and low morale.

Cafcass's senior team should develop and implement a clear action plan to address existing and emerging skills gaps, and to raise performance and staff morale.

4.1 The Government agrees with the Committee's recommendation.

4.2 Cafcass has already put in place training and development measures, and in 2011-12 will implement further measures designed to meet the identified learning and development needs of its practice, business support and managerial staff. These plans, if effectively implemented, are essential to improving both performance and staff morale.

4.3 Cafcass has recently revised and simplified the sets of performance descriptors on which its performance management system is based, better integrating these with its practice supervision policy. The aim of this revision is to ensure that supervision is better able to meet the twin aims of supporting supervisees and ensuring that good quality services are provided to children, families and the courts.

PAC CONCLUSION AND RECOMMENDATION 5

Sickness absence among frontline staff is unacceptably high and significantly exceeds levels elsewhere in the public sector.

Cafcass should develop a comprehensive set of actions to drive sickness absence down to acceptable levels, building on best practice elsewhere in the public sector. The Department should monitor Cafcass's progress against the implementation plan.

5.1 The Government agrees with the Committee's recommendation.

5.2 During the past 12 months, Cafcass has taken concerted action to reduce the levels of sickness absence to acceptable levels, particularly among Family Court Advisers (FCA) who make up 61% of the Cafcass workforce. There has been a substantial reduction in FCA sickness absence rates between 2009-10 and 2010-11. The 2009-10 average sickness rates for FCAs were 16.4 days. In the first half of 2010-11 the average sickness rate has reduced to 12 days (per year). This represents a reduction of 27% (or 4.4 days per year) on 2009-10 rates. For all other Cafcass staff the 2010-11 year to date sickness rate is 7.7 days per year. The overall 2010-11 year to date average for all Cafcass staff (including FCAs and other staff) is 10.2 days per year.

5.3 Current overall sickness rates are now at similar levels to the Police (10.2 days) and the NHS (11 days) and are slightly behind local authorities (9.2 – 9.6 days). When comparing FCA sickness rates with those reported for social workers employed by local authorities, Annette Brooke MP's 2009 survey of two thirds of local authorities reported an average social worker sickness rate of 11.8 days.

5.4 Whilst it is clear that Cafcass is making good progress in managing sickness absence rates, regular meetings between the Department and Cafcass provide an added opportunity to discuss any concerns and take any further action with respect to Cafcass's performance, including issues relating to performance management of staff.

PAC CONCLUSION AND RECOMMENDATION 6

Judges remain satisfied with the quality of reports to the courts, but caseloads carried by family court advisers have been increasing, which brings new risks to the quality of service provided to the courts and families.

Cafcass should manage individuals' caseloads so that staff morale does not fall and the quality of reports to the courts is maintained or improved. Cafcass should also plan for the succession of the many experienced and longstanding family court advisers who are approaching retirement, in order to protect the continuity and quality of service.

6.1 The Government agrees with the Committee's recommendation.

6.2 Cafcass is actively engaged with its main trade union partner bodies, Napo and Unison, in developing a new workloads agreement to replace the existing 2004 agreement. This agreement is based on the differential weighting of the various types of cases dealt with by Cafcass, which vary in their demands across the successive stages to each case type. It is intended to identify a range of workloads that are agreed as being manageable and sustainable.

6.3 Cafcass has introduced a revised workforce strategy in recognition of the age profile of its qualified social work staff. A key element of this is the external recruitment of a small number (currently nine) of Newly Qualified Social Workers (NQSWs), who will become fully-fledged Family Court Advisers after successful completion of a three year development programme. A further element is the sponsorship of Family Support Workers onto social work degree courses – six staff have started degrees during 2010. On completing these courses, successful staff will then enter the three year NQSW programme.

6.4 Cafcass also utilises the services of more than 170 'Bank' Family Court Advisers, the vast majority of whom are recently retired former Family Court Advisers. These experienced staff work on a part time or temporary basis by mutual agreement. This 'Bank' scheme enables Cafcass to retain the expertise of many staff, even beyond the point of their formal retirement.

PAC CONCLUSION AND RECOMMENDATION 7

Low compliance by staff with important requirements has been a persistent problem, and has undermined Cafcass's efforts to improve performance.

In driving through its Transformation Programme, Cafcass's top management should take personal responsibility for effectively communicating changes to staff. Managers at all levels should be assessed on their effectiveness in both inspiring staff to comply with corporate requirements and holding them to account for non-compliant behaviour.

7.1 The Government agrees with the Committee's recommendation.

7.2 The active involvement of senior management with staff has been a central element of many aspects of the Transformation Programme. For example, the formulation and early drafting of Cafcass's Future Operating Model has involved the Chief Executive meeting and taking note of the views of approximately 40 teams across England.

7.3 In revising the performance descriptors for Service Managers and Heads of Service a clear emphasis has been placed on the leadership and management qualities that are required of these two types of managers. These managers are subject to the same supervision and performance assessment requirements as practitioners, with interventions available for use in those instances where improvement is needed.

PAC CONCLUSION AND RECOMMENDATION 8

The quality of assessments on care cases by local authority social workers varies. Poor quality assessments place an additional burden on Cafcass as the courts must request a new assessment from Cafcass family court advisers if they cannot rely on the work of local authority social workers.

The Department should work with local authorities to ensure that they are fulfilling their responsibility under the Public Law Outline to undertake appropriate pre-action work with the family, and to produce good assessments so that cases can proceed without requiring extra interventions or investigations by Cafcass.

8.1 The Government agrees with the Committee's recommendation.

8.2 High quality assessments by local authority children's services are essential if care cases are to progress effectively. A range of work to support this is underway.

8.3 Updated practice guidance on public law proceedings was issued by the President of the Family Division and the Ministry of Justice (MOJ) in March 2010. The guidance stresses the importance of effective case preparation by local authorities and sets out the information, including assessments, which should be provided for the courts with all care applications.

8.4 The Department and MOJ are supporting the development of local groups which bring together the key agencies involved with care proceedings: local authorities; Cafcass; the Legal Services Commission; and the courts. The aim is to provide all localities with a focus for strengthening performance and tackling the causes of delays in care proceedings in their areas. A national group, chaired jointly by MOJ and the Department, will lend practical support to the local groups. The local authority contribution to care proceedings is a priority and work is well under way to collate and share with the groups case studies of highly effective practice already developed in some local authorities.

8.5 In Coventry and Warwickshire, Cafcass, in partnership with local authorities, is piloting a new collaborative approach in which Cafcass officers work with local authorities at the pre-proceedings stage, providing independent advice on potential care cases. The aim is to test how local authority assessments and case analysis can be strengthened to deliver better decision-making by local authority teams, more robust processes and supporting evidence where cases do proceed to court, and better outcomes for children. Results of the pilot will be available in late 2011.

8.6 Professor Eileen Munro's review of Child Protection is also considering how social care practice in care proceedings can be strengthened. The review findings, due to be published in spring 2011, will inform the Department's on-going work to improve social care practice as a whole and will also support and feed into the current Family Justice Review.

PAC CONCLUSION AND RECOMMENDATION 9

It is shocking that Cafcass has not previously collected all the information it needs to manage its workload more effectively.

Shortcomings in the Case Management System make compiling trend data laborious but even so, Cafcass must undertake the data collection it needs to manage its business. It should agree with the Department the quality and type of information required and put in place measures to secure it. In addition, the Department should support Cafcass in securing a better service from the provider of its corporate IT systems.

9.1 The Government agrees with the Committee's recommendation.

9.2 The Department already has in place an agreement with Cafcass about the quality and type of information required, and the measures to secure it. Key Performance Indicators (KPIs) are set each year by the Secretary of State for Education, following consultation with Cafcass.

9.3 Information from the Cafcass's Case Management System (CMS) drives all except one of the seven KPIs set by the Secretary of State for 2010-11. The CMS has been in use since 1 April 2007. The functionality of the system is updated at regular intervals in order to be consistent with changes in professional practice, policy and court rules. The CMS is a 'live' system, with administrators inputting case information and practitioners accessing and updating this information. Since 2008, Cafcass has carried out annual internal data quality audits in all teams.

9.4 The performance 'Dashboard' brings together operational, financial and human resources information within an integrated process. In addition, Cafcass's internal auditors, PriceWaterhouseCoopers, have been commissioned to undertake a dedicated audit of case recording and data quality.

9.5 A National Business Centre (NBC) will be fully operational by April 2011, where staff will input the details of most new court cases. The development of an 'Electronic Case File' is currently underway and will be used in the NBC to replace the current system; this will enable data entry and collection to be even more efficient and accurate. The data quality of work being done by the emerging NBC is evident from an audit of the Central Intake Team, carried out in July 2010, which found that there was an overall accuracy rating of 97.8%. The aim of the NBC is to ensure every application receives the same high standard of processing and reaches local teams quickly and in the most efficient and effective way.

PAC CONCLUSION AND RECOMMENDATION 10

Cafcass has taken too long to secure essential changes, and much of the responsibility lies with top management.

Driving through the Transformation Programme while overseeing consistent improvements in the level of service will take strong and vigorous leadership and communication. The Department should regularly monitor Cafcass's progress in implementing the Programme, holding senior management to account for any delay. Cafcass and the Department should review the robustness of the Programme regularly and take action promptly to resolve emerging problems.

10.1 The Government agrees with the Committee's recommendation.

10.2 The Department will continue to monitor Cafcass actively. Cafcass's Chief Executive has quarterly meetings with the Parliamentary Under-Secretary of State for Children and Families; in addition there are regular meetings between senior Departmental officials and Cafcass. Departmental officials attend Cafcass's monthly Transformation Programme Board.

10.3 The Department receives monthly performance reports from Cafcass demonstrating its performance against the agreed Key Performance Indicators (KPIs) which are:

- KPI 1 (Public Law): 97 % of the public law workload should be allocated[1] when taken as a snapshot.
- KPI 2 (Private Law): 97 % of the private law workload should be allocated[1] when taken as a snapshot[2].
- KPI 3 (Safeguarding): the quality of practice in safeguarding is rated overall as satisfactory or above in more than 97% of cases.
- KPI 4 (Service User Engagement): more than 65% of the feedback from service users via HearNow expresses an overall satisfaction with the service they receive from Cafcass.
- KPI 5 (Safeguarding): quality of practice in risk assessment rated overall as satisfactory or above in at least 97% of cases.

[1] Allocated defined as either case "substantively" allocated to a named Cafcass practitioner or case allocated on a duty basis to a named Cafcass practitioner.
[2] Target to be measured at month end

- KPI 6 (Public Law): Cafcass will allocate (on an ongoing, not a duty basis) public law care cases by CMC (Case Management Conference), measured as 45 calendar days from application date in more than 97% of cases.

- KPI 7 (Private Law): Cafcass should provide at least 97% of private law reports to court within the agreed filing times, for each of the four new types of reports: multiple issue section 7 reports; single issue section 7 reports; risk assessment section 7 reports; and wishes and feelings section 7 reports.

Seventh Report

Department of Energy and Climate Change (DECC)

Funding the development of renewable energy technologies

Report Summary from the Committee

Developing renewable energy technologies is vitally important if the UK is to help tackle climate change and maintain secure national energy supplies. The Department of Energy and Climate Change (the Department) told the Committee, however, that it was going to miss its target to supply 10% of electricity from renewable sources by the end of 2010. The Department and its predecessors had not done enough to address the slow progress in increasing the supply of renewable energy. As a result, it does not expect to meet the 10% target until 2012, from a starting position of 2.7% in 2000.

The Department is responsible for ensuring a series of targets are met over the next 40 years but direct government funding for developing renewable energy technologies is delivered through a complex web of organisations that the Department does not control. In consequence the Department does not have a clear understanding of how much has been spent or what has been achieved. Between 2000 and 2009, the Department and its predecessors failed to use nearly half of the resources available to it to encourage innovation in renewable energy. This is a wasted opportunity for providing investment that could have helped increase the supply of renewable energy.

The Committee is concerned that the Department committed to a new, extremely ambitious and legally-binding EU target to supply 15% of all the UK's energy from renewable sources by 2020, despite not having a clear plan for how it would achieve this. The Renewables Obligation provides the major subsidy for renewable energy. The Department needs to get the best value and impacts from this funding framework. It must of course ensure a proper balance between providing effective incentives and a stable framework for private investors whilst minimising the cost to bill payers. However, the Committee is most concerned that the review of the range of financial incentives provided through "banding" will not be completed until the summer of 2011 and to discover, after the hearing, that any changes to banding would not be implemented until April 2013. The Committee notes the Department is seeking to accelerate this timetable and introduce earlier staged reviews.

The Department is counting on a massive growth in wind power during the next decade to meet the 2020 target. While the technology may now largely be in place to meet the 2020 target, there is considerable lost ground to make up and difficult obstacles to overcome. For example, the 6000 2.5 megawatt or 10,000 1.5 megawatt onshore wind turbines the Department estimates will be needed to meet the 2020 target will have to overcome financing constraints and obtain planning approval, which typically results in around 40% of proposed projects being abandoned.

Achieving the 2050 target for an 80% reduction in greenhouse gas emissions will need further innovation in renewable energy technologies to increase supplies after 2020. The Committee observed that the department has developed pathways to achieving the 2050 target, but has not set out the innovation milestones that it will need to meet if it is to achieve its longer-term goals.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on Government funding for the development of renewable energy technologies.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department needs a greater sense of urgency and purpose to drive the dramatic increase in renewable energy supplies needed to meet the 2020 target and secure the new technology innovation to help meet the 2050 target.

The Committee is concerned that the legally binding target to deliver 15% of energy from renewable sources by 2020 may be unrealistic. The Department has estimated that, to meet the target, the proportion of electricity supplied from renewable sources will need to increase to 31% by 2020. However, the supply of renewable electricity increased by only 4 percentage points from 2.7% to just 6.7% between 2000 and 2009. The Department is not expecting to meet the 10% target until 2012, leaving just eight years to increase it to 31%. The Committees recommendations set out actions it believes the Department must take to achieve its targets, create more coherence and meet its commitment to demonstrate value for money from direct funding.

1.1 The Government partially agrees with the Committee's recommendations and shares the Committee's view of the scale of the challenge and the action required.

1.2 The UK is committed to sourcing 15% of its energy consumption from renewable sources by 2020. Whilst the Department recognises the target is challenging, the Department's analysis, along with discussions with industry, indicates that the UK has extensive renewable resources and that the build rates needed to reach the target are attainable. The initial advice, in September 2010, from the Committee on Climate Change (CCC) on the level of the Department's renewables ambition also provided reassurance on the level of the target. The Department awaits the CCC advice later this year on its level of ambition on renewables beyond 2020.

1.3 To drive the delivery and deployment of renewables in the UK necessary to meet the Department's renewable energy targets, the Office for Renewable Energy Deployment (ORED) was established in July 2009. ORED is addressing delivery issues across a range of renewable energy technologies. At the same time, its work will maximise the economic and employment opportunities presented for the UK by the increase in renewables. The Department is already seeing significant progress and since 2005, has more than doubled the percentage of energy from renewables, and in the last 2 years the share of renewable electricity increased from 5.4% in 2008 to 6.7% in 2009 to - around 8% by the end of 2010 (to be confirmed in Digest of UK Energy Statistics 2011).

1.4 The outcome of the Spending Review process signals the coalition Government's commitment to ramp up deployment of renewables as part of the Department's transition to a low carbon economy. The commitment to a Renewable Heat Incentive, the Feed In Tariff, the Renewables Obligation and an infrastructure fund for offshore wind manufacturing facilities at port side locations show the Department's commitment to the 2020 target.

1.5 The Department agrees with the need to work intensively now to bring forward new technologies to meet 2050 targets. To aid the Department's understanding of the technologies required for 2050, the Department's 2050 Pathway analysis was published as a call for evidence in July 2010. This call for evidence is now closed and the Department will publish its response to the feedback in Spring 2011. The Department continues to support technology development beyond 2020. It has secured up to £1.2 billion in the Spending Review for low-carbon technologies and manufacturing at ports sites. This also includes up to £1 billion for a CCS demonstration. The Department is now preparing its four-year innovation delivery plan.

PAC CONCLUSION AND RECOMMENDATION 2

The Department and its predecessors planned to provide support for renewable energy technologies totalling £367 million between 2000 and 2009, but only £186 million was actually spent.

The Department should, in future, act more quickly to identify and address the reasons for under-spends, so that resources available for supporting the development of renewable energy technologies are fully utilised.

2.1 The Government agrees with the Committee's recommendation.

2.2 Innovative technologies are inherently risky due to their pioneering nature and some funds may not be able to be fully spent if technologies do not develop at the speed expected. The Department operates a programme and financial management Board to oversee Department-funded technology innovation programmes. The Board monitors progress against milestones and key performance indicators including spend against profile and advises on steps needed to rectify problems and to ensure spend can be delivered. It also manages controlled over-programming as a key way of minimising likely under-spends.

PAC CONCLUSION AND RECOMMENDATION 3

The Committee is concerned that the Department agreed to the legally binding 2020 target without clear plans, targets for each renewable technology, estimates of funding required or understanding of dependencies such as planning issues.

The Department published its renewable energy strategy in July 2009, but did not start preparing a detailed delivery plan until January 2010 and does not intend to publish it until April 2011. The Department took far too long to begin to translate its high-level renewable energy strategy into a detailed delivery plan. It should in future demonstrate much greater urgency in preparing the detailed plans that are needed to drive the implementation of its strategies.

3.1 The Government agrees with the Committee's recommendation.

3.2 The draft Directive, published in January 2008, set out a framework and indicative targets for Member States to consider rather than a detailed delivery plan. The UK used the draft Directive and its existing analysis in developing its draft Renewable Energy Strategy published later that year.

3.3 The UK Government, agreed to the Renewable Energy Directive (2009/28/EC) in December 2008 following a full public consultation on the draft Renewables Energy Strategy in 2008. The Department published the results of updated analysis and modelling to demonstrate how it might be possible to meet the 15% renewables target by 2020 as part of the UK Renewable Energy Strategy in 2009. The House of Lords Select Committee Report on the *Renewable Energy Directive* in October 2008 also considered the draft Directive and the ability of the UK to achieve the target.

3.4 In the National Renewable Energy Action Plan (NREAP), published in July 2010, the Department additionally published an impact assessment and set its scenarios that give an indication of the potential contribution of specific renewable energy technologies. The 'lead scenario' set out in the UK NREAP demonstrates that it is possible to achieve the 15% target and provides one view of the technology mix in 2020.

3.5 The Department recognises the need to provide more detail than is available in the public domain at the moment, to pull together the action that is already underway, and to identify any further action necessary. It will publish the external Renewable Delivery Plan in the Spring. It is expected that the Delivery Plan will be updated annually.

PAC CONCLUSION AND RECOMMENDATION 4

The Department does not know whether value for money has been achieved from previous spending on renewable energy technologies because it lacked a coherent plan.

The Department should include in its renewable energy delivery plan clear measures of the resources involved; quantified measures to demonstrate efficiency, such as management costs; intended milestones based on clear and consistent metrics to allow progress to be easily monitored; and cost-effectiveness so that they can be used to monitor value for money. It should also explain how the Department will review and report on progress and value for money.

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

4.2 The Renewable Energy Delivery Plan will be a coherent plan for delivering the renewable energy target, covering not just the financial incentives, but also the key non-financial deployment barriers, such as planning, supply chain and grid. The Delivery Plan will include appropriate objectives, milestones to monitor performance and indicative trajectories up to 2020. The Plan will also include deployment statistics for renewable energy, which are already available through a variety of sources – such as RESTATS, Renewable Energy Planning Database, Digest of UK Energy Statistics, Energy Trends and the financial incentive reports (Renewables Obligation and Feed-in Tariffs).

4.3 The Department has developed an evaluation strategy to ensure evaluation is embedded into policy making. A dedicated policy evaluation team was established in May 2010, and has implemented processes and structures to ensure evaluation is undertaken in a robust and consistent way, to provide comparable evidence of policy costs and benefits:

- The DECC Evaluation Board was established in October 2010 and is responsible for leading and championing evaluation. It prioritises where evaluations should be happening, challenges when they are not, and keeps oversight of all evaluation in the department;

- Evaluation planning is routinely considered as part of the Department's Delivery and Approvals process. All Delivery Plans and Business Cases should demonstrate appropriate consideration of evaluation, including adequate resources and clear lines of responsibility and project management;

- A programme of evaluation training and guidance is being rolled out in the Department from January 2011. The evaluation team provide ongoing support and advise on evaluation planning, provide quality assurance and help steer evaluations and disseminate findings; and

- The Department will provide leadership on evaluation across delivery bodies, to ensure a consistent approach and comparable methods, following the establishment of evaluation processes and methods.

4.4 Measures of projected cost effectiveness of the different instruments are set out in the published Impact Assessments. The Department is continuing to update technology cost information as new data emerge.

PAC CONCLUSION AND RECOMMENDATION 5

Many proposals for renewable energy schemes do not proceed, with 40% failing to secure planning approval in England and others not obtaining finance.

Unless planning rules are changed, the Department will need to build contingency for this project attrition rate into its 2020 delivery plan, to create a realistic picture of the number and size of renewable energy projects that need to be in the pipeline, and when construction must start if it is to meet its 2020 renewable energy target.

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

5.2 The Office of Renewable Energy Deployment (ORED) leads on the identification and resolution of individual barriers to delivering renewables, and works to facilitate renewables deployment on land and offshore through a variety of measures including through Renewable Financial Incentives.

5.3 The Department is working to address the barriers around planning, with for example the publication of the revised National Policy Statements, and finance, through the Electricity Market Reform.

5.4 The Renewables Delivery Plan will provide an indicative breakdown of the contribution expected from each renewable technology in 2020, together with an evidence-based analysis of barriers and risks to deployment with mitigating actions for specific technologies.

5.5 The Department recognises that not all of the current pipeline will be delivered. The Department disagrees that 40% is an appropriate attrition rate to factor in as there will be particular issues that relate to particular technologies, scales and locations. The Department will ensure that dropout rates are taken into account in the Delivery Plan and will use appropriate evidence to underpin the contingency.

PAC CONCLUSION AND RECOMMENDATION 6

In the Committee's view, the Department is taking too long to complete its review of the rates of subsidy provided through the Renewables Obligation for different technologies, although it is seeking to accelerate the staged reviews of banding. The Committee is particularly concerned that the Department told the Committee that the review would not be completed until Summer 2011, but then subsequently informed the Committee after the hearing that any changes from its current review would not be implemented until 2013.

The Committee welcomes the Department's efforts to accelerate staged reviews of banding and wish to be updated on the revised timetable once it is agreed. The Department will need to act more quickly in response to changing circumstances, which may require it to move away from rigid review timetables that could result in delayed investment or increased costs for the bill payers who fund the subsidies.

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

6.2 Energy Minister Charles Hendry announced on 8 December 2010 that the timetable for the 2013 Renewables Obligation Banding Review will accelerate. The original timetable set out in the RO Banding Review Process document indicated that the Government would launch a statutory consultation on new banding proposals in Spring 2012 and announce its decision on banding levels by Autumn 2012. The Department now intends to consult on new banding proposals in Summer 2011 and confirm the new bands by Autumn 2011, one full year ahead of schedule. The new bands will still come into effect as planned on 1 April 2013 (1 April 2014 for offshore wind), subject to Parliamentary and State Aid approval.

6.3 Under the previously announced timetable, investors would not have known for certain what support they could have expected to receive until Autumn 2012 at the earliest. The Department believes that the accelerated timetable for the banding review will give investors and developers greater certainty and confidence to help bring forward the scale of renewables developments needed to deliver the target and other important energy and climate change objectives.

PAC CONCLUSION AND RECOMMENDATION 7

The Department does not have a clear strategy to meet the 2050 target to reduce carbon emissions, although it has identified various pathways toward meeting the 2050 target and recognises the need for further renewable energy technology innovation.

It must develop its innovation plans, setting out clearly the resources required and how they are to be allocated, interim milestones showing what needs to be achieved by when and by whom, and criteria that show how cost-effectiveness will be measured. Its overall strategy should include the interim milestones for innovation and indicative targets for renewable energy between 2020 and 2050, to provide a focus for action and clear benchmarks against which progress can be judged.

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

7.2 The Department continues to develop its 2050 Pathways Analysis and the updated Calculator will be published in February 2011 in response to the Call for Evidence. The pathways to 2050 published in July enabled the Department to understand the common messages between pathways that hit the 2050 target. The Department is working to add costs analysis to the Calculator. This will enabled the Calculator, along with other tools and models, to support development of a reduced set of plausible pathways to 2050.

7.3 In addition, the Department is working to develop a shared evidence base for a range of renewable and low carbon technology families. This work will identify the innovation needs in these technology areas and what forms of Government intervention are desirable, addressing the committee's concerns.

7.4 The Department continues to support technology development beyond 2020. It has secured up to £1.2 billion in the Spending Review for low-carbon technologies and manufacturing at ports sites. This also includes up to £1 billion for a CCS demonstration. The Department is now preparing its 4-year innovation delivery plan.

PAC CONCLUSION AND RECOMMENDATION 8

The Department is responsible for meeting renewable energy targets but does not control Government funding for renewable energy provided by various other organisations.

Building on its involvement in the Low Carbon Innovation Group, which brings together various funders, the Department should lead the coordination of support for renewable energy innovation. It should also routinely collect information from other funders so that it knows what support is being provided to renewable energy; and take action to address its admission to us that the funding landscape could be simplified.

8.1 The Department accepts the Committee's recommendation.

8.2 The Department has taken the lead in coordinating support for renewable energy innovation by expanding the Low Carbon Innovation Group (LCIG) membership in 2010. This Group now consists of the major funders of energy innovation: the Department of Energy and Climate Change (DECC), the Department for Business, Innovation and Skills (BIS) and the Engineering and Physical Science Research Council (representing the UK Research Councils), which funds early stage academic research; and the bodies that deliver energy innovation. The latter include the Carbon Trust (CT), Energy Technologies Institute (ETI) and the Technology Strategy Board (TSB).

8.3 The LCIG Executive is co-chaired by DECC and BIS Ministers: Gregory Barker and David Willetts respectively; and is attended by the CEOs of the other member organisations. The LCIG Executive will work to improve the accessibility and coordination of support for renewable and low carbon technology innovation. With this aim, the LCIG members are building a shared evidence base for a range of renewable and low carbon technology families. In 2011, the evidence base will inform the members' technology intervention plans.

8.4 The Department collects information on public sector spend on UK energy research, development and demonstration on an annual basis. This covers spend by central Government and its sponsored bodies on renewable energy, and additional energy technology areas including nuclear fission and fusion, hydrogen and fuel cells, and storage technologies. These data will be published in the Annual Energy Statement which is laid before Parliament annually. In line with the Government's commitment to transparency, the Department continues to work with public sector funders of energy innovation to improve the robustness and coverage of the data collected.

8.5 The Department will continue to work with other Government Departments to identify opportunities for further simplification to ensure that it can deliver its renewables and low carbon objectives as effectively and efficiently as possible.

PAC CONCLUSION AND RECOMMENDATION 9

The Department told the Committee that funding previously provided by Regional Development Agencies for innovation would be transferred to the Technology Strategy Board.

In view of the scale of the previous Regional Development Agency funding the Department should ensure that it has a clear view of whether there is continuity in this spending and whether the Board is committed to providing innovation funding in support of the Department's renewable energy plans.

9.1 The Government partially accepts the Committee's recommendation.

9.2 The Department continues to work closely with BIS to ensuring the continuation of value-for-money programmes previously funded and managed by the Regional Development Agencies (RDA) which contributes materially to the Department objectives.

Eighth Report

Department for Business, Innovation and Skills (BIS)

Customer First Programme: Delivery of Student Finance

Report Summary from the Committee

Under the Customer First Programme, delivery of grants and loans to Higher Education students in England is being transferred from local authorities to the Student Loans Company (the Company), a non-departmental public body of the Department for Business, Innovation and Skills (the Department). In 2009, the first year of a three-year phased implementation, the Company began assessing applications from new students; from 2011 it is responsible for applications from all students in England.

Performance in processing applications and communicating with students in this first year was completely unacceptable. There were failures in the Company's management and the Department's oversight, and when these problems became apparent they were not tackled with urgency. As a result, many students waited weeks or months for their financial support.

Fewer than half of all applications were fully processed by the start of term, and the Company took on average a third longer to process applications than local authorities did the previous year. The Company answered fewer than half the calls it received in 2009; in September 87% of calls went unanswered. Disabled students suffered disproportionately in 2009, as the Company devoted too few staff to processing their applications.

The Company also demonstrated a number of IT failings in 2009: most importantly, it did not sufficiently test its crucial document scanning - the failure of which was the catalyst for the failure of the entire system.

The Department's risk management and performance monitoring were all found severely wanting in 2009. The Department underestimated the risks in centralising the service, the Programme Board lacked skills and experience, and there was poor communication between the Programme Board, the Company's Board, and the Department.

The failings in this service highlight wider weaknesses in the Department's oversight of its devolved services. The Committee is disappointed and concerned that responsible officials appear not to have been held to proper account for their failures. There are also a number of lessons - for example, in piloting programmes and testing IT systems - which should be studied by other departments.

In 2010 the Company improved its performance, although the rate of improvement had been disappointing. The Committee expected better. Over two-thirds (69%) of applications from new students were fully processed by the start of term, the Company's contact centre outperformed its targets for answering calls, and management information and governance arrangements had been overhauled. However, a quarter (26%) of applications were not sufficiently processed for students to receive even an interim payment by the start of the first term, which was only a limited improvement on the 34% of applications unprocessed in 2009. and uncertainties remain over the Company's ability to deliver and maintain a service that provides value for money.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on the Customer First Programme's performance in 2009 and how it could be improved. In October 2010, the Department provided the Committee with an Updating Memorandum which included information on the Company's performance in 2010 in processing applications for the 2010/11 academic year. The National Audit Office re-performed the analyses to verify the reasonableness of the Department's figures.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

It is completely unacceptable that, by the start of term in autumn 2009, the Company had fully processed only 46% of students' applications.

Performance did improve in 2010, to the extent that 69% of new applications were fully processed by the start of the autumn term although there were still 100,000 cases (one in four) which were not sufficiently advanced to enable any payment to be made before the start of term. The Company has a target to process applications within six weeks of receipt and for 2011 it should guarantee to make at least an interim payment on all eligible applications submitted more than six weeks before terms starts. The Department should provide the Committee with a further Memorandum on performance next October. The Committee expects to see a step change in performance to give us the assurance that proper value for money is secured from this programme.

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

1.2 The Department agrees that the Company's performance in 2009/10 was unacceptable, as made clear in previous evidence to the Committee, but believes that the Company's performance was better than the Committee's report implies for 2010/11. The Department and the Company put in place new leadership and performance management, which markedly improved the level of service experienced in 2010/11 for which due credit should be given. In 2010/11, the Company met its published commitment to process more than 99% of applications received with the required evidence by the published deadlines, and exceeded its contact centre targets, answering more than 93% of calls received from April to November 2010.

1.3 The Department and the Company agreed new customer-focused targets for the 2010-11 financial year, including (as the Committee recommends) processing applications within six weeks of receipt when submitted with the correct supporting evidence, even when received after the published deadlines. These targets were translated into a published Customer Promise, so that students and their families knew what level of service to expect.

1.4 This Customer Promise went further: where an application was received without all of the financial evidence required or with less than six weeks before the start of term, the Company committed to pay what it could, usually an interim payment of at least the minimum non-means tested loan, providing there was sufficient information to confirm the applicant's eligibility for student finance. This was to ensure that as many students as possible had some form of financial support in place at the start of term. In 2010/11 the Company processed 84% of applications received more than six weeks before the start of term for at least an interim payment to be made.

1.5 The Company are making further improvements to ensure that more applicants supply the right information with their application to ensure that they receive the funding to which they are entitled at the start of term. These changes include:

- working with Her Majesty's Revenue and Customs to phase in an electronic link to confirm household income, involving complex legal, technical and security challenges taking into account the diversity of the systems across the organisations involved, which will eventually remove the need for paper evidence to be provided in the majority of cases; and

- undertaking a mainly automated reassessment of applications from returning students whose parents' earnings are above the upper income threshold and are therefore not entitled to means tested support, rather than waiting for the student to submit an application.

1.6 The Customer Promise will remain in place for the 2011/12 cycle and should lead to continued improvements in the Company's performance.

1.7 The Department will provide a further Memorandum on the Company's performance in 2011/12. The Department and the Company consider that the data presented in the Committee's report do not fully reflect the Company's performance or the level of service provided. For example, the Committee noted that 100,000 new applications were insufficiently advanced to enable any payment to be made before the start of term, but 29,700 of these applications could not be processed by the Company because the customer had not provided enough information. These will include applicants that submit an initial application but subsequently choose not to seek financial support or do not enter higher education; there were over 110,000 such cases in 2009/10 of which 90,000 were from new applicants.

1.8 The Department does not believe the Company can be fairly criticised for failing to process applications where the evidence required is not provided as it must ensure that those that receive student finance are entitled to it. The Department, the Company and the National Audit Office (NAO) are working together to consider ways to measure performance that are comparable to previous data, properly reflect what customers experience and inform operational delivery.

PAC CONCLUSION AND RECOMMENDATION 2

Targets set by the Department to measure the Company's performance in 2009 were inadequate to monitor its performance effectively.

The main target set by the Department was wrong. It measured whether applications had been partly processed rather than fully processed. The Department and the Company must develop clear, customer-focused targets for all loans, grants and allowances covering the full process from application to approval and payment.

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

2.2 The Department accepts that the targets in place to measure the Company's performance in 2009 were inadequate. Revised targets were introduced in 2010-11 that were clearer and more customer-focussed for all loans, grants and allowances. These targets covered the parts of the process for which the SLC is responsible and focus on the process from when the application is submitted to it being prepared for payment. Not all applications for loans and grants that are submitted will result in a payment being made, as not all applicants will in the end enter into higher education. The targets therefore focus on ensuring that the Company has processed as many applications as possible for a payment to be made at the start of term for those that do attend.

2.3 The Company's management information has been developed considerably since 2009. It now covers all loans, grants and allowances, as well as the full process from application to approval and payment. This will help the Company and the Department to monitor progress and identify where interventions are needed. The Department and the Company will continue to review and improve the management information to ensure it is robust and comprehensive.

PAC CONCLUSION AND RECOMMENDATION 3

The Company's service to students applying for Disabled Students' Allowances in 2009 was significantly worse than its overall service, with fewer than a quarter of the 17,000 applicants having received payment by the end of December 2009. The Company deployed too few people to process these applications in 2009.

In 2010 the Company has doubled the resources it devotes to the processing of Disabled Students' Allowances, which is welcome. However, it was still taking nearly 18 weeks to process these applications from new students, and this is unacceptable. The Company must work with the Department to set stringent targets for processing applications for Disabled Students' Allowances and ensure sufficient resources are in place by next summer to provide a better service for disabled students.

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

3.2 The Company has worked to improve its relationship with stakeholders and in particular with groups that represent the interests of students with disabilities. Steps have already been taken to improve the service for disabled students, including better training and allocating more staff. This improvement has been widely acknowledged by the relevant stakeholder groups. The Department will work with the Company to ensure that it continues its work to provide a better service for disabled students.

3.3 It is the Department and the Company's view that measuring the time taken to process applications for Disabled Students' Allowances to the point of payment does not accurately reflect the Company's performance or the level of service that the applicant receives. The applications process for Disabled Students' Allowances is complex, with several stages depending on a number of parties and the proactive participation of the student to progress their individual claim.

3.4 Payment is not made directly to students, rather the student or, more commonly, the supplier is reimbursed the costs of purchasing specialist equipment or support after the equipment has been supplied and an appropriate invoice has been submitted to the Company. The Company can establish the level of support to which the student is entitled a considerable length of time before an invoice is received. Furthermore, the Company is unable to make a payment in advance of need and has very limited control over when an invoice is received.

3.5 The Department and the Company recognise the need to understand the time between an application being made and when the payment is made and agree this should continue to be measured. The Department and the Company will continue to work with stakeholders and delivery partners to improve the end to end applications process for Disabled Students' Allowances. However, it is the Department and the Company's view that this does not fully reflect the Company's performance or students' experience. Rather, a student needs to know that their application has been processed and approved ready for payment promptly, and well before they begin their course.

3.6 The targets that the Department sets for processing Disabled Students' Allowances applications therefore focus on the steps in the process for which the Company is responsible: firstly the time taken to assess whether the student is eligible; and then to assess the level of support to which they are entitled based on the report of an independent needs assessment. These targets were improved from processing 95% of applications within 15 days for both stages in 2009-10, to processing 95% of applications within 10 days for both stages in 2010-11.

3.7 The Company has increased the number of staff processing applications for Disabled Students' Allowances. Data from the Company show that, from April to November 2010, the latest month for which there are complete data, the Company had achieved these targets in 80.3% of cases for the first stage and 90.7% for the second stage. This compares with just 47.5% for the first stage and 20.78% for the second stage in November 2009 against the 15 day target.

PAC CONCLUSION AND RECOMMENDATION 4

It is completely unacceptable that 56% of telephone calls to the Company went unanswered in the year to January 2010, and this figure peaked at 87% in September 2009 - when students needed to know whether they would get money in time for the start of term.

The Committee expects the Company to achieve the industry best practice standard of answering at least 95% of calls. We note that the Company's performance improved in 2010, answering 96% of telephone calls in the peak period of August to September. The Company now needs to bring its target into line with best practice and maintain its performance at or above that level.

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

4.2 As made clear in previous evidence to the Committee, the Department and the Company fully accept that performance in 2009/10 was unacceptable. As a result of better management of the Company's contact centre, that performance was dramatically improved in the 2010/11 cycle.

4.3 The Department and the Company agreed a target for 2010-11 of answering 80% of calls throughout the year and a minimum of 70% of calls to be answered in each two-week period. The

Company has an overall aim of answering 90% of calls received throughout the year. The SLC has shown exceptional improvement in the performance of its contact centre. From April to November 2010, over 93% of telephone calls were answered and over 95% of telephone calls were answered in the peak period from August to September 2010, compared to just 13% in September 2009.

4.4 The Committee propose that the Company should set a target to achieve the industry best practice standard of answering 95% of calls. Taking into account the number of calls currently received by the contact centre, however, the Company estimates that it would require additional investment of £1.5 million in order to guarantee this level of service throughout the year. Given that the Company is funded by the taxpayer, this additional cost cannot be justified in the current tight fiscal environment. Rather, the Company is taking steps, as recommended by the Committee, to minimise the need for telephone contact with applicants and therefore to reduce the overall number of telephone calls that it receives, by providing more accurate online information and improving processing times, and to improve the service offered by the contact centre. This includes improved training for contact centre advisers and improved equipment to allow the advisers to see the customer's details more readily.

4.5 The Department intends to review the Company's contact centre targets and funding as the performance and stability of the contact centre improve. It is intended that the current targets, which the Department and the Company consider represent an acceptable level of service, will remain in place for 2011-12.

PAC CONCLUSION AND RECOMMENDATION 5

The Company did not adequately test its document scanning system before going live, and could not cope when the system subsequently failed.

The scanning system is crucial to the timely processing of applications and the Department should assure itself that the Company now has robust contingency plans for maintaining an effective service in the event that the scanning system, or other aspects of its IT, fails again.

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

5.2 The Company has developed robust contingency plans for a wide range of risks in the delivery of the student finance service, including plans to manage backlogs in applications processing.

5.3 As part of its contingency planning for 2010/11, the Company moved its scanning equipment so that all paper documentation was sent to Darlington where the processing teams are based. This ensures that the Company is able to react quickly to any further technology failures and can maintain the level of service that it has committed to provide. As recognised in previous evidence to the Committee, the Department and the Company fully accept that the failure of scanning in 2009 and the management response to it were unacceptable. Thanks to improvements put in place, scanning operated successfully throughout the 2010/11 cycle.

5.4 The Department agrees that this area is of critical importance and the Company is working to ensure that there are robust contingency plans in place for the 2011-12 cycle.

PAC CONCLUSION AND RECOMMENDATION 6

The Programme has been dogged by significant delays and cost overruns, notably IT systems.

The Department's plans for achieving financial savings of £20 million a year from 2011-12 have slipped to 2012-13, and it now considers that these savings might be delayed further and possibly reduced. At a time when the Department is facing financial challenges, it is imperative that it achieves the planned savings once the service to the public has been improved and stabilised. The Department should seek increased efficiency at the Company through faster processing and minimising the need for telephone contact with applicants.

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

6.2 The tighter programme management arrangements now in place between the Department and the Company will allow closer scrutiny and better management of costs. The Department agrees this needs more management effort.

6.3 The Department and the Company will concentrate on increasing efficiency in the delivery of the student finance service and reducing unit costs in order to achieve the benefits of centralisation that were set out in the Customer First Programme. A Gateway Review will be undertaken in January 2011 and will assess the financial savings that the Programme is now expected to achieve. It is the Department's view that the rationale behind the centralisation of the student finance service in England under the Customer First Programme remains valid.

6.4 To reduce the time taken to process applications, there will be more automation and less reliance on paper being set to the Company. For example:

- an electronic link with the Identity and Passport Service has been established to enable customers' identity (and eligibility for student finance) to be checked without the need for a passport to be sent to the Company;
- the Department and the Company are working with Her Majesty's Revenue and Customs to develop an electronic link to confirm household income which will eventually remove the need for paper evidence to be provided in the majority of cases; and
- in 2011 the Company will implement a mainly automated reassessment process for applications from returning students whose parents' earnings are above the upper income threshold and are therefore not entitled to means tested support, rather than waiting for the student to submit an application.

6.5 These measures should also help to reduce the number of telephone calls as the Company estimates that over 16% of calls in the 2010 calendar year were queries about progress in processing an application. The Company is also taking action further to reduce the need for telephone contact with applicants by:

- working with stakeholders to pass messages to students;
- analysing and revising correspondence to customers; and
- working with DirectGov to allow customers to reset their passwords online and making the on-line application process easier to use.

PAC CONCLUSION AND RECOMMENDATION 7

Governance arrangements to oversee the programme failed to identify or address emerging risks and problems.

The Programme Board lacked the requisite skills and experience, the three sub-programme boards failed to escalate awareness of emerging risks, and the Company's Board itself was consequently unaware of serious problems with the processing of applications. The Department and the Company should review whether the revised governance structure successfully addresses the weaknesses in the old Programme Board. They should ensure there is full and open communication between all tiers of management, including robust challenge and interrogation of management information and emerging risks.

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

7.2 The Department and the Company have taken steps to ensure that the appropriate skills are applied to the management of the student finance service in England. Once the problems in delivering the 2009/10 cycle were identified, resources were drawn in from across the Department including senior management. The Company recruited experienced interim directors for 2010/11 who were supported by external programme management expertise. The Department has also been supporting the Company in programme management whilst permanent specialists are recruited.

7.3 A Student Finance Policy and Delivery Programme has been established with revised governance arrangements to support full and open communication between the Company and the Department and between all tiers of management. The programme structure involves officials from the Department, the Company and HM Revenue and Customs (HMRC) at each level. Meetings are held regularly and ensure robust risk management including identification of risks, discussion on mitigating actions and appropriate challenge. The supporting Sub Programme for the 2011/12 academic year applications cycle is jointly led by the Department and the Company in order to maximise programme management expertise and challenge. Regular reviews take place between the Department's Programme Manager and Internal Audit, with a particular focus on high risk activities.

7.4 Working relationships are now much improved with the Programme Managers from the Department and the Company working together openly and collaboratively. This is supporting a shared understanding of risk and of the service to be delivered. Risks from the Department, Company and HMRC are also now jointly managed and a separate Risk Committee meets prior to the Sub Programme board and provides assurance to both the academic year 2011/12 Sub Programme and the over-arching Student Finance and Policy Delivery Programme. The Department agrees that this is an area that will need continued focus and the governance structure will be reviewed to ensure that it successfully addresses the weaknesses in the old Programme Board.

PAC CONCLUSION AND RECOMMENDATION 8

The Department failed to take prompt action to address serious problems with the Student Loans Company.

For example, despite the unacceptable delays in processing applications in time for the 2009/10 academic year, and the Hopkin Review's recommendations of December 2009, the Company's Chair and Chief Executive were not replaced until May 2010. The Committee is disappointed that the responsible officials in the Department appear not to have been held accountable for their failures. We believe improvements can only be secured when the civil service ensures proper accountability and responsibility for successes and failures. The Committee expects the Department to provide assurance that in future it will closely monitor the performance of the Company, and indeed that of other bodies within the Departmental group, and intervene quickly and decisively wherever the quality of service being provided to users falls short of the standards expected.

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

8.2 The Company's poor service in 2009/10 was reflected in the performance appraisals of the responsible officials in the Department. However, those officials were instrumental in helping the Company to improve its performance and the level of service in 2010/11. Following a much improved 2010/11 cycle, a fresh team of senior officials are taking responsibility for delivery of the student finance service.

8.3 In 2010 the Company's performance was a standing item on the agenda for the monthly Departmental Management Board. The Department established an Assurance Board to monitor performance and seek further management information where required. This was chaired by a Director-General and was attended by the Department's Finance Director-General and the Company's Chair and Chief Executive.

8.4 In 2011/12, the Assurance Board has been incorporated into the revised governance structure in the Department to ensure continued senior oversight of the Company's performance. A full review of the Department's sponsorship has been undertaken and its recommendations implemented. The Department's management board reviews the top risks of the Company monthly and other partner organisations and considers a full performance and risk report quarterly. This ensures that the Department is ready and able to intervene quickly and decisively where it needs to.

8.5 In addition, the Department's Permanent Secretary has written to all partner organisations to set out the relationship that the Department expects to have with its partner organisations, including roles, responsibilities and accountabilities. These will be set out in new governance arrangements to ensure the Department's relationships with its partner organisations are tightly and consistently defined, including through standard Framework Agreements and Financial Memoranda. These documents will set out how and when partner organisation autonomy is earned or withdrawn and the performance measures and risks that need to be monitored so that the Department focuses more acutely on the need to intervene if delivery to customers is threatened.

8.6 The Department's central sponsorship team has supported these new arrangements by developing induction for new sponsor teams to develop the skills to effectively manage relationships with their partner organisations including financial, performance and risk management. Guidance from the central Departments is circulated to all sponsors, who are also kept in touch with emerging best practice. Standard templates for governance documentation will be shared when they become available. A Sponsorship Advisory Board meets monthly to discuss how new systems and initiatives affect partner relationships. Knowledge seminars have also been run to help sponsors manage the effect of new financial controls and other initiatives and to discuss cross-cutting issues.

PAC CONCLUSION AND RECOMMENDATION 9

The failings in the design and execution of the Customer First Programme have been seen in other programmes sponsored by the Department and more widely across other government programmes which are delivered by arm's length bodies. These include weaknesses in management information, target setting, testing IT systems, piloting, risk management and departmental oversight. We are particularly concerned that in this case the OGC Gateway review process did not surface the problems.

The Treasury has responsibility for disseminating lessons across government and should write to the Committee to explain how it will draw the lessons from this report to wider attention. The Cabinet Office Efficiency and Reform Group should examine the operation of the OGC Gateway process in this case to see if improvements can be made to ensure it operates as intended and provides early notification of problems.

9.1 The Government agrees with the Committee's recommendation.

9.2 The Efficiency and Reform Group accepts that the "point-in-time" style of assurance review undertaken using the Gateway process can occasionally have limitations in the depth and breadth of view achieved. Gateways of the Customer First Programme appear to reflect this, though broader matters cited by the Committee have been part of continuing dialogue with the Department. The type of problem identified in relation to the Customer First Programme has occurred only rarely, but the Efficiency and Reform Group is now developing a more continuous form of assurance as part of its new Major Projects Authority role.

9.3 This will reinforce the need to have a stronger partnering relationship with Departments and major projects, through Gateways and other forms of assurance such as Starting Gate (specifically geared to policy to delivery phase transition). This will also ensure that greater identification of the types of issue that have arisen with the Customer First Programme takes place, and will enable corrective action to be taken, often at a much earlier stage, compared with the previous point-in-time approach.

9.4 The Treasury recognises the Committee's comments on drawing upon the lessons from this report to wider attention across Government. The Treasury always has an opportunity to remind Departments on the available guidance that they should be following, and will advise on any updates to that guidance.

Ninth Report

HM Treasury

Financing PFI projects in the credit crisis and the Treasury's response

Report Summary from the Committee

The 2008 credit crisis had an enormous impact on the Government's public infrastructure programme. Severe restrictions on bank lending at that time meant no sizeable Private Finance Initiative (PFI) contracts could be let. This affected the viability of a large number of infrastructure projects, including school and road building schemes, with a total investment value of over £13 billion.

The Treasury's response was to make project finance available by lending public money on the same terms as the banks. This approach reflected a fear that doing nothing would slow the flow of new PFI contracts, jeopardising the economic stimulus that would be generated by new infrastructure. Providing that stimulus was the Treasury's overarching priority.

However the Treasury did not put pressure on Government-supported banks to either make lending available or reduce the extent of increased financing costs. Overall, bank financing costs increased by 20-33% compared to bank charges before the credit crisis. This added £1 billion to the contract price, payable over 30 years, for the 35 projects financed in 2009. Furthermore Treasury did not require individual projects to submit detailed re-evaluations to assess whether contracts were still value for money.

The Treasury helped to reactivate the lending market for infrastructure projects by setting up its own Infrastructure Finance Unit in March 2009. This Unit was prepared to lend public money on the same terms as the banks, but lent to only one project – a large waste treatment and power generation project. The Committee recognises that this willingness to lend helped to re-establish market confidence.

But other alternatives to the high cost bank finance were not properly explored during the credit crisis. Greater use of Treasury loans, or direct grant funding, could have put pressure on banks to lower their charges. Neither did the Treasury adequately explore how lower cost finance sources such as life insurance and pension funds could be encouraged to invest more in PFI projects. The Treasury also could have made more use of funding from the European Investment Bank. The appropriate mix of financing sources for future project contracts, including public and private finance, is an issue that needs serious reconsideration.

The Committee accepts that the circumstances of the credit crisis, and in particular the need for economic stimulus, warranted the Government making lending available to projects that would otherwise have been threatened. Nevertheless, the Committee remains concerned about other aspects of the Treasury's response to the lack of PFI project finance.

The impact of the bank crisis on projects will continue to be felt over the next 30 years, as financing costs are locked in for the life of each project (both construction and operation phases). Higher financing costs will persist throughout the operating period, even though the project operation phase normally represents a lower risk for lenders.

The Treasury needs to be better informed about the active market in the sale of PFI shares. At present, unlike debt refinancing, the Treasury does not monitor the extent of gains to private investors from selling their shares. If gains are excessive, this may indicate an overpriced contract in the first place, raising concerns about value for money for taxpayers.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on the Treasury's response to financing PFI projects in the credit crisis.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Contracts let since the credit crisis were over-reliant on expensive bank finance.

The Treasury failed to develop a sufficiently wide mix of finance sources, including grant funding, for infrastructure projects. Some contracts obtained funding from the European Investment Bank (EIB), which lowers some financing costs, but departments made less use of this resource than did other European Union countries. The Treasury failed to use its Infrastructure Finance Unit, which only made one loan, to promote a downward trend in the cost of private debt finance. The Treasury should expand the range of financing sources and assess the potential benefits from making further Treasury loans whenever commercial lending rates are unusually high.

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

1.2 The Treasury agrees that there is a high cost associated with bank finance and that encouraging competition between sources of finance will help to reduce this cost. As such, the Treasury continues to encourage the consideration of a range of funding sources and would expect the final decision on each individual financing to be based on value for money. For example, the Treasury continues to work with the EIB to ensure that the UK benefits from the lower cost of finance it offers. Since 2005, the UK has received very similar levels of EIB funding to those provided to France.

1.3 The Infrastructure Finance Unit (TIFU) was introduced to maintain momentum in the PFI market, safeguarding investment in a range of important infrastructure projects and preventing significant delays. The Committee's report highlights that TIFU's willingness to lend helped to re-establish market confidence. This in turn, helped to reactivate the lending market for infrastructure projects, so successfully achieving its objectives. The policy framework set for TIFU required it to lend at market rates to ensure that its loans could be sold when normal market conditions return; and that it could only lend where an Authority requested support because of a funding gap. Within this framework, TIFU was unable to impose a loan on specific projects or to promote a downward trend in the cost of private debt.

PAC CONCLUSION AND RECOMMENDATION 2

The Government did not use its negotiating position with the banks to assist PFI lending.

In 2009, banks increased the cost of financing PFI projects by between 20% and 33%, adding £1 billion to the contract price over 30 years for the 35 projects financed. At the same time, the taxpayer was providing unprecedented support to the banking system. Yet the Treasury failed to set the banks lending targets for PFI projects. It should now identify ways in which better deals can be obtained, at least from the government-supported banks.

2.1 The Government disagrees with the Committee's conclusion.

2.2 It is true that the Government did not use its position as a shareholder to set lending targets for PFI projects. However, this was due to the Governments wider policy position.

2.3 The Government's shareholdings in banks are managed on a commercial and arm's length basis by UK Financial Investments Ltd (UKFI), a company which is wholly owned by the Government. UKFI's overarching objective is to protect and create value for the taxpayer as shareholder, with due regard to financial stability and competition. Operational decisions remain the responsibility of the banks and their independent boards. To impose wider, policy-driven constraints such as mandating the quantum of lending to certain project types could, among other things, threaten the fundamental objective of securing the stability of the financial system while minimising the cost to the taxpayer.

PAC CONCLUSION AND RECOMMENDATION 3

The Treasury did not require a fully evidenced evaluation of the impact of the increased financing costs on value for money at the time the contracts were let.

The Treasury did not have full information on project financing costs in the credit crisis. Value for money is often marginal for PFI projects. The Treasury should ensure it has full information on financing costs from departments, and should also intervene after any significant changes in costs to assess whether PFI deals should go ahead.

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

3.2 The Treasury agrees that value for money is of primary importance when undertaking a new project and that selecting the most appropriate delivery route is vital to ensure value for money is achieved. As such, all PFI projects have been subject to a strict Treasury approval and scrutiny process, which includes a value for money assessment.

3.3 Further, the Treasury does require that projects return for re-approval where they undergo a significant change. This re-approval requires the project to reassess key aspects of their business case, in line with any changes in market conditions, and so would highlight where there was a change in the VFM being attained. The Treasury does, however, recognise that the guidance in this area could be more robust and will reflect the Committee's recommendation in the revised PPP Value for Money Guidance that will be published in 2011.

PAC CONCLUSION AND RECOMMENDATION 4

Life insurance and pension funds are an important alternative source of finance, but have been reluctant to fund PFI projects for a number of reasons.

The Treasury should identify the regulatory and other impediments affecting their willingness to invest in PFI projects and take steps to address them.

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

4.2 The Treasury agrees that life insurance and a pension fund are important alternative sources of finance and acknowledges that their investment strategies will be affected by regulatory requirements under EU legislation. Aside from the intended regulatory objectives, the Treasury must therefore consider this legislation, not only with reference to the level of investment being made in PFIs, but also to the level of investment in non-PFIs, and any wider [macroeconomic] policy motivations.

PAC CONCLUSION AND RECOMMENDATION 5

PFI projects with low operating risks have locked in high financing costs for up to 30 years.

The high risk period is typically the construction period, but the high interest charge endures throughout the project life. The Treasury must consider unbundling service delivery from PFI contracts or find ways to lower the cost of financing the operating period.

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

5.2 The Treasury continues to review models for delivery of PPPs, and the appropriate nature of services to be included for each sector. The Treasury is open to new models of delivery of PPPs, as opposed to unbundling PFIs which would fundamentally impact the risk transfer.

5.3 The contractor is able to refinance the debt on a PFI contract when more favourable terms become available, which may be as a result of a changing risk profile or changes in market conditions. The standard form PFI contract allows the public sector to share in any gains from this refinancing, and the Treasury have provided guidance that increases this share in the standard form refinancing provisions. The latest version of these provisions also allow the public sector to request a refinancing where they believe the terms available in the market are better than those included within the existing agreement.

PAC CONCLUSION AND RECOMMENDATION 6

There is the opportunity for the Government to claw back up to £400 million if projects signed in 2009 are refinanced, but there is no certainty of this happening.

The Treasury should monitor market conditions and ensure that departments are ready to maximise these gains, as soon as conditions are favourable. In particular, the Treasury should identify groups of projects which could be refinanced at the same time. This portfolio approach would enhance the public sector bargaining position, reduce transaction costs and increase potential gains.

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

6.2 The Treasury agrees there is potential for future gains from refinancing PFI deals. However, the scope for these gains will be dependent on both the specifics of the individual deal and future market conditions.

6.3 Value for money will be the primary driver for any decision to call for a refinancing, and will also be key when considering whether a portfolio refinancing approach is appropriate. The Treasury's refinancing taskforce will continue to monitor the market, to provide advice and to promote good value for money refinancing. The refinancing taskforce will also look for opportunities to achieve value for money through a portfolio refinancing approach. However, it should not be assumed that a portfolio refinancing approach would be appropriate in every circumstance and the specific complexities involved with the approach should be considered. The refinancing taskforce will act on this recommendation and hold discussions to determine whether there are any groups of projects that may be suitable for a portfolio refinancing.

PAC CONCLUSION AND RECOMMENDATION 7

Government also needs to get good value from equity finance. There is little transparency, however, about investor returns when selling shares - making the value for money of using equity less clear.

There has been an active market in selling PFI shares, with a large number of sales and a consolidation of ownership. This has led to portfolio gains that the Treasury has failed to monitor adequately. The Treasury should review whether investors are systematically realising gains on share sales, as well as refinancing debt.

7.1 The Government partially agrees with the Committee's conclusion. Historically, Government policy has been that the public sector should not take a share of gains made from the sale of equity. Change of equity ownership is outside the PFI project and does not affect the public sector's rights or liabilities in that contract. Changes in equity ownership also allow for a recycling of equity to be used in new projects.

7.2 The Treasury does monitor the equity owners in all PFI contracts, and this information is available on the Treasury's website[3]. However, there has been a significant secondary equity market and there could be enhanced monitoring of sales of equity in this market and the gains being made by equity holders from these sales. The Treasury will, therefore, seek more actively to collect equity ownership information and to track where equity is being sold. The Treasury will also request information relating to the gains being made by equity holders upon the sale of equity.

[3] http://www.hm-treasury.gov.uk/ppp_pfi_stats.htm

Tenth Report

Ministry of Defence (MOD)

Managing the defence budget and estate

Report Summary from the Committee

The Ministry of Defence (the Department) is responsible for over £42 billion of annual expenditure. While it has managed to stay within budget each year, it has failed to exercise the robust financial management necessary to control its resources effectively in the long term. It has also failed to match its future plans to a realistic assessment of the resources available. There is a shortfall in planned expenditure against likely funding of up to £36 billion over the next ten years. The Strategic Defence and Security Review did not explicitly set out how this long-standing gap between defence spending and funding would be resolved. It is imperative that the Department should now do so.

The Department's consistent pattern of planned overspend demonstrates serious organisational failings and a dangerous culture of optimism. The underlying reasons for the systemic failings in budgetary controls are the tendency towards financial over-commitment, weaknesses in the financial planning processes and a division in responsibilities and accountability for financial stewardship. The failure to integrate financial planning and control into decision making means that cuts in programmes and delays in expenditure on defence equipment are made very late in the day, leading to inefficiency, poor value for money and longer term additional costs.

The Accounting Officer has not discharged his responsibility to ensure that planned and committed expenditure across the defence budget represents value for money. For example, in 2008 the Department signed a contract to buy new aircraft carriers which was unaffordable, without having identified compensating savings. Because these savings were not subsequently found, it was necessary within a year to delay the project, resulting in an enormous cost increase and poor value for money.

The Committee was astonished to learn that the Department has not had an explicit financial strategy linking its funding to its priorities. Without a clear strategy, it is difficult to resolve funding conflicts or to reallocate resources when priorities change. The Department does not have the tools to help it to revisit assumptions underlying its plans, ensure plans are realistic and make provision for unexpected events and managing risk.

Furthermore, the Department does not prioritise individual elements of the defence programme against its strategic priorities. When financial savings have to be found there is then no clear basis for determining where cuts should be made. So in-year decisions on budget cuts are made on an ad hoc basis, without proper consideration of relevant priorities and needs.

The Department has made some inroads into improving its financial management; however, it has yet to give financial management the serious consideration that it deserves. The Department has now appointed a professionally qualified Finance Director, and has undertaken to provide him with the full authority he needs to do the job.

The defence estate covers 1.5% of the UK land mass, is valued at over £20 billion, and costs an estimated £2.9 billion per year to run. The Department has reduced the amount of built estate in the UK by 4.3% between 1998 and 2008, and achieved £3.4billion in sale receipts. However, staffing over the same period was cut by 13%, so more of the estate could and should have been released.

The Department does not assess its estate against clear objective criteria, such as the cost of running a site or the intensity of usage. The bias always appears to lie with keeping a site rather than disposing of it.

The Department does not collect centrally the information and data that would allow it to manage its estate in an effective way. It appears to lack urgency in its plans to improve its information base.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on managing the defence budget and estate.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Department's poor financial management has led to a severe funding shortfall of up to £36 billion in defence spending over the next ten years.

Weaknesses in financial planning and management have resulted in poor value for money from delays, changes to project specifications and costly contract renegotiations. There is a culture of over-optimism about the ability to meet financial commitments and senior officials do not challenge unaffordable decisions about equipment procurement. All of these factors have contributed to serious budgetary pressures year after year, with consequent budget cuts being made mid-year in an unsystematic and ad hoc way, leading to greater costs in the longer term. The Committee believes this situation is entirely unacceptable. The Department needs to take immediate steps to sort out its financial management.

1.1 The Government agrees with the Committee's recommendation.

1.2 The Government agrees that more must be done to improve financial planning. The Defence Reform Unit's review, launched by the Defence Secretary last year, will therefore include financial management and acquisition reform within its scope. 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.

1.3 The costs of the Defence programme over the long-term will of course also depend on future cost trends, including in pay, pensions, fuel, foreign exchange and equipment inflation.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has failed to develop a financial strategy identifying core spending priorities.

This should have been a fundamental part of the Department's business planning processes. The Department's inability to prioritise individual elements of the defence programme on a strategic basis means it cannot easily identify where in-year budget cuts should be made. As a matter of urgency, the Finance Director should lead the creation of a realistic financial strategy which identifies and reviews spending priorities on an annual basis.

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

2.2. Successive external capability reviews recommended that the Department needed a corporate strategy. The first Strategy for Defence, published in October 2009, provided better linkage between policy, programmes, plans and available resources. The Strategy provided clear guidance on the priorities for Defence backed up by detailed guidance for planning and finance staff. Following the SDSR, the Department will produce a new Strategy for Defence, underpinned by the more detailed Defence Strategic Direction document. This will look out from the present day to around 20 years hence and provide detailed direction to the Department on priorities for resource allocation.

2.3. This direction will shape the Department's annual budgeting exercise (termed the Planning Round, which sets the Defence Budget over the next ten years). Interim strategic direction has already been produced to inform Planning Round 2011.

PAC CONCLUSION AND RECOMMENDATION 3

The Department's senior officials did not seek ministerial directions to proceed when they had major concerns about decisions threatening the value for money of defence spending.

In response to a recognition that the overall defence programme was unaffordable, a series of decisions to delay and change the scope of defence projects were made which offered poor value for money. The Accounting Officer did not, however, consider it appropriate to seek a direction from Ministers to proceed on any of these individual decisions or in respect of their cumulative effect. Whilst respecting his view, we recommend that HM Treasury and the Cabinet Office revisit the issue on seeking ministerial directions and strongly reiterate to Accounting Officers the importance of seeking such directions in appropriate circumstances.

3.1 The Government agrees with the Committee's conclusion and recommendation, although it recognises that it must remain the duty of each Accounting Officer to decide, in the context of the programme, and the Department's other obligations, whether to seek a direction in any particular case.

3.2. The Government agrees that Accounting Officers need to consider seriously whether major programmes with long term spending implications are affordable, when deciding whether they are in accord with their responsibilities. As Sir Nicholas Macpherson told the Committee on 19 January 2011, the Treasury plans to reissue the standard guidance *Managing Public Money (MPM)* later this year and will ensure that this issue is given greater prominence in the chapter on Accounting Officers' responsibilities.

PAC CONCLUSION AND RECOMMENDATION 4

The Finance Director's role has been undermined by giving responsibility for long-term financial planning to the Strategy Director.

The Committee welcomes the Department's commitment to give the Finance Director the full range of powers he needs to perform his job effectively. The Committee urges the Department to make sure the Finance Director has immediate responsibility for all financial matters, including strategic financial planning.

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

4.2. The intention associated in giving responsibility for long-term financial planning to the Strategy Director was to ensure stronger linkages between Departmental strategic planning and resources, particularly in the build-up to, and creation of, the SDSR. Currently, the responsibility for long-term strategic financial planning is shared by both the Strategy and Finance Director who are supported by a shared core staff. The Department will move responsibility for financial planning to the Finance Director from April 2011. The Finance Director is already a member of the Defence Board.

4.3. The Defence Reform work which Lord Levene is leading will consider the roles and responsibilities of the Finance Director and other members of the top team as part of its review of the top structure of Defence and make recommendations as appropriate.

PAC CONCLUSION AND RECOMMENDATION 5

The recent Strategic Defence and Security Review was an opportunity to set out how defence spending could be brought into line with available funding.

However, in the absence of an explicit statement of how the Department will balance its budgets in the future, it is even more imperative that the Department gets a firm grip on its strategic financial management.

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

5.2. The Department accepts the lessons of recent years regarding strategic financial management. The publication of the Strategy for Defence in October 2009 was the first step to ensure coherence between strategic and financial planning across the Department. A range of other improvements have been or are being undertaken to improve strategic financial management.

5.3. This includes refreshing the Strategy for Defence in light of the SDSR and providing detailed direction to planning and finance staff through the more detailed Defence Strategic Direction document, including priorities for resource allocation and improved force planning. The Department will be implementing the long-term vision set out in these documents through the Defence Plan, with progress monitored by new performance management and governance arrangements covering all aspects of Departmental business.

5.4. The Department is producing sub-strategies, covering key areas of the Department, which will set out a long-term, resource-aware vision aligned with that set out in the Defence Strategic Direction, as well as a near-term plan showing how that vision will be achieved, aligned to the Defence Plan. There will be improvements and additional investment in how the Department undertakes cost forecasting, particularly for its largest and most complex equipment projects. The Department is making a commitment to regularly audit and publish, every year, an assessment of how affordable the equipment procurement and support programme is over the next ten years. There will be quarterly reviews, by the Secretary of State, on the progress and affordability of major equipment projects and stronger controls over how projects enter the core Departmental Programme.

PAC CONCLUSION AND RECOMMENDATION 6

The Department's decision making about its estate has been driven almost entirely by a loose judgement on operational need, with a bias toward keeping sites rather than releasing them.

The Department must develop a more robust decision making process, which balances perceived operational need with the cost of holding and running major assets. It should change the way it takes decisions on the future of the estate, so that it can challenge more robustly whether the use of the estate is cost effective and efficient in the light of changing operational needs and reductions in personnel numbers.

6.1 The Government agrees with the Committee's recommendation.

6.2. Following SDSR, the Department is aware of the need to operate on a more centralised basis. It is currently considering how best to do this and the work will be taken forward as part of the Defence Reform Unit's Review, led by Lord Levene.

PAC CONCLUSION AND RECOMMENDATION 7

The Department has not defined high level criteria or metrics to judge whether it is using its estate efficiently.

It has not set any high level targets for estate size and cost, nor has it developed appropriate indicators of its efficiency. The Department should define the size and type of estate needed to fulfil the tasks required of it. Within six months, it should develop a small suite of measures to assess whether it is successfully reducing the size and cost of its estate, in line with changes to the size of the armed forces and equipment fleets. Whilst it should have regard to the views expressed by operational staff, it needs to establish clear, objective, and value for money criteria in determining the future of its estate.

7.1 The Government agrees with the Committees recommendation.

7.2. The Department will improve strategic management of the estate / infrastructure through the creation of a Strategic Asset-management and Programming Team. The Department is in the process of developing an effective Infrastructure Management Information Study. Work has already commenced, building upon previous work to establish a coherent picture of the condition of the totality of the estate. This will require much better information than currently exists covering the utilization of assets, the value of our property portfolio and its sustainability characteristics.

7.3 An Asset Management Information Study will identify a clear set of targets and objectives to inform the effective management of Defence Infrastructure Assets and in doing so drive value for money and cultural change across the estate.

7.4 The Department will introduce a suite of measures (which includes appropriate indicators of its efficiency) within the timescales required by the Committee. The Asset Management Information Study already commissioned by the Department to look into the development of a systematic approach to the management of the Defence Infrastructure Asset Portfolio will identify a set of high level metrics which detail the type, use and utilisation of infrastructure assets and identify the cost benefit of retaining infrastructure assets and take into account SDSR follow-up work.

PAC CONCLUSION AND RECOMMENDATION 8

The Department does not have good central data to inform decision making about its estate.

The Department recognises it needs to collect better information but has not set out a timeline to achieve this, and previous attempts to develop data systems have failed. The Committee recommends that the Department should immediately identify the key data it needs to manage its estate assets effectively, including data on relative operational importance, potential sale value, running cost, utilisation and condition. The Department should have systems in place to collect this data within 12 months, and certainly well before signing its next generation of major estates contracts. The Committee expects the Department to report back on the progress it has made within six months.

8.1 The Government agrees with the Committees recommendation.

8.2 Whilst good condition data on some 60,000 Built Technical Assets and over 40,000 Service homes of the estate is available, this needs to be expanded for the remainder of the estate and centralised. Work to improve the performance management systems had already commenced and utilisation (and other similar data) is being taken forward under the Asset Management Information Study (AMIS).

8.3 In taking forward the AMIS over the next twelve months, the Department will develop a Strategic Asset Information System, including: defining a future estate strategic information model and creating specifications for future information providers; and establishing the working practices, responsibilities, interfaces and governance to support efficient information reporting, including NGEC. This will meet the Committee's requirements in terms of timescale.

8.4 The Department is committed to putting in place an improved suite of asset management measures and undertakes to report back to the Committee on its progress at the six month point.

Eleventh Report

Department for Work and Pensions (DWP)

The Community Care Grant

Report Summary from the Committee

The Community Care Grant provides an important safety net for those most in need by helping them to obtain essential items, such as beds or cookers. The scheme has been frozen in cash terms since 2006-07, however, and the Department for Work and Pensions (the Department) expects future funding to remain at £141 million a year.

The way the scheme operates is both inefficient and unfair: awareness about the Grant is patchy; it is unevenly distributed across the country and across different groups of people. Errors are too common, with a large proportion of decisions challenged and over-turned; and administrative costs are unacceptably high. The Department has played a passive role in administering the scheme and the Committee do not accept the Department's argument that it has been constrained by the legal framework from making improvements.

The Committee was pleased that, in preparing for our hearing, the Chief Executive of Jobcentre Plus (the Agency) outlined some important changes to the way the scheme is currently administered, although the Committee was disappointed that he failed to notify it of the plans to devolve responsibility for administration to local authorities. The reforms provide an opportunity to address many of our concerns with the existing arrangements, but responsibility should only be handed to local authorities if there is a clear business case to do so, and if local authorities are properly resourced to do the job. Devolution does not absolve the Department of its responsibility to ensure greater fairness in the scheme.

Under existing arrangements, applying for and awarding a grant is essentially a paper-based exercise and the quality of decision making in Jobcentre Plus is unsatisfactory. Around half of the appeals considered by the Independent Review Service were found to contain significant errors because decision makers were making poor judgements based on incomplete information and without challenging applicants' statements. At 12% of total Grant funds distributed, administrative error is too high. The risk of fraud and error is further increased by a lack of basic checks and balances: customers are not required to keep receipts and no spot checks are carried out by the Department. Moreover, at £19 million in 2008-09 and 13% of total funds distributed, administration costs are unacceptably high, especially for a scheme intended to be light touch and discretionary.

The Committee also has concerns about the fairness of the scheme. Funding is not fairly distributed across the country, with a clear imbalance between funding in each district and potential demand and need. Thus, an applicant's chances of receiving a grant vary according to where they live. The Committee considers the Department should do more to forecast demand based on established patterns and trends. Regional funding allocations are decided by Ministers but it is up to officials to provide clear advice about changes needed to improve the fairness of the scheme. Furthermore, the Committee raised concerns five years ago that both pensioners and black and ethnic minority groups appeared to be under-represented in terms of benefiting from the scheme, yet the Department still does not know whether the distribution of funds between people is fair.

Finally, the Committee considers there is scope to help more people by making the purchasing arrangements more efficient. Agreeing central contracts for frequently requested items could generate financial savings of around £14 million a year for the scheme and provide a guarantee of quality to applicants. Such an approach can be used even if responsibility for decision making transfers to local authorities. Technological advances, such as the use of store cards, could also make purchasing easier for customers while preserving their dignity.

The Committee took evidence on the basis of report by the Comptroller and Auditor General from witnesses from the Independent Review Service, and from the Department for Work and Pensions and Jobcentre Plus.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Community Care Grant is an important source of emergency financial support for vulnerable people, but we have significant concerns about the fairness and efficiency of the scheme's administration.

The scheme awards £141 million in grants per year, but funding has been frozen since 2006-07 and is likely to remain frozen for the rest of the current Spending Review period. Tight funding makes it even more imperative that the scheme is fair and reaches as many of the people in the greatest need as possible. There are clear problems with the way the scheme is currently managed, however, which result in an unfair allocation of funds, poor controls over money awarded, and high management costs.

Subsequent to our hearing the Government's White Paper on welfare reform announced plans to devolve the administration of the scheme to local authorities. The proposed reforms provide an opportunity to address many of our concerns, but the Committee recommends that the Department quantifies the costs and benefits of transferring responsibility to local authorities so that it can be confident it leads to better value for money.

The Committee also needs assurances that in the current financial climate local authorities will be properly resourced to do the job. The Committee would expect an update from the Department on how any revised arrangements will replace the current system and over what timeframe. In the meantime, the onus is on the Department and Jobcentre Plus to make real and urgent efforts to tackle the serious problems with the existing scheme arrangements.

1.1 The Government agrees with the recommendation.

1.2 The primary purpose of Community Care Grants (CCGs) is to help vulnerable people, in receipt of certain income related benefits, to resettle and remain live as independent a life as possible in the community and to ease exceptional pressure on families. In 2009-10 the Agency paid out 99.8% of its funding to its customers, an under-spend of £0.3 million against a budget of £141 million. The Department has previously given a commitment to review the current allocation methodology to consider how and whether funding could be is distributed more equitably around the country and this review will be conducted before the start of the next financial year.

1.3 In September 2010 the Agency responded to the NAO's challenge in their report to *"…increase the value achieved from Grant spend in order to fund further high priority applications.."* by amending guidance to instruct Decision Makers to award the lowest local price for items, unless special features or adaptations are required by individual customers. This has already generated better value for money allowing some budget areas to extend payments to medium priority cases as well as high.

1.4 As part of the Government's plans for reform and localisation of elements of the Social Fund, a new scheme will be provided by local Authorities in England to replace CCGs. The devolved administrations will determine the most appropriate arrangements for Scotland and Wales. This change will involve an appropriate budgetary transfer.

PAC CONCLUSION AND RECOMMENDATION 2

The distribution of funds between regions is unfair and means that the chances of getting a grant depend in part on where the applicant lives.

Budgets are set on a historic basis and do not reflect current need in each region. This means some regions are less able than others to meet legitimate demand for grants.. In 2009-10, the Springburn district office was able to meet 37.1% of legitimate demand whereas Essex was only able to meet 26.3% of demand. This Committee raised similar concerns about regional inequalities in 2005, but the Department has not managed to persuade Ministers to change the system for deciding funding allocations. We remain extremely dissatisfied with the existing approach. The Committee recommends that the Department presents clear and well-evidenced proposals to Ministers to reform the funding distribution formula so that budgets are allocated more fairly across the country.

2.1 The Government partially agrees with the recommendation.

2.2 The Department is reviewing the funding allocation to establish whether there is a more equitable way of distributing funds between regions.

PAC CONCLUSION AND RECOMMENDATION 3

The Agency does not forecast demand for the Grant and there is only minor adjustment of regional budgets in year to redistribute funds to high priority cases.

The Department concedes more could be done to even out regional funding inequalities by moving money around the country. The Agency should immediately start to prepare forecast of future demand for the Grant in each regions, update these regularly, and use these forecast to recommend changes to the budget allocations in year so that regions can meet expected need on a more equitable basis.

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

3.2 More could be done to even out regional funding inequalities at the beginning of each financial year. The Department is considering a number of options, which will be presented to Ministers before the start of the next financial year. As part of that process, the Department will consider options for forecasting demand locally and nationally.

3.3 The Department will also examine whether changes to budgets in year are feasible, but the review of the current methodology will ensure a more equitable distribution reducing the requirement for any in year adjustments.

PAC CONCLUSION AND RECOMMENDATION 4

Awareness of the scheme is low among key target groups such as pensioners and ethnic minorities, and the Department does not know whether grants are going to those most in need.

The Agency does not routinely monitor levels of awareness of the scheme among vulnerable people to determine if money is being targeted effectively. A trial in Gateshead found that only 14% of pensioners were aware of the Grant, while the take-up rate among pensioners (9% of funds awarded) is lower than for other groups. This scheme exists to ensure that vulnerable people can remain in the community, so pensioners should be a target group. The Agency should regularly monitor awareness and take-up levels across the population and work to raise awareness amongst under-represented groups.

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

4.2 The fact that CCGs are only available to people in receipt of a qualifying benefit means that they are only paid to the most vulnerable in society. Under the current scheme, every application has to be considered on its merits, regardless of client group or age. If an application satisfies the qualifying criteria, has sufficient priority and budgetary constraints allow, it will be paid. The Department recognises that the design of the current scheme could favour those who are more able, or who have structured support such as those leaving prison or who are in touch with a social worker. These are more likely to be people of working-age.

4.3 The Department agrees that the percentage share of CCGs paid to pensioners is less than that spent on working age people (2009-10 figures show pensioners took 9% of the CCG funding, compared to the unemployed who took 15.1%). However, this reflects the fact that in many cases pensioners lead a more settled life than other Community Care Grant recipients. This is because they are less likely to be leaving care, have children to support or be part of a family facing exceptional pressures.

4.4 The Department has already taken steps to raise pensioner awareness via the Pensioners Guide, Direct.gov and via local service teams. The Agency is currently working with external organisations and customer representative groups to research levels of customer (including pensioner) awareness of the CCG scheme.

PAC CONCLUSION AND RECOMMENDATION 5

Applicants rejected for grants are not consistently referred to other available sources of support.

The Agency could not tell us whether people failing to get a grant are made aware of other sources of financial help to which they may be entitled, such as Budgeting Loans. The Agency's procedures should be modified so that vulnerable people are routinely referred to alternative sources of support if they are deemed ineligible for Community Care Grant.

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

5.2 Customers who are not awarded a CCG are currently automatically considered by the Agency for a Crisis Loan (for items) and vice versa. Budgeting loans are not payable to people who have been in receipt of a qualifying benefit for less than 26 weeks and therefore the Agency does not automatically consider a Budgeting Loan where a CCG is refused.

5.2 The Agency does not automatically refer people to other schemes, such as the Family Fund (available only to families with disabled children under the age of 16). Instead, where customers ask about other means of support or sources of help they are signposted to a relevant organisation.

PAC CONCLUSION AND RECOMMENDATION 6

The Agency has failed to institute basic measures, such as physical spot checks on claims, to prevent customer fraud.

Without any spot checks, the Agency does not know whether the money it awards is used by those with the greatest need to buy the items intended. Grant recipients are not required to provide receipts for goods purchased. The Agency has now introduced a pilot exercise of home visits to claimants before awards are made to check on their eligibility and will change the application form to ask them to keep receipts. The Committee welcomes these initial steps, but proper action is needed to correct current weaknesses. The Committee believes that there is a strong case for introducing a nationwide programme of spot checks as soon as possible, and recommends that the Agency decides and reports to the Committee by the end of the year on whether it intends to implement such checks nationally.

6.1 The Government agrees with the Committee's conclusion.

6.2 Physical spot checks on a percentage of applications could be undertaken to prevent customer abuse. In response to this, the Agency set up a pilot exercise to visit and check applications in advance of payment. The pilot commenced 25 October 2010 in the East Midlands region and will run to 11 February 2011. The pilot study will examine applications where a provisional decision to make an award has been made. Risk criteria will be applied to these applications and a selection of customers will then be visited. Evaluation of the pilot will take place between February and April 2011. Subject to the outcome of that evaluation and cost effectiveness, the Department will consider whether this approach should be rolled out nationally.

6.3 In addition, Ministers have agreed that from June 2011, Secretary of State Direction 7 will be amended. This Direction prevents repeat applications for the same item being awarded for both the CCG and the Crisis Loan schemes. The current time limit is 28 days, which will be extended to 52 weeks, where applications are made within 28 days of a previous one for the same expenses. This time limit will be extended to 52 weeks (subject to the normal rule, i.e. where there is a relevant change of circumstances a repeat application for the same need may be considered). This change also supports better targeting of the limited funds that are available. It should be noted however that as the CCG scheme is already oversubscribed, therefore any potential savings will be absorbed by the level of unmet demand that always exists within the scheme.

6.4 In addition, the CCG applications form (SF300), including the internet version, has been amended to include:

- a statement notifying the customer that receipts may be requested - this message has also been reinforced throughout the form at the appropriate points; and
- a declaration from the customer that they must purchase the goods requested if the application is approved.

6.5 Procedural guidance is currently being drafted in support of the above changes to the form. It is now available.

PAC CONCLUSION AND RECOMMENDATION 7

The effectiveness of the scheme is reduced by high levels of administrative error and poor qualify decision making.

The Department's Social Fund accounts have been repeatedly qualified because of high error levels, and £17.1 million of this is attributable to the Community Care Grant arising from missing case files and incomplete documentation.

In addition, the Agency's administrative "Decision Makers" frequently fail to assess and challenge applications properly, such as by verifying information by telephone or in person. As a result, around 50% of appeals against decisions succeed.

The Agency has proposed better training, quality assurance and record keeping measures. However, given the proposals to transfer responsibility to local authorities we need assurances that the training and quality measures will not now be cut. Moreover, the problems we highlight are long-standing ones and we need further assurances on the adequacy of the changes being made. The Agency's senior management must take greater responsibility for reducing error and improving decision making, and as part of this, outline to us the full range of measures they propose to improve performance in this area.

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

7.2 The error rate figure quoted is based on findings from the 2008-09 audit by the NAO, which examined 100 CCG cases. The NAO concluded that the amount of actual error and deemed error in the CCG scheme was £17.1 million. The breakdown between the different types of error was as follows:

- actual error -1% (£1.4 million) - (i.e. Secretary of State Directions have not been followed and the decision is incorrect); and

- deemed error - 11% (£15.7 million) - (i.e. where insufficient documentation has been recorded to show that Directions have been correctly applied, or where the case paper is missing).

7.3 This analysis bears out an actual error rate of 1%, rather than 11%.

7.4 The Agency contests the view that applications are not properly challenged. In fact 59% of all decisions made in 2009-10 were initially refused. Of these (646,000), 4.6% (29,570) were referred to the Independent Review Service (IRS) for an independent decision. The IRS overturned 46% (13,190) of the cases they reviewed. This is 2% of the total decisions made by the Agency.

7.5 The Agency has commissioned an end to end LEAN review of the business process which will commence in January 2011. The primary aim of the review is to ensure that the administration of the scheme is cost effective, but it will also to ensure that the current processes are robust.

7.6 Under the current plans for localisation of the provision currently met by the CCG scheme, the Department will no longer be responsible for the arrangement of training. This responsibility will fall to the new administering organisation.

PAC CONCLUSION AND RECOMMENDATION 8

The £19 million cost of administering the Grant is too high.

Administration costs are equivalent to 13% of the £141 million paid out in grants. This seems disproportionately high for what the Department claims is a light touch administration scheme. The Agency has undertaken to review the end to end process for administering grants in January 2011 to identify where costs could be reduced. The Committee expects the Agency to report back on the outcome of that review, and how it will implement potential cost savings, before the start of the 2011-12 financial year.

8.1 The Government agrees with the Committee's recommendation.

8.2 The Department believes that the costs of administering the scheme are reasonable. The Agency adopts a continuous improvement approach to identify further efficiencies and has commissioned an end to end (LEAN) review of the current processes. A report will be produced and the outcome of any potential cost savings shared with Minister in Spring 2011.

8.3 The Agency has already worked to reduce the cost of document retrieval by introducing scanning. This also supports the work of the Independent Review Service and speeds up some decision making.

PAC CONCLUSION AND RECOMMENDATION 9

The Agency has not fully explored options which could make Grant funds go further such as providing goods to customers directly or replacing cash awards with cards.

Introducing store cards or central contracts to supply frequently requested items, such as beds and refrigerators, could reduce fraud and generates significant financial savings: an estimated £14 million a year could be saved by negotiating contracts for goods centrally and thus gaining bulk discounts from suppliers. The Agency has said it will work with the Family Fund to learn from their use of payment cards. The Agency should investigate other promising initiatives and their potential for cost savings.

9.1 The Government agrees with the Committee's recommendation.

9.2 The proposal to abolish and replace the CCG scheme with new provision is currently being developed in discussion with other Government Departments, local authorities and the devolved administrations. If the legislation is passed and localisation of this new provision takes place, the Department will no longer have the responsibility for delivering this support – local authorities (and any other providers as determined by the devolved administrations) will assume this responsibility.

Twelfth Report

Cabinet Office

Central Government's use of consultants and interims

Report Summary from the Committee

Spending on consultants and interims by central Government Departments amounted to over £1 billion in 2009-10. The Committee does not accept the view expressed by the Cabinet Office that it is impossible to assess the value for money of consultancy work, and the Committee is surprised that there is such a poor central understanding of spending on consultancy. The Committee recognises that there are legitimate reasons to buy in specialist skills where government does not have them internally, but the Committee is concerned that some Departments have failed to grow the skills they require, leaving them heavily reliant on consultants. Relying on consultants for commonly required skills is expensive and repeated use suggests poor value for money.

In May 2010, the coalition Government announced immediate plans to save £1.1 billion on discretionary spending. In the first 6 months of 2010-11, the Cabinet Office reports that consultancy spending has fallen by 46% since 2009-10 due in part to new measures it has introduced to control the use of consultants, but due in the main to Government stopping certain programmes. The Committee is concerned that this 'stop-go' approach to using consultants is not sustainable and does not deliver value for money.

It is unclear why some Departments use consultants a great deal more than others: for every £100 spent on staff costs, the Department for Transport spends £70 on consultants, a very high proportion when compared to HMRC which spends only £2. Central Government has no oversight of how arms length bodies use consultants, nor does it have any up to date data on their spending. The NAO estimates that arms length bodies spent at least £700 million on consultancy in 2009-10.

The Cabinet Office has not done enough to grow Government's core skills despite repeated recommendations by this Committee in its reports published in 2002 and 2007, and the Cabinet Office's own report in 1994. The Committee recognises it takes time to grow such skills but there should have been more progress after sixteen years. Indeed the Committee is most concerned that IT and programme and project management consultancy has increased from 50% to 60% of all consultancy spend since 2006-07. Where skills do exist within Government, Departments lack the knowledge and flexibility to deploy people to where they are needed. Pressure to cut training budgets may affect Departments' ability to develop the internal skills they require, reflecting a short-term financial cut leading to longer term unnecessary expenditure.

Departments do not control and manage their spending on consultants. The price that Departments pay for consultants is often based simply on time spent on a project, rather than being fixed in advance or related to the achievement of specific objectives. Departments frequently fail to adequately define the service required or negotiate the most advantageous contractual terms, and therefore cannot assess the performance of consultants or whether the work done was of benefit.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on central Government's use of consultants, examining spending and the application of good practice to the use of consultants and interims.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Central Government Departments spend over £1 billion a year on consultants and interims, yet have a poor understanding of what value they obtain from this spending.

The Cabinet Office should require all Departments to record their spending on consultants and interims on a consistent basis and routinely measure the benefits delivered against the objectives set, so that a government-wide view of the value provided by consultants and interims can be established.

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

1.2 Steps were implemented in May 2010 to substantially improve the quality of data on consultancy and challenge it robustly. All consultancy spend with a contract value of £20,000 or more needs to be approved by a Departmental Minister or, in the case of Arms Length Bodies (ALBs), by Permanent Secretaries. In addition all consultancy contracts must be reviewed every three months with joint Ministerial approval from the Minister for the Cabinet Office and the Chief Secretary to the Treasury required for any proposals to extend a consultancy contract beyond nine months.

1.3 These measures, introduced by the Efficiency & Reform Group (ERG) in the Cabinet Office have been underpinned by significant improvements in the quality of management information. Since their introduction spend on consultancy across Whitehall has fallen by 46% compared to the same period last year.

1.4 Considerable work is also being done to ensure that improvements in the value gained from consultants locked in for the long term. This includes significant work to ensure that spend on professional services is centrally procured through a more efficient and transparent route; consistently applying demand management controls; enabling smaller and larger firms to compete for business at minimal cost; and ensuring that Government makes the most of its buying power. Critically, steps were also taken in May 2010 to ensure that other forms of labour were challenged robustly, ensuring that savings in one area do not lead to cost pressures elsewhere.

1.5 The Government does not believe it would be valuable to attempt to use a single methodology for assessing the value provided by consultants. The vast range of work undertaken makes it awkward to apply an across-the-board approach. Measuring the value of advisory consultancy in monetary terms on a robust and consistent basis is widely acknowledged to be challenging. Instead the Government has focused on setting up a system that focuses scrutiny robustly on each individual case. Not only will the steps to control spending ensure that the value of each case is challenged, but the tighter approach to procurement will ensure that Post Assignment Reviews are conducted, looking at the benefits delivered against the original business case.

PAC CONCLUSION AND RECOMMENDATION 2

It is unacceptable that some Departments are so dependent on consultants.

There are legitimate reasons for differences between departments but they and the Cabinet Office both need a better understanding of what level of use is justified by the nature of the Department's business, the degree of change underway and the department's progress in developing the in-house skills it needs. The Cabinet Office should require each Department to prepare an annual assessment of need to support its proposed consultancy budget and should evaluate spending against this plan at year end.

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

2.2 The measures already described, which were introduced in May 2010, are designed to ensure that Departments do not have a high dependency on consultants and that other options, particularly the use of civil servants, are explored before consultants are engaged. The measures have already significantly reduced the use of consultants by Departments.

2.3 It is good practice for Departments to consider their future consultancy needs as part of their annual business planning process and ERG will be recommending this approach to Departments, as part of the 2011 – 2012 controls and delegated authority process. The Government believes it is for Departments to centrally evaluate spending against plans. In addition, the measures introduced in May 2010 ensure demonstrable and rigorous scrutiny of consultancy use to ensure it is aligned with Departmental priorities. These measures, when coupled with greater centralisation of the procurement of consultants, will ensure better transparency of how Government uses consultants, including the associated cost and the types of consultancy work that has taken place over the course of each financial year. This information will inform how Government should further grow in-house skills to reduce reliance on consultants.

PAC CONCLUSION AND RECOMMENDATION 3

There appears to be a 'stop-go' approach to using consultants that is not sustainable and does not deliver value for money.

The Cabinet Office anticipates a resurgence in consultancy spending as new policies are developed and implemented. The Cabinet Office should require each Department to report what consultancy spending has been cut in 2010-11 and why, so that it understands the impact of recent reductions.

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

3.2 The Government disagrees that it has introduced a ‘stop-go’ approach to using consultants. As raised at the hearing, demand for consultants fluctuates according to business need and looking ahead it is possible for expenditure on consultancy to increase as a result of new policies moving into their implementation phase. The measures already in place ensure that consultancy expenditure is kept under the necessary level of control, spend is in balance with business need and that we use consultants only in cases of operational necessity. This combined with the move to a centralised approach to the procurement of consultants will ensure continued control on demand and drive greater value for money through better procurement. The Government’s aim is to always consider using civil servants before resorting to external resources and measures now in place support this aim.

PAC CONCLUSION AND RECOMMENDATION 4

There is poor visibility of consultancy spending by arms length bodies, even though they are estimated to spend £700 million a year. Providing transparency about public spending should not be optional, even for bodies with a degree of autonomy.

The Cabinet Office should meet the commitment it gave us to establish clear categories of consultancy spending by the start of the next financial year and should also require arms length bodies to report their spending against these categories from 2011-12.

4.1 The Government agrees with the Committee’s recommendation and is on track to deliver the plans we set out at the start of this financial year.

4.2 The measures introduced in May 2010 as part of the efficiency and reform agenda require Permanent Secretaries to approve all requests by their ALBs to engage consultants at a cost of £20,000 or more. Furthermore, since May, all Departments have been required to report their consultancy spend to the Cabinet Office on a monthly basis, including that of their ALBs.

4.3 This Government has, therefore, set the standards that it expects ALBs to follow; it has communicated these standards and, through ERG, will hold Departments to account for providing data on ALB spend. It should be noted that gathering data across all ALBs is not an insignificant task and historically data quality has varied noticeably. ALBs are arms length and so by their nature have a certain level of autonomy from Departments. The Cabinet Office is aiming to significantly and continuously improve data quality, though challenges will remain.

PAC CONCLUSION AND RECOMMENDATION 5

Departments have failed to develop essential skills in core areas, leaving them over-reliant on certain types of consultancy advice. It has long been acknowledged, for example, that programme and project management and IT skills across Government are lacking. Whilst recognising the Cabinet Office's argument that it takes time to 'grow your own' skills, progress has been far too slow given that this Committee made these recommendations a decade ago, and especially given that the Cabinet Office studied these issues in depth in its own report in 1994. Government also lacks the flexibility to re-deploy people with these skills to the departments and programmes where they are most needed.

The Cabinet Office and Departments should increase the emphasis they place on programme and project management and IT roles, both to grow these skills within government and to retain skilled staff. They should also collect better data on the experience of staff in key roles, such as the Senior Responsible Owners of major projects, to identify gaps and deploy the best people where they are most needed

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

5.2 Progress has been made in strengthening the leadership of Government's major projects and programmes under the leadership of ERG, which is simultaneously improving the skills and capability of Senior Responsible Owners (SRO). During summer 2010, ERG reviewed 31 major projects which has resulted in recommendations on the re-scoping and restructuring of projects. The Major Projects Authority (MPA), which was established in November 2010 and implemented from April 2011, will result in a sea-change in the way that projects are managed and will significantly strengthen and improve Government's capacity and capability to manage what is a highly complex project portfolio.

5.3 The Government fully accepts the need to continuously develop the skills of civil servants, including the capability of SROs, and the Cabinet Office is already doing this through its programmes to fast stream ICT and Procurement Professionals. It is very much the view of the MPA that the level of authority and performance of the SRO role should be elevated further up the Department and supported by Accounting Officers within their overall business responsibilities; this issue will be addressed as part of the engagement with Departments to implement the Government's Major Projects Portfolio.

5.4 ERG has also introduced the requirement for an SRO passport/accreditation, which ensures SROs have the prerequisite skills required to take on this key role, including effective management of consultants.

PAC CONCLUSION AND RECOMMENDATION 6

There is a risk that the pressure to find financial savings will lead some Departments to cut training budgets in an uninformed way, thus undermining Government's commitments to 'grow its own' skills and increasing its reliance on consultants

In making decisions about where savings should be made, each Department should prepare a robust analysis of the skills it needs to develop through training and should take into account the cost of acquiring those skills from elsewhere. Short-term financial cuts which lead to longer term additional expenditure does not constitute value for money.

6.1 The Government agrees with the Committee's recommendation.

6.2. The Government is undertaking detailed work to improve the efficiency and effectiveness of learning and development, the results of which be communicated in due course. It is committed to ensuring that the civil service continues to develop skills in-house and that these skills are focussed directly on the business priorities.

6.3 A `Common Curriculum' for all civil servants has been established and the large number of separate and inconsistent learning products currently offered or procured by departments will be replaced by a single portfolio of training leading to significant improvements in approach and better value for money through more effective larger scale procurement. Further, there will be a decisive shift to the use of blended learning, and online resources, and a reduction in costly face-to-face classroom based provision.

6.4 Line managers will also play a greater role in identifying staff development, coaching to develop kills and supporting staff to undertake appropriate training. Heads of Profession will retain responsibility for setting the skill requirements for the civil service professions and departments will retain responsibility for business-specific training and they will be supported by the new arrangements.

PAC CONCLUSION AND RECOMMENDATION 7

Too many contracts are based on the amount of time the consultants spend working on the assignment. Currently, 70% of contracts are let on this basis. There is a risk that these types of contract can create incentives for consultants to work inefficiently.

A better balance needs to be found between 'time and materials' based contracts and those based on a fixed price or incentive. The Cabinet Office should encourage Departments to increase the proportion of contracts they let on a fixed price or incentive basis, recognising that to use such contracts effectively, Departments must first improve their ability to define clearly the output required.

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

7.2 Time and materials is by far the most common method of payment for consultancy in both the public and private sectors. Some Departments have been more sophisticated than the private sector when it comes to buying consultancy.

7.3 The Government is centralising the procurement of consultancy which will provide greater transparency in the requisition of consultancy, both above and below the EU threshold. The Government will deploy the most appropriate contract terms in accordance with what the consultant is expected to deliver; where outcome based, or risk and reward is most appropriate, these will be applied.

PAC CONCLUSION AND RECOMMENDATION 8

Departments and the Cabinet Office lack the knowledge they need about the performance of consultancy suppliers.

The Cabinet Office should consider how they could help Departments share relevant information about the performance of suppliers to allow others to learn from their experience, so that Departments become more intelligent buyers and poor suppliers are not offered repeat business.

8.1 The Government agrees with the Committee's recommendation.

8.2 Significant progress has been made since May 2010 both in terms of the data available on consultancy spend across Government and the increased knowledge of the supplier base, evidenced through the Supplier Renegotiation Programme. This programme of work has progressed quickly and is expected to deliver £800 million in savings across a number of categories of spend.

8.3 Work on centralised procurement will ensure that there is a consistency of rates reflecting the scale of activity that is carried out with the Crown as a whole. In addition greater clarity will result on when, and how, it is appropriate to use consultants and how to ensure a clear separation between such work and other forms of resource support.

8.4 Centralisation will positively contribute to Government's management of consultants and other external resource. Management information from Centralisation and the Supplier Renegotiation Programme will also be used to inform future procurement decisions and the Government's continuous drive for greater value for money through procurement efficiency and reform.

Thirteenth Report

Department for International Development (DFID)

The Department for International Development's bilateral support to primary education

Report Summary from the Committee

The previous Government committed the Department for International Development (the Department) to rising expenditure on education, reaching at least £1 billion per annum by 2010-11, within the context of an overall rising aid budget. The coalition Government has since committed to increasing the Department's total aid spending from £7.8 billion in 2010-11 to £11.5 billion in 2014-15. This represents a real terms increase of roughly one third over this spending review period. The Department is currently reviewing how it allocates resources across its whole portfolio.

The Department's aim has been to improve and expand state primary education, focusing mainly on sub-Saharan Africa and Asia. It works largely by influencing and financing developing country governments to pursue global Millennium Development Goals. The Committee universally supports the aims of the Department's education programme. However the Committee has significant concerns about its ability to assess the value for money of its spending.

The majority of the countries the Department supports have made good progress in enrolling a higher proportion of children in primary schools, up from typically 50% or lower in the mid-1990s to 70-90% now. The rate of increase in enrolment has been particularly strong for girls. Fourteen of the 22 countries the Department supports are on track to meet Millennium Development Goals for primary enrolment by 2015. The Committee is concerned, however, that the Department cannot adequately attribute impacts to its spending and its influence. Even for its largest programmes, such as in India, it typically contributes a low proportion of countries' education spend. In some countries, such as Kenya, private schools not supported by the Department account for over half of enrolment growth.

The Committee recognises that choices of where to allocate aid must take into account a range of factors. But the Committee is surprised that value for money has not been a primary focus for the Department either in allocating its resources or assessing the performance of its education programmes. The Department's rationale for investing in education is that it brings wider benefits which support reduction of poverty, but it has placed too much emphasis on measuring simply the numbers entering education. The Department has paid less attention to how many children attend and complete primary education, and the literacy and numeracy they achieve; key areas where limited progress has been made.

The Department is currently trying to change its approach by building value for money criteria into its spending choices. This includes a range of mechanisms to ensure money is well spent, such as the establishment of the Independent Commission on Aid Impact. The Committee welcomes Liz Ditchburn's appointment as the Director of Value For Money and the prominence the Department is now giving to this role. It assured the Committee that it is placing an increasing emphasis on quality and attainment in deciding which programmes to support, and on measuring important indicators of education delivery against the costs. Until this is achieved, the Committee can have little confidence that UK taxpayers' money is securing the fullest benefits for poor people overseas.

A series of frauds have occurred in the main education programme supported by the Department in Kenya. The Committee is extremely concerned both that the Department may have misjudged the risks when it invested and that it did not prevent or detect fraud. The Department acknowledged that it needed to learn lessons. The Department has set itself the challenge of managing an increasing aid budget whilst trying to achieve the lowest management overhead of any major aid donor. But in the Committee's view it is already showing signs of serious stretch in its capacity. It needs enough capacity in the form of education advisers on the ground to obtain good data on cost and performance and to use this information to manage its programmes effectively.

The Committee took evidence on the basis of report by the Comptroller and Auditor General on the Department's bilateral support to primary education.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Committee universally support the case for aid to primary education and welcomes the significant progress in enrolment, particularly for girls. The Committee heard testimony of good work being done, but it is unacceptable to rely largely on selective examples and anecdotes to imply overall performance.

The majority of countries the Department supports are on track to meet global Millennium Development Goals for primary enrolment by 2015, with enrolment having risen from typically 50% or lower in the mid-1990s to 70-90% now. But the Department lacks a coherent framework for assessing the value for money of its aid. The recommendations that follow are intended to help the Department better target and manage its aid and so to increase its impact. The Committee expects to be informed of clear progress in a year's time.

1.1 The Government agrees with the Committee's conclusion.

1.2 The Government welcomes the report and its focus on education and girls. It is timely as the Government seeks to review and significantly enhance processes on results and value for money. The Committee's analysis is the same as that of the Government. The Department is addressing all of the recommendations and will report back to the Committee next year setting out its progress.

1.3 Since June, the Department has introduced significantly more robust value for money framework. All Departmental investments now require a stronger value for money assessment prior to approval, as part of a new approach to programme design. There is no single measure of value for money that can apply across the whole diverse Departmental portfolio, but the Department is working to agree standard measures where possible. For example: for particular sectors, to enable meaningful comparisons between different interventions and assist in each value for money assessment. Stronger value for money assessment is part of a Business Case format for programme design, based on the Treasury good practice model. Each Business Case will be published, so that the Department's value for money assessments are open to public scrutiny.

1.4 As part of the Government's firm commitment to improve the Department's focus on results, value for money and transparency, in November 2010, the Department published, in its Business Plan, a range of indicators of both impact and inputs, which will enable the public to judge value for money of the Department's programmes. The Department will be developing further indicators based on the results of the current aid reviews, and will also establish a common set of indicators to allow performance to be aggregated across the portfolio, where relevant and feasible. This represents a significant step change in how the Department presents its results and provides an accessible way for UK taxpayers to scrutinise our work. The Department's officials are working to identify UK attribution more clearly but this is a very helpful point as the Department ensures accountability to UK taxpayers and transparency throughout the process, here and in recipient countries.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has placed insufficient emphasis on value for money in deciding where and how to spend.

It is implementing a new approach to allocating its funds between countries and sectors, including education, and introducing other mechanisms to monitor how well aid is spent, including setting up an Independent Commission on Aid Impact. The Department told the Committee that this will place a much greater emphasis on value for money than under previous arrangements. But it was unclear to the Committee how much of a change this represented, as the Department also takes into account levels of need in developing countries and wider policy factors such as supporting unstable countries. The Department should place value for money at the heart of the new approach it is developing as part of its review of how it allocates resources.

2.1 The Government agrees with the Committee's recommendation and has embarked on a major programme to strengthen the Department's focus on results and value for money alongside the creation of a new Independent Commission for Aid Impact.

2.2 Since June 2010, the Department has been reviewing all major spending areas including bilateral, multilateral and humanitarian and emergency response. These reviews put results and value for money at the heart of decisions on aid allocations. Value for Money will become more evident once we have had long enough to measure, identify and publish the results we have achieved in response to our bilateral and multilateral aid reviews.

2.3 The Government launch of the three major aid reviews represents a significant new approach to aid allocation. For the bilateral aid review, the Department's country teams developed 'Results Offers', setting out the results that could be delivered against strategic priorities. Results offers were underpinned with the evidence base, a value for money case and a focus on the role of girls and women.

2.4 In line with the Government's commitment to results and value for money, those country programmes which are identified as less effective or where the Department is not well placed to have a significant long-term impact will be closed and the savings will be redirected towards those countries where they can make the most difference. Future investments in multilateral agencies will depend upon their performance against a range of organisational effectiveness criteria. Those giving poor value for money will not be supported. The full results of the reviews will be announced in Spring 2011.

2.5 The Department is strengthening the use of evidence, commercial awareness, evaluation and value for money (including unit costs and cost-effectiveness) in all programme spending decisions, including by introducing a new Business Case format for project design documents from January 2011 based on the rigorous Treasury investment appraisal criteria.

2.6 The Department has established this year a new Quality Assurance Unit reporting directly to the Chief Economist which will provide central scrutiny of the Departments most significant investments to ensure that the design is based on reliable evidence and represents a sound value for money judgement. The new Independent Commission for Aid Impact will evaluate the impact and value for money of the aid budget. It will provide the public with independently verified evidence of the impact of the UK aid budget. Under the UK Aid Transparency Guarantee, introduced in June 2010, the Department , for the first time, is publishing full information on all new projects and programmes approved from January 2011, including Business Cases, annual reviews of progress, project completion reports and evaluations to enable full public scrutiny of results and value for money of the Department's investments.

PAC CONCLUSION AND RECOMMENDATION 3

The Department has contributed to increased enrolment, but cannot clearly demonstrate the extent to which this is attributable to UK aid and influence.

The Department estimates its share of rising enrolment crudely according to the proportion of funding it provides. The Committee was unconvinced that growth in enrolment would not have occurred without the Department's investment. The Department should analyse the extent to which its investment and influence supplements or simply displaces that of other funders, including the recipient governments and the private sector.

3.1 The Government agrees with the Committee's recommendation.

3.2 This has been addressed through the Department's new Business Case approach to programme design. As part of the programme design the Department requires an evidence-based appraisal of the likely costs and benefits of investing compared to the alternative of doing nothing. This enables the Department to demonstrate the incremental or additional value for money of the intervention.

3.3 Where feasible, the Department works jointly with other donors and recipient governments to achieve greater impact. In such cases, the Department is always clear about how much each funder, including the recipient government, is providing; how all the funds, both governments and donors', will be used; what results are expected from the joint investment and how the results will be jointly monitored. This enables the Department to ensure that its funding supplements and does not displace that of other funders.

PAC CONCLUSION AND RECOMMENDATION 4

The Department has had too little focus on the performance of education systems and pupil attainment, throughout years of substantial investment.

It acknowledges that it needs to take a tougher, clearer stance on the importance of information on cost and on indicators of education delivery, such as hours of teaching delivered and pupil attendance. It has also lacked adequate measures of pupil literacy and numeracy. The Department should meet the commitment it gave us to have a better series of measures within two years, and should use this information to drive improved performance across the education systems it supports.

4.1 The Government agrees with the Committee's recommendation and is pleased that the Committee acknowledges and supports the strong rate of increase in the enrolment of girls into primary education. An improvement in the performance of education systems and pupil attainment is the next stage, and we are now well underway in addressing these.

4.2 Over the next two years, the Department will increase its investment in monitoring learning outcomes by support to national learning assessments and early grade reading assessments. The Department will also support initiatives which provide transparent information on learning outcomes that enable parents and communities to hold schools to account for education results. At the international level we are working with the *Education For All Fast Track Initiative* partners to develop indicators for reading fluency.

4.3 The Department is already working with the World Bank to develop a set of benchmarks for cost-effective education systems and a toolkit to diagnose areas where improvement is needed. This is due to be finalised and training rolled out to the Department's and the World Bank's staff during 2011-12. The Department is exploring the technical viability of an education system productivity indicator to be introduced within standardised international education indicators (based on the NAO's proposition of cost per instructional hour received by primary school children).

4.4 Progress against improved measures will be monitored through the Department's Business Plan, Country Operational Plans and new Business Cases prepared for investments in education. The Department's Business Plan includes two mandatory indicators measuring the number of girls and boys supported by the Department in primary school (impact) and the cost per child supported in primary school (input). Recommended indicators for Country Operational Plans include enrolment, completion and survival rates. Recommended indicators for individual business cases include reading fluency measures and a range of value for money metrics including unit costs, productivity indicators and economic and social rates of return.

4.5 The Department will meet its commitment to have a better series of measures within two years. By then the Department will have:

- information on the cost per child supported in primary school for all the Departments focus countries;
- information on the unit costs of key inputs to education systems eg classrooms and text books in all its focus countries. Where unit costs of key inputs to the education system are too high, the Department will investigate, with its partner in-country, how these costs might be reduced without impacting negatively on quality;
- better data on the status of learning in a number of its focus countries. This will be tailored to each country context so may not be comparable between countries. In focus countries where this data does not exist, the Department will work to put in place the systems to generate this data; and

- a comprehensive set of system diagnostics and reports (being developed in conjunction with the World Bank) to assess the effectiveness of any country's education system and its component sub-systems against global standards, best practices and comparator countries - including assessment systems, teacher systems, education finance and school quality assurance.

PAC CONCLUSION AND RECOMMENDATION 5

Robust data systems are often absent in developing countries.

Where national data systems are weak the Department should develop a clear plan to strengthen them. But ultimately, where improvement is insufficient, it should be prepared to use alternative means of collecting information or change the way it delivers aid.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Department has a clear plan - it is working with its partner countries to strengthen government data systems and is supporting international data collection, so that there can be better measurement of outcomes. Over the next two years, the Department expects better data to emerge from the countries that are supported by UK aid through continuing strengthening of national statistics systems and education management information systems. The Department will complement efforts to improve national management of results and data with initiatives to raise public awareness of learning outcomes, and enable greater community participation in local education decision making. A 'How To' guide on Strengthening Education Management Information Systems is being developed for Departmental staff.

5.3 On international data collection, the Department's funding, along with that of other donors, enabled the publication for the first time of the *Education for All Global Monitoring Report* (GMR) in 2002 and annually thereafter. The GMR is the primary means of assessing global progress towards the Education for All goals and reports annually on global statistics in education obtained from national education systems. It includes data on enrolment, dropout and completion rates and numbers of teaching staff. It provides the most reliable and up to date data on countries' progress towards the education Millennium Development Goals (MDGs).

5.4 The Department agrees, where improvement in national data systems is insufficient, that alternative ways of collecting information need to be pursued. While strengthening national data systems is the best way to ensure the provision of regular, detailed data in the long term, administrative data sets do not go far enough in reporting on learning outcomes and systems effectiveness; where progress is too slow, the Department will work with donor partners to explore alternative data collection methods.

PAC CONCLUSION AND RECOMMENDATION 6

There is a risk that the Department does not have enough experts on the ground to effectively manage rising aid spending, including in education.

The Department currently has just 34 education advisers and in key places its capacity is already stretched. Its aspiration to increase the total number of education advisers appears not to be keeping pace with the planned increase in spend. In deciding how many expert staff it needs to manage aid programmes, both at home and overseas, the Department should focus on the practical work needed at the front line, to assess both the risks and the cost effectiveness of programmes and the capacity it needs at the centre to make informed decisions between them.

6.1 The Government agrees with the Committee's recommendation.

6.2 The Government recognises the challenges that an increasing aid budget brings, and has taken steps to ensure that the Department has sufficient resources on the front line delivering results and ensuring value for money for the UK taxpayer.

6.3 The Department will cut administration costs in line with other UK Government Departments and increase efficiency over the spending review period, but recognises that there is a need to increase the number of Education Advisers in line with the outcome of the bilateral, multilateral and humanitarian and emergency response aid reviews.

6.4 As part of finalising its three aid reviews, the Department will look at the advisory and technical expertise it needs to manage its growing programme effectively, including in education. The recent Spending Review settlement means that we will reduce administration costs, becoming a leaner organization by significantly reducing back-office costs, while shifting more of our total operating resource into front line delivery to ensure that results and value for money in the programme are achieved. The Department has also set up a new unit to step-up its engagement with the private sector, to redefine and reinvigorate its relationship with the private sector, and tap into all of the private sector's potential to contribute to development.

6.5 Country offices have been commissioned to produce operational plans where they assess the delivery challenges and identify the staff and skills required to deliver the agreed results effectively. The Department's Strategic Workforce Planning process will translate these individual operational plans into a workforce plan for the organisation so the Department gets the right staff into the right places at the right time. This process will ensure that the Department has front-line advisory staff in place to manage programmes effectively, including assessing risks and cost-effectiveness, whilst maintaining central policy capacity, including in education, to ensure the effective management of its increased budget.

6.6 The Department is also working to ensure that the quality of its cadre of education advisers is maintained, with good succession planning for filling posts. Resourcing and recruitment plans are underway to create a pipeline of education advisers ready to take up posts. Restructuring of the Heads of Professions in the Department aims to strengthen continuous professional development so that staff have the appropriate skills and knowledge, including those required to assess the risks and cost-effectiveness of programmes.

PAC CONCLUSION AND RECOMMENDATION 7

The Department had assessed the risk of investing in Kenya's education system as manageable, but serious frauds have arisen.

The Department acknowledged that it needed to learn lessons and is undertaking its own review. In so doing, it should evaluate the wider implications for its risk assessment processes and the controls it relies on when delivering through other governments' systems, not just in Kenya.

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

7.2 The Department does not tolerate fraud. In Kenya, fraud was discovered in September 2009. Funding was immediately suspended, and later terminated in March 2010 following unacceptable progress by the Government of Kenya. All losses identified in 2009 were reimbursed in 2010, and individuals suspected of fraud are being prosecuted through the Kenyan courts. The Department is now funding education in Kenya through other channels and has no plans at present to resume funding through the Government of Kenya.

7.3 The Department is learning the lessons emerging from the on-going forensic audit of the Kenya Education Sector Support Programme (KESSP). In addition to immediate improvements in the management of its aid programme in Kenya, the Department's Internal Audit Department and Anti-Corruption Team are working with the Kenya office to identify wider lessons from programmes that provide aid through government systems in other countries, including where risk has been managed well. A set of recommendations for strengthening the management of financial aid across the Department will be developed, and considered by the Department's senior management and Audit Committee. The Department will also undertake fraud risk assessments of its main delivery channels, starting with the kind of financial aid mechanism used for KESSP. These assessments will focus on how the Department can minimise fraud risks from inception through to delivery and evaluation.

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ISBN 978-0-10-180142-3

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