



Treasury Minute on the Thirty Third Report from the Committee of Public Accounts Session 2009-10

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

July 2010



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33rd Report Nine reports from the Comptroller and Auditor General published from July 2009 to March 2010

- Review of errors in Guaranteed Minimum Pension Payments
- Government cash management
- Measuring Up: how good are the Government's data systems for monitoring performance against Public Service Agreements
- Complying with Regulation: Business Perceptions Survey 2009
- Commercial skills for complex Government projects
- Independent Reviews of reported CSR07 Value for Money savings
- Department for Work and Pensions: Pension Protection Fund
- Department for Environment, Food and Rural Affairs: reducing the impact of business waste through the Business Resource Efficiency and Waste Programme
- Reorganising central Government, which was published on 18 March 2010

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TREASURY MINUTE DATED 20 JULY 2010 ON THE THIRTY
THIRD REPORT FROM THE COMMITTEE OF PUBLIC
ACCOUNTS SESSION 2009-10

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Thirty Third Report

HM Treasury

Nine reports from the Comptroller and Auditor General published from July 2009 to March 2010

1. The Committee on Public Accounts (the Committee) endorses the conclusions and recommendations of nine reports by the Comptroller and Auditor General (C&AG) published between July 2009 and March 2010. Although the Committee did not have the time to take evidence on these reports, the reports themselves represent the culmination of valuable data collection and analysis by the National Audit Office (NAO), supported by extensive consultation with the Government Departments and delivery bodies that were the subjects of the work.

PAC Conclusion: The Committee commends and endorses the Comptroller and Auditor General's conclusions and recommendations on Appendices 1 to 9 of the 33rd Report. The Committee recommends that the Treasury coordinates a response from each of the Government Departments setting out what actions it proposes to take to address the Comptroller and Auditor General's recommendations. The Treasury Minister should then write to the Committee and Comptroller and Auditor General setting out the extent to which the Treasury endorses the actions proposed by each Department, and what action the Treasury proposes to take centrally to address problems that recur across Government.

2. The nine Appendices to the 33rd PAC Report are:
- A. Review of errors in Guaranteed Minimum Pension Payments, which was published on 16 July 2009;
 - B. Government cash management, which was published on 16 October 2009;
 - C. Measuring Up: how good are the Government's data systems for monitoring performance against Public Service Agreements, which was published on 21 October 2009;
 - D. Complying with Regulation: Business Perceptions Survey 2009, which was published on 22 October 2009;
 - E. Commercial skills for complex Government projects, which was published on 6 November 2009;
 - F. Independent Reviews of reported CSR07 Value for Money savings, which was published on 16 December 2009;
 - G. Department for Work and Pensions: Pension Protection Fund, which was published on 5 February 2010;
 - H. Department for Environment, Food and Rural Affairs: reducing the impact of business waste through the Business Resource Efficiency and Waste Programme, which was published on 5 March 2010; and
 - I. Reorganising central Government, which was published on 18 March 2010.
3. The Treasury has requested its own spending teams and, where necessary, Departments to respond to each of the C&AG's recommendations contained within each of the nine appendices, which follow on in this report.
4. The Economic Secretary to the Treasury will separately write to the Committee and the C&AG setting out the extent to which the Treasury endorses the actions proposed by each response, and what action the Treasury proposes to take centrally to address problems that recur across Government.

Thirty Third Report: Appendix A

HM Treasury (HMT), HM Revenue and Customs (HMRC), and the Department for Work and Pensions (DWP)

Review of errors in Guaranteed Minimum Pension Payments

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Review of errors in Guaranteed Minimum Pension Payments* report, which was published on 16 July 2009.
2. The process for notifying pension schemes of Guaranteed Minimum Pension (GMP) entitlements is complex and fragmented, and therefore prone to error. The Committee concluded that there was a collective failure to recognise the interdependencies between the parties and the potential for the process to break down. The successful administration of the GMP process required effective joint working, but the parties failed to achieve it. The GMP process involves the pension schemes and their payment contractors, but also relies on HM Revenue and Customs (HMRC) and the Pension, Disability and Carers Service (PDCS), who in turn rely on employers. No one party owns the process as a whole and no one took responsibility for checking it was working properly or for ensuring that problems were satisfactorily resolved.
3. There were no assurances that the information passing between HMRC and the pension schemes, and between the PDCS and HMRC, was complete. The payment errors resulted from the GMP process breaking down in a number of ways, leading to the pension schemes not having GMP information recorded, when they should have done. Responsibility for the errors is shared between HMRC, PDCS, and the five pension schemes.

PAC Conclusion (1): The Guaranteed Minimum Pension process involves several inter-dependent parties, who failed to work together effectively. At present, none of the parties has a lead responsibility for the process, as a whole. HM Treasury, HM Revenue and Customs, the Pension, Disability and Carers Service and the five pension schemes should agree the one body, which will be responsible for the Guaranteed Minimum Pension process as a whole, and for oversight and co-ordination of plans to address weaknesses in the process. The decision on where this responsibility falls is not an easy one but, in the Committees view, it should either be the Pension, Disability and Carers Service or the Cabinet Office.

The Pension, Disability and Carers Service is the body most directly connected to the pensioners, who are affected by administrative failings concerning Guaranteed Minimum Pension, and to the overall quality of Government services to pensioners. The Cabinet Office is the body, which amongst the Departments responsible for paying public service pensions is the one which has been most closely involved in coordinating actions to deal with the payment errors, and which also has the role of strengthening the civil service as a whole.

4. HMRC agrees with the Committee's conclusion. After discussion at a senior level, between HMRC and the Department for Work and Pensions (DWP), it was agreed that HMRC would take lead responsibility for the Guaranteed Minimum Pension (GMP) process, and for oversight and coordination of associated plans. HMRC has a more significant role in the GMP process than either PDCS (which is part of DWP) or the Cabinet Office.
5. A Joint GMP Advisory Group, chaired by HMRC, has now been set up comprised of representatives from HMRC, DWP (PDCS) and the five public service pension schemes (Cabinet Office; Department of Health; Department for Children, Schools and Families (now the Department for Education); Ministry of Defence; and Ministry of Justice). The Treasury does not have an operational role in the GMP process, but any issues with

significant financial implications will be raised with them. The purpose of the group is to act as a forum, where key issues relating to the GMP process can be raised, reviewed and taken forward in a mutually supportive environment, with a view to identifying and implementing improvements to the overall process. Meetings are held on a quarterly basis.

6. A Technical Group, which will operate under the direction of the main Advisory Group, is being established to take forward and report back on any issues that require additional in-depth analysis or specialist input. The Technical Group will hold its first meeting in June 2010.

PAC Conclusion (2): There is a risk that pension schemes may be underpaying members, who left contracted out employment early, but who have deferred claiming state pension. It is not clear how the pension schemes know whether these 'early leavers' have claimed state pension and, if not, that the scheme should therefore suspend the usual Guaranteed Minimum Pension rules and up rate the occupational pension in full. Working with HM Revenue and Customs and the Pension, Disability and Carers Service, the pension schemes should confirm whether members in this category are in receipt of state pension, and take action to both correct any underpayments that have arisen and to address the risk of underpayments in the future.

7. HMRC agrees with the Committee's conclusion. Given the scale and complexity of the GMP process, it is recognised that there will be occasions when public service pension schemes may not receive appropriate GMP information at the time they consider it is required.

8. To minimise the number of these cases, and to avoid potential payment errors, HMRC is working closely with public service pension scheme representatives to devise a process that is both cost effective and comprehensive, in terms of providing GMP information on request, to ensure that the GMP amount is available at State Pension Age (SPA). The Technical Group is looking at the detail of how such a process may be introduced across all public service pension schemes, taking into account the different systems that are involved.

PAC Conclusion (3): There is a risk that payment errors will continue to occur after the correction exercise during 2008-09, but before actions to prevent errors recurring have been agreed and implemented. Working with HM Revenue and Customs, the pension schemes should check whether there are any further overpayments or underpayments, which were not captured by the correction exercise during 2008-09, and take any necessary corrective action.

9. HMRC agrees with the Committee's conclusion and along with the public service pension schemes acknowledges the risk. To mitigate the impact, public service pension schemes have been referring any new GMP up-rating queries to HMRC requesting appropriate checks to be made. Following the main checking exercise, which took place during 2008-09, HMRC has received a further 15,228 cases for action. Timescales for responses to these cases were agreed with the public service pension schemes in question and all cases have now been cleared.

PAC Conclusion (4): The lack of checks and controls over the Guaranteed Minimum Pension process as a whole fails to take account of the complexity of the process and the history of concerns and known problems. The pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should review the checks and controls in place over the process, both within their organisations and over the exchanges of information between them.

10. HMRC agrees with the Committee's conclusion. The calculation of a GMP is dependent on information from both DWP and HMRC. In view of this, a joint project involving both Departments undertaken during 2009 examined all aspects of the end-to-end GMP process and made recommendations for improvement. Ten recommendations were made and the main ones have already been implemented:

- new instructions for DWP staff;
- more attention given to the input of correct Scheme Contracted-Out Numbers; and
- increased checking within HMRC.

11. A programme of closer working, between the two Departments, underpins these recommendations. This includes the introduction of a secure HMRC email facility to respond more quickly to DWP enquiries about contracted-out employment, to help speed up the State Pension awarding process. As a result of this work, statistics indicate that the number of GMP enquiries from public service pension schemes is reducing. Further joint activity around the remaining recommendations commenced at the end of May 2010 and will form part of the ongoing work of the Technical Group.

PAC Conclusion (5): There is little management information in respect of key aspects of the Guaranteed Minimum Pension process. The pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should collect information to help them monitor key parts of the process, for example: on the finalisation of state pension claims, the accuracy of scheme contracted out numbers, and the clearance of rejected Guaranteed Minimum Pension statements.

12. HMRC agrees with the Committee's conclusion. Increased statistical information is now being kept as a result of a joint HMRC/DWP working project. For example: within HMRC a check is undertaken for one week every month to monitor the number of enquiries being received from public service pension schemes that relate to the use of an incorrect Scheme Contracted-Out Number. Over the last three months, the number of enquiries being received has fallen by 28%.

13. Public service pension schemes are requested, via the newly formed Joint GMP Advisory Group, to actively monitor the receipt of GMP statements and to report back on the emerging trends and to identify any improvements. In terms of further monitoring, a recommendation that came from the joint HMRC/DWP project was that a piece of work should be undertaken to ensure all paper outputs for DWP Pension Centres, provided by the National Insurance and PAYE Service (NPS) computer system, are reaching their destination. DWP has confirmed that this work is scheduled to commence within the next three months.

PAC Conclusion (6): Pension schemes remain concerned about the completeness of the Guaranteed Minimum Pension notifications generated by the National Insurance Recording System. HM Revenue and Customs should identify how it can provide greater assurance about the completeness of the outputs from the National Insurance Recording System. The pension schemes should implement procedures to identify members, who have reached, or are soon to reach, state pension age, but for whom they do not have Guaranteed Minimum Pension information recorded on their systems.

14. HMRC agrees with the Committee's conclusion. The GMP statement process within the NPS has been checked, with confirmation that it is working to specification. There are a number of reasons why a GMP statement may not be received by a public service pension scheme at SPA. One of these reasons is that the customer may have deferred making a claim for their State Pension.

15. However, in addition to the work being undertaken by the Technical Group, there are a number of long standing free services already in place to enable public service pension schemes to obtain GMP information prior to individuals attaining SPA. The principal service available is HMRC's Accrued GMP Liability Service (AGLS). Public service pension schemes are being encouraged to use this in order to identify and resolve potential issues more quickly before GMPs need to be put into payment. HMRC has seen an increase in the number of applications to obtain information via this process. All services are widely publicised.

16. A further proposal is under consideration by the Joint GMP Advisory Group concerning the development of an automated process for public service pension schemes to follow up on those cases, where they do not hold GMP information.

PAC Conclusion (7): The pension schemes' payment contractors were required under the terms of their contracts to calculate and pay pensions correctly, and to do so the contractors need to obtain Guaranteed Minimum Pension statements. However, under the existing arrangements responsibility for the non-receipt of Guaranteed Minimum Pension statements was not always clear, and therefore the pension schemes agreed to pay them additional amounts to rectify the resulting payment errors. At the earliest opportunity, pension schemes should amend contracts to make explicit the extent of their contractors' obligations for securing complete details of Guaranteed Minimum Pension entitlements, and should subsequently monitor the performance of contractors in this regard.

17. HMRC agrees with the Committee's conclusion. It has been confirmed, via the Joint GMP Advisory Group, that the individual schemes will be taking this forward with their contractors after the investigations to be undertaken by the Technical Group are complete and all issues and concerns have been identified.

PAC Conclusion (8): The responsibilities of the different parts of Government involved in the Guaranteed Minimum Pension process, and the levels of service they can expect from each other, have not been set out. Pension schemes, HM Revenue and Customs and the Pension, Disability and Carers Service should agree and document their specific responsibilities, including service standards for the provision of timely and complete Guaranteed Minimum Pension information, and responsibilities for checking that the process as a whole is working properly.

18. HMRC agrees with the Committee's conclusion. HMRC will use the Joint GMP Advisory Group to discuss, determine and document agreed specific responsibilities and associated standards for providing GMP information in a timely fashion.

PAC Conclusion (9): The guidance on administering Guaranteed Minimum Pension entitlements is out of date, and not all the parties directly involved in the process were familiar with the guidance. HM Treasury, the Pension, Disability and Carers Service, HM Revenue and Customs and the pension schemes should collectively develop and agree new guidance, promote it to staff, and then regularly review and update it as necessary.

19. HMRC agrees with the Committee's conclusion. Up-to-date guidance about the up-rating of GMPs is a vital element of the overall process. The Technical Group will be tasked with reviewing and improving the existing guidance to ensure it is fit for purpose, consulting the Treasury about the circulation of the guidance within Government. Responsibility for ratifying any proposed changes and ensuring that the revised guidance is both appropriately publicised and maintained will fall to the Joint GMP Advisory Group.

PAC Conclusion (10): Action to prevent the payment errors recurring will require the commitment of all parties involved in the Guaranteed Minimum Pension process, but there is currently no forum, which brings them together. Strengthening the process requires the pension schemes to be more proactive and all parties to work more closely together. The pension schemes, their payment contractors, HM Revenue and Customs and the Pension, Disability and Carers Service should come together to agree detailed proposals for improvement, a timetable for their implementation, and arrangements for monitoring the effectiveness of the action that is taken.

20. HMRC agrees with the Committee's conclusion. A Joint GMP Advisory Group, chaired by HMRC, and comprising representatives from HMRC, DWP (PDCS) and the five public service pension schemes, acts as a forum, where key issues relating to the GMP process can be raised, reviewed and taken forward in a mutually supportive environment, with a view to identifying and implementing improvements to the overall process. Meetings are held on a quarterly basis. The Treasury does not have an operational role in the GMP process, but any issues with significant financial implications would be raised with them. A Technical Group, operating under the direction of the main Advisory Group, will take forward, and report back on, any issues that require additional in-depth analysis or specialist input.

PAC Conclusion (11): Guaranteed Minimum Pensions were earned between 1978 and 1997 and are no longer accruing, meaning that the existence of entitlements is known and will not change. While the base Guaranteed Minimum Pension is revalued each year up to state pension age, pension schemes could annotate members' records with Guaranteed Minimum Pension information in advance of their reaching state pension age, rather than waiting for HM Revenue and Customs to provide notifications. Pension schemes and their administration and payment contractors should assess whether prior annotation offers a cost-effective way of reducing the risks associated with administering Guaranteed Minimum Pensions.

21. HMRC agrees with the Committee's conclusion. There are a number of long-standing free services already in place to enable public service pension schemes to obtain GMP information prior to individuals attaining SPA. Additionally, the NPS system issues, in the majority of cases, an early leaver GMP statement to the public service pension scheme for anyone who leaves contracted-out employment before attaining SPA. Anecdotal evidence suggests that these statements have not always been retained by schemes for records purposes. Schemes are now being encouraged to both record and refer to these statements in order to help them calculate the GMP amount at SPA.

PAC Conclusion (12): The complexity of the existing Guaranteed Minimum Pension system increases the risk of error and makes it costly to administer. A complicated administrative process has evolved over a number of years, in a context of changing legislation and organisational structures. A fundamental review should therefore be commissioned to consider whether, within the existing legislation in respect of Guaranteed Minimum Pensions, there are opportunities to reform and simplify the administrative system designed to implement that legislation. The Committee suggests that the Treasury commissions the review, because of its responsibility for the financial and budgetary framework and for ensuring Departmental efficiency, together with the Cabinet Office as the central coordinator of the response to these errors and with its wider responsibilities for the civil service.

22. HMRC agrees with the Committee's conclusion. The Treasury and the Cabinet Office recognise the important roles of HMRC and DWP, along with the public service pension schemes, in improving the GMP administrative processes. The Joint GMP Advisory Group has therefore been asked to ensure that their work considers whether there are any opportunities to reform and simplify the current administrative system within the existing GMP legislation. It is envisaged that the comprehensive ongoing work will bring about fundamental and lasting improvements to the existing GMP administrative system.

Thirty Third Report: Appendix B

HM Treasury (HMT)

Government Cash Management

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Government Cash Management* report, which was published on 16 October 2009.
2. The Committee concluded that central Government, as a whole, is not managing its cash in a way that maximises value for money, largely because it could hold more cash in the Exchequer. Money that leaves the Exchequer needs to be raised by the Government at a cost that is close to the Bank of England bank rate, which ranged from 5% to 0.5 per cent in 2008-09. In some cases, this money is held in commercial bank accounts, earning interest, before it is used to make payments. There are also broader benefits from using the central expertise of the Debt Management Office (DMO) to manage cash balances and the associated risk.
3. Some organisations are ready to move over to the Exchequer, as their banking provider, almost immediately. Others, especially those that have complicated banking arrangements or want to maintain their independence from Government, would incur considerable one off costs or require a significant cultural change. These factors would apply to any change of banking provider, and the costs may include changing internal processes to align with those of the new provider, adjusting computer software, and ensuring all customers know and use the new bank account details.

PAC Conclusion (1): Departments and their sponsored bodies should have their main account with the Government Banking Service, so that unspent money is kept at the Exchequer. This is one of the most important elements of good cash management in Government, as it not only reduces Government borrowing, but minimises risks and allows the Government to plan and manage its cash flow more cost-effectively. Organisations should only have commercial bank accounts where they have agreed with the Treasury that the Government Banking Service cannot satisfy a particular business need.

PAC Conclusion (2): Departments need to improve their links with sponsored bodies and collect more accurate information on when they use their cash. Based on the data, they should amend payment cycles to sponsored bodies with commercial bank accounts, so that the bodies receive money when they need it, and not before. This amendment may be for more frequent payments, or making the monthly payments closer to the date when significant liabilities, such as payroll, need to be met.

PAC Conclusion (3): Public bodies need to gather information from business units to forecast individual monthly expenditure. To do this effectively, they need to structure them to facilitate continuous dialogue between those staff responsible for forecasting cash requirements, and those making payments. They also need to emphasise to budget holders responsible for approving large payments and claiming receipts in their own organisation, as well as any sponsored bodies, the importance of accurate forecasting and communicating any changes to forecasts as soon as possible to the cash managers.

PAC Conclusion (4): With the tighter fiscal position, Boards should have greater oversight of information on cash flow, so they better understand the pattern of spend, as well as total spend, and can address any potential risks. Central finance teams should develop more informative reports, which ought to include movements in the main current bank accounts and comments on variances. Where there is an operational need to have commercial accounts, Boards should ensure that cash balances are invested in interest earning accounts, while having due regard for credit risk. They should also receive reports on the proportion of their cash which earns interest, the rates earned, and a credit assessment of the institution with which their funds are held.

PAC Conclusion (5): Organisations should manage their payments in a way that allows them to use the most cost-effective methods, and develop strategies for limiting the use of expensive paper handling.

PAC Conclusion (6): The Treasury needs to extend its incentives to encourage public bodies to keep more money in accounts at the Exchequer, for example: by making bodies' performance in this regard more transparent. It could also, together with the Government Banking Service, take a more active approach to achieving compliance with its guidance on minimising commercial balances. Any of these steps would need to be taken in a way that minimises unintended behaviours, and would also incur some limited additional staff cost. However, new mechanisms are critical in shifting the focus away from just accurate forecasting. The most cost-effective system would be for all public bodies to bank with the Exchequer and manage their cash in accordance with the guidance without the need for incentives.

PAC Conclusion (7): The Treasury is already working with Departments to improve their performance, but should focus more on those Departments with the greatest scope to improve, based on current performance and the context in which they operate. In light of the tighter fiscal position, it should work with all Departments to help them identify how they can improve their forecasting accuracy, particularly at the end of the financial year, without compromising the policy of minimising cash balances held in commercial accounts.

PAC Conclusion (8): Where there is a value for money case for using a commercial provider for standard banking services, public bodies should seek approval from the Treasury. When procuring specialised banking services, organisations should first check whether the new Government Banking Service is able to provide them. If not, they should work with the Government Banking Service during the specification and tendering process, as it can coordinate knowledge sharing across the wider public sector.

4. The Treasury agrees with all the issues raised by the NAO and is grateful to them for raising the profile of this important issue. The Treasury agrees that the most cost-effective system would be for all public bodies to bank with the Exchequer and to manage their cash in accordance with the guidance.

5. Building on this report, the Treasury and Government Banking Service have renewed their efforts to secure this objective. In October 2009, the Treasury wrote to all Departmental Finance Directors reminding them of the Treasury guidelines set out in *Managing Public Money (MPM)* and particularly of the need for Departments, and their sponsored bodies, to hold their main account with the Government Banking Service (GBS), and to minimise commercial balances. Since then, the Treasury has collected information about balances, held outside the Exchequer, as part of the Cash Management Scheme (as at 31 March 2010). This information will help the Treasury to work with Departments to validate, to analyse, and to take action, to reduce these balances.

6. In carrying this work forward, the Treasury will focus on those Departments with the greatest scope to improve. As public bodies increasingly hold their cash balances with the Exchequer, it will reduce the extent to which forecasting and cash management objectives may conflict. The Treasury agrees with NAO's conclusion that the main strength of the Treasury's Cash Flow Management Scheme (current incentive scheme) is that it uses a combination of financial incentives in the form of charges and rebates, and non-financial incentives in the form of league tables. The Treasury keeps the rules of the scheme under constant review to ensure that it meets the desired objective.

7. In the future the Treasury will keep a record of agreed commercial accounts, and work with its spending teams to ensure that it remains aware of requests for new accounts.

8. The Treasury is working with Departments, where appropriate, to help them take the necessary actions to implement the Committee's recommendations – recommendations 1 to 5 were directed at Departments. The Treasury requested Departments to comment on each of the Committee's conclusions, with each Department having different circumstances and thus responding to the Committees recommendations differently.

PAC Conclusion 1:

9. There was general agreement that Departments and their sponsored bodies should ideally have their main account with the GBS, so that unspent money is kept at the Exchequer. For example DH already requires that all directly funded organisations hold GBS accounts. The Treasury and the GBS will visit key Departments to see if it is possible for the GBS to offer accounts to bodies, which currently bank with commercial providers.

PAC Conclusion 2:

10. There was a mixed response from Departments relating to the need to improve their links with sponsored bodies and to amend payment cycles to sponsored bodies with commercial bank accounts. This is because Departments have different challenges and their systems have different levels of sophistication. The Treasury will work with key Departments to see whether more can be done.

PAC Conclusion 3:

11. Departments generally accept the need to structure themselves in a way which facilitates continuous dialogue with key business units, so that they can provide effective monthly forecasts to the Treasury. For example: the Department for Transport (DFT) has systems in place for gathering forecasting information, monitoring actual payments and carrying out some analysis of variance. There is an ongoing dialogue with, and guidance to, business areas in order to increase the general level of understanding of best practice and to capture any changes to forecasts. Not all Departments' systems are as effective, but Departments are planning to improve their standards.

PAC Conclusion 4:

12. Most Departments provide their Departmental Boards with oversight information on cash flow. For example: in the Department for Education (DFE) the overall cash position within the Department is kept under regular review and any exceptions are included in the Monthly Financial Board Report to their Board.

Thirty Third Report: Appendix C

HM Treasury (HMT)

Measuring up: how good are the Government's data systems for monitoring performance against Public Service Agreements?

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Measuring up: how good are the Government's data systems for monitoring performance against Public Service Agreements* report, which was published on 21 October 2009.
2. Since the Committee's report was published, the new Government announced that it has ended the previous Government's system of Public Service Agreements (PSAs), and over the course of the 2010 Spending Review will consider the best ways to hold Departments to account for achieving more for less¹. Whilst the Government accepts many of the Committee's conclusions and recommendations, it is important to note that they were made on a system that is no longer in place.
3. The Government has announced that any future performance framework will feature the publication of Departmental business plans that will show the resources, structural reforms and efficiency measures that Departments will need to put in place to protect and improve the quality of key frontline services while spending less. The Government will seek the advice of the National Audit Office (NAO) in creating any new performance arrangements, to ensure that lessons from the PSA system are learned.

PAC Conclusion (1): Many of the more serious problems in data systems were sourced in weak indicator or system design, and a failure to apply known "good practices".

- (a) HM Treasury should hold Departments to account for implementing improvements in current weak data systems, as detailed in published NAO findings.
- (b) Department should review the measurement requirements of new PSAs to ensure that all key elements of performance are well defined and measurable
- (c) Departments should continue to evaluate existing data sources to assess their suitability for PSA monitoring purposes, without compromising performance management and accountability, by using data sources that do not offer the required validity or precision
- (d) Departments should ensure that the basis for claiming success is clear and reasonable, taking into account the ability of the data system to measure progress beyond chance or error

PAC Conclusion (2): More than a third of systems lacked proper controls over data collection, processing or analysis. Data quality considerations must be embedded in routine risk identification and management.

- (a) HM Treasury should require adequate risk assessment and risk management plans for current PSA monitoring, and as a precondition to agreeing future measurement systems.
- (b) Department should specify the quality of data needed to monitor progress, assess the risks to data quality, and the adequacy of procedures and controls to mitigate or manage those risks.
- (c) Departments should devise systems to detect errors in outturn data, including potential over or undercounting.
- (d) Departments should ensure that they assess risks to data from external sources, and take steps to gain assurance that the data provided are of adequate quality.
- (e) Departments should specify clear management and oversight responsibilities for data quality.

¹ The Spending Review Framework: June 2010

http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf

PAC Conclusion (3): Transparent public reporting is essential to public accountability. Almost a fifth of Departmental performance reporting of PSA indicators lacked clarity.

- (a) Departments should keep published technical information on indicators up-to-date, including a record of changes made to associated-data systems.**
- (b) Departments should disclose limitations to data quality in reports to management boards and to the public, and present all the information necessary to place performance information in context.**
- (c) Departments should specify criteria for success against each indicator.**

PAC Conclusion (4): A performance management framework for Government must enable the transparent management of Government priorities and spending. There is no single discipline that leads on performance accounting or reporting, and no associated standards.

- (a) HM Treasury should develop performance accounting and reporting standards to promote a consistently high standard of performance measurement and reporting.**
- (b) HM Treasury should review the arrangements for agreeing measurement systems and increase the degree of challenge before final agreement.**
- (c) HM Treasury should recognise that new indicators and systems pose increased risk and reflect that in its scrutiny of departmental proposals.**
- (d) HM Treasury should develop clearer guidance on dealing with the potential conflicts of measuring progress against national priorities, and restricting monitoring burdens placed on local bodies.**
- (e) Departments should set out the measurement requirements of new performance measures to ensure that all key elements of performance are well defined and measurable, and assess the risks to data quality and the adequacy of procedures and controls to mitigate or manage those risks.**
- (f) Departments should select, as accountability measures, only indicators of performance where they have adequate and attributable influence over progress.**

4. The Treasury partially accepts the Committee's conclusions, but is unable to enact recommendations that specifically apply to the PSA framework that has now ended.

5. On the Committee's third conclusion, the Government is committed to promoting the use of transparent, high quality data. Published performance data should be clearly explained and any associated technical information should remain up-to-date. Any known limitations in the quality of data should be made clear to those that use the data. Whilst the Government accepts that it is important for effective accountability to define success for key areas of departmental performance, it is also committed to defining success more broadly than simple numerical targets.

6. In designing any new performance framework, the Government will carefully consider the criticisms made by the PAC, the NAO and others on the PSAs. The respective roles of the Treasury and Departments will be considered as part of both this process and of the Treasury's review of its Corporate Governance Code, which is designed to help improve corporate governance of Departments.

Thirty Third Report: Appendix D

Department for Business, Innovation and Skills (BIS)

Complying with regulations: Business Perception Survey 2009

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Complying with regulations: Business perception Survey 2009* report, which was published on 22 October 2009.

2. Departments have implemented a wide range of initiatives within the Administrative Burdens Reduction Programme. The Committee concluded that the existence of a 25% target was an important driver in incentivising Departments to consider the burdens imposed by their regulations. Businesses are also reporting that individual aspects of complying with regulation have become less burdensome, indicating that Departmental initiatives have delivered benefits. The strengthened validation arrangements have improved confidence that Departments are testing the assumptions underlying their claimed reductions, although the estimated savings should still be treated with caution.

3. However, more broadly in 2009, as in 2008, very few businesses reported that complying with regulation had become easier or less time consuming than a year before, and around a third said that it had become worse. Businesses appear to recognise some non-quantifiable benefits of initiatives, such as improved levels of clarity around what they need to do to comply. But, whilst business perceptions of how Government regulates are generally more positive than 2007, the Committee saw no improvement between 2008-09, and most businesses continue to question whether the Government understands business well enough to regulate, or consults well before doing so.

4. The limited improvement in overall business perceptions of regulation, despite the action reported by Departments and the positive changes in perceptions on individual aspects of compliance, may show the effect of a continuing flow of new regulations affecting businesses that outweighs the impact of administrative burden reductions. But it may also demonstrate that the Administrative Burden Reduction Programme's approach of making a large number of incremental improvements is not enough to make a visible difference for businesses. If the Government is to achieve a significant change in business perceptions, the Better Regulation Executive (BRE) and Departments must therefore look to more strategic and structural reform. The BRE is seeking to achieve this through the Wider Regulatory Reform Agenda.

5. Reducing the impact of regulation on business is a high priority for the new Government, which is keen to learn from experience, building on what has worked well in the past and learning from what has worked less well. The key elements to this approach are:

- to cut red tape by introducing a 'one-in, one-out' rule, whereby no new regulation is brought in without other regulation being cut by a greater amount;
- to end the culture of 'tick-box' regulation, and instead target inspections on high-risk organisations through co-regulation and improving professional standards;
- to impose 'sunset clauses' on regulations and regulators to ensure that the need for each regulation is regularly reviewed;
- to give the public the opportunity to challenge the worst regulations; and
- to end 'gold-plating' of EU rules, so that British businesses are not disadvantaged relative to their European competitors.

PAC Conclusion (1): The results of the Committees 2009 survey show that few businesses feel Government understands or consults well with them. Departments need to look at regulation from the perspective 16 of the individual business, and seek to learn from businesses how best to minimise the time and cost of complying with regulation. Departments should look together at all of the regulatory demands placed on business rather than concentrating on those regulations for which each individually is responsible. Where this leads to changes that cut across Departments, the BRE should take a key-coordinating role in the process.

6. The BRE agrees with the Committee's conclusion. Departments should have a strong understanding of how individual businesses experience regulation, the time and cost of compliance, and should look at the total impact of regulatory demands on business. The BRE will play an important role in helping to join up across Departments.

7. In October 2009, the BRE led the publication of the Forward Regulatory Programme (FRP) – a joined-up statement of all forthcoming business regulations, to improve the management and scrutiny of new regulations as they are developed. It was designed to create more openness and clarity in the regulatory process, and enable decisions on new regulations to be taken in the context of the cumulative burden on business of the Government's regulatory programme and the wider economy. The FRP was updated in March 2010 and will be a feature of the new Government's approach.

PAC Conclusion (2): Departments should identify more radical changes to regulatory requirements for example, by reviewing existing regulation to see if there is scope to remove whole requirements as well as simplifying those already in place, and considering non-regulatory means of achieving policy objectives.

8. The BRE agrees with the Committee's conclusion and that more radical changes to regulatory requirements should be identified. The Government is committed to reviewing existing regulation to see if there is scope to remove whole requirements as well as simplifying those already in place, and considering non-regulatory means of achieving policy objectives. To support this:

- the Government announced, on 2 June 2010, that it is establishing a new 'challenge group' to come up with innovative approaches to regulation in a non-regulatory way;
- the new 'one-in, one-out' approach will necessitate Departments taking a broader and more challenging view of their overall regulatory burden than has previously been the practice;
- the Government intends to introduce 'sunset clauses' on regulations to ensure the need for each regulation to be regularly reviewed; and
- the Government proposes to give the public greater opportunities to challenge the need for regulations.

PAC Conclusion (3): Departments should recognise the potential benefit of reducing the policy costs of regulation as well as the administrative costs currently targeted by the Programme, for example, by ensuring that all reviews of policies imposing regulatory requirements consider the scope to simplify both administrative and non-administrative requirements.

9. The BRE agrees with the Committee's conclusion. In reviewing the existing stock of regulation, the Department will take full account of the cost of the non-administrative, as well as the administrative requirements. Recent revisions to the Impact Assessment template, with its increased emphasis on policy costs, both one-off and recurring, will assist Departments in ensuring that policies imposing regulatory requirements consider policy costs, as well as administrative costs.

PAC Conclusion (4): The Government has announced that it will adopt new simplification targets for 2010-15. The BRE must take this opportunity to revise its set of indicators to incentivise Departments to look beyond time and cost savings at how to improve the business experience of regulation. The indicators should take into account qualitative benefits from the Programme, such as reducing irritants and improving businesses' confidence that they are complying fully with regulations.

PAC Conclusion (5): The BRE should ensure effective arrangements for holding departments to account against this broader set of indicators. The BRE should consider whether the new Regulatory Policy Committee has a role in testing whether new burden reduction initiatives are based on an understanding of key business concerns.

10. The BRE agrees with the Committee's conclusions that in developing a new policy agenda, strong and transparent arrangements will be important to hold Departments to account for their performance, against the objectives of the agenda. The new Government's approach to improved regulation does not include a stand-alone simplification programme. The requirement for Departments to simplify is embedded in the new approach being taken. Departmental indicators, across Government, are in the process of being defined.

PAC Conclusion (6): The BRE and Departments have been developing and implementing communication strategies over the last year, but our survey showed mixed awareness of initiatives. Departments should ensure that initiatives address the key business concerns around complying with regulation. The results of the Committees 2009 survey and qualitative work indicate that Departments should focus on delivering initiatives and communications to businesses that:

- (a) raise business awareness of which regulations apply to them;**
- (b) are tailored to the key information that different types of businesses require, for example, by considering factors such as size of business or length of time in existence; and**
- (c) improve certainty for businesses that they have complied fully with requirements.**

PAC Conclusion (7): The Committees qualitative interviews with business indicated that the business link website was an important source of information for many small businesses. The survey results show that only 33% of businesses use the website as a source to help them comply. The BRE and Departments should further promote and raise awareness of businesslink.gov.uk with small and medium sized enterprises. The website must provide up-to-date, clear and reliable information for business and should continue to provide information tailored:

- (a) by different stages in the business life cycle, and;**
- (b) by different types of business.**

11. The BRE agrees with the Committee's conclusions. Effective communications, with businesses, are essential to make it as easier for them to know which regulations apply to them, and what they need to do to comply. Lack of clarity may lead to unnecessary expense by businesses on consultants and may lead to over-compliance, as well as under-compliance.

12. Progress has been made in this area following the independent Anderson Review of Guidance, which led to a strengthening of the Code of Practice on Guidance on Regulation, and changes to the Business Link website. The Code of Practice on Guidance now requires:

- that guidance be produced at least 12 weeks before businesses are required to comply, in order to give them time to adapt, publicised either directly to businesses or through intermediaries, where appropriate, and accessible via businesslink.gov.uk, either hosted directly on the site or through links to guidance sources;

- that a quick-start summary guidance be provided;
- the removal of legal disclaimers from guidance; and
- the inclusion of information within guidance on how to provide feedback.

13. The Government has recently indicated that the information service provision to business will be reviewed, taking into account the needs of different types of business, in order to provide a modernised system of support. The details of this are currently being developed.

Thirty Third Report: Appendix E

Office of Government Commerce (OGC)

Commercial skills for complex Government projects

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Commercial skills for complex Government projects* report, which was published on 6 November 2009.
2. The Committee concluded that its past reports on complex Government programmes and projects have demonstrated that value for money has often been compromised by a lack of commercial skills and experience. There are still shortfalls across Government in the commercial skills needed to deliver these projects. The Office of Government Commerce (OGC) and Departments share responsibility for developing the commercial skills and experience needed across Government, a priority recognised since 2000.
3. Progress has been made particularly on the identification of skills gaps within Departments and project assurance. However, the OGC and Departments have not always worked together effectively. Some important issues have not been addressed fully and the initiatives that have been taken forward have so far had a limited impact. There has been duplication of spending by the OGC and Departments on similar initiatives and a lack of uptake of other OGC initiatives by Departments. As a result, the value for money of the £1.5 million a year that the OGC has been spending on initiatives primarily aimed at improving commercial skills, is also at risk. The OGC and Departments need to agree and then carry out a coordinated, coherent and targeted strategy addressing these issues.

PAC Conclusion (1): Government has yet to develop an optimal strategy for building, retaining and effectively deploying commercial expertise or raising commercial awareness. The OGC and Departments should evaluate and revise their current commercial skills strategy by October 2010. This should address:

- (a) effective models of commercial leadership;
- (b) raising the commercial awareness of the boards and senior responsible owners;
- (c) key barriers to efficiently deploying commercial expertise;
- (d) Departments' reservations about participating in the OGC initiatives; and
- (e) unnecessary duplication between the OGC and Departmental initiatives.

PAC Conclusion (2): The Government does not have the necessary information or mechanism to place people with commercial experience and skills onto the complex projects where and when they are most needed.

Departments should by the end of July 2010:

- (a) put in place project assurance processes that will identify commercial skills gaps in individual project teams; and
- (b) produce an analysis of the commercial skills required across their future complex project procurements, and identify the contract management skills that are required to prevent value for money being eroded during the delivery phase of complex projects.

The OGC and Departments should by October 2010:

- (a) use these plans to establish an optimal cross-Government commercial staff plan; and**
- (b) work together to make it possible for commercial staff to be seconded quickly between Departments, addressing barriers preventing this. The OGC should act as a broker of such secondments where they are in both the Government's and the individual's best interests.**

PAC Conclusion (3): Commercially experienced staff can provide valuable short-term interventions at critical times during projects. As a key part of the cross-Government staffing plan, the OGC should explore how to establish a cadre of experts that can be deployed if a project runs into difficulty. Currently options include:

- (a) the coordination of central resources of commercial experts from the OGC, Partnerships UK, HM Treasury, and the Shareholder Executive;**
- (b) the identification of mechanisms for the short term release of commercially experienced individuals from other departments; and**
- (c) the use of quality assured individual consultants.**

PAC Conclusion (4): Public spending constraints have affected the recruitment of commercial staff. Where opportunities for recruitment do arise, however, Government Departments should be flexible in how they recruit high calibre staff:

- (a) Departments should ensure adequate budgetary provision for individuals who have the commercial skills to support complex project teams. Departments should be flexible in determining the number, calibre and pay of the commercial staff needed to ensure successful project delivery;**
- (b) The OGC should set out guidance on the factors to consider in the recruitment of, and remuneration for, appropriately skilled commercial staff.**

PAC Conclusion (5): Commercial experience is being lost to projects due to commercial civil servants moving position frequently. The retention of commercial expertise within Government Departments should be given higher priority.

Departments should produce strategies, which set out how they intend to develop, retain and fully utilise commercial staff in critical posts on projects. These strategies should be produced in line with the recommendations set out in the OGC's Building the Procurement profession in the Future. The strategies also need to investigate other options for improving the retention of commercial staff, such as allowing project staff to be promoted in their current post.

PAC Conclusion (6): Given the scarce commercial staffing resources in Government Departments, project teams need tools, which will help them to address commercial issues and reduce the risk of poor commercial decisions. The OGC and Departments should:

- (a) Establish a comprehensive set of best commercial practice and standard approaches to be applied across government wherever appropriate. Its adoption should be supported with guidance, training events, and access to experts. This work should draw on the contractual standards already developed for private finance projects, information communication technology, and construction.**
- (b) The OGC and Departments should further develop information sharing on:
 - (i) learning and development opportunities; and**
 - (ii) individuals' experiences of interacting with different private sector companies.****

PAC Conclusion (7): Procurement Capability Reviews (PCRs) continue to be a useful indicator of the commercial skills of departments. But the OGC does not have an adequate ongoing performance management system to measure the success of its individual initiatives. The OGC should:

- (a) collect data from commercial directors, to assess the impact of OGC's commercial skills initiatives against their objectives. This could include tracking the impact that initiatives have had on the future retention of commercial staff, their career progression, and confidence in dealing with commercial challenges; and**
- (b) establish by October 2010 a performance measurement framework, with key performance indicators for commercial skills capability across Government. The OGC should coordinate the collection of relevant data from Departments and make use of existing sources such as the Government Procurement Service annual survey and PCRs.**

4. In light of the very recent Machinery of Government changes, the Government wishes to further consider the recommendations made by the NAO and the Committee in their reports. The Government will provide a more comprehensive response to the Committee in due course.

Thirty Third Report: Appendix F

Department for Transport (DFT) and Home Office

Independent Reviews of reported CSR07 Value for Money savings

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Independent Reviews of reported CSR07 Value for Money savings* report, which was published on 16 December 2009.
2. The Department has reported value for money cash releasing savings totalling £892 million in 2008-09. The reported saving was made up of six separate initiatives. The Committee has rated £585 million of the savings as Green or Amber; but have significant concerns over £307 million (34%) of the claim to date. The Committee concluded that elements of the Department for Transport's governance arrangements for the programme are good, but that the Department's lack of control over and visibility of third party grant recipients reduces its ability to gain or provide assurance on savings reported in these areas. The majority of the reported savings (80%) relate to the two rail workstreams in the Department's programme. These were derived from a decrease in support for passenger rail services (the net subsidy paid to Train Operating Companies) and from a reduction in the grant for Network Rail.
3. The Committee recommends that the starting baseline for Network Rail should be revised to reflect actual 2007-08 expenditure. This would significantly reduce the saving made in 2008-09. The Committee rated the element that represents an overstatement Red, with the remaining element rated as Green. The Committee rated £80 million of the Support for Passenger Rail Services saving of £280 million as Red, with consideration that the starting baseline, against which the value of the saving was measured, should be altered downwards to reflect actual spend for 2007-08, after allowing for early VFM action. This would result in a lower saving being reported in 2008-09.
4. The Committee also concluded that there is a risk that large elements of the saving are not sustainable in all CSR07 years owing to the impact of the economic downturn on passenger revenues. The Department recognises that there is a risk to sustainability, although it has pointed out that this did not fully materialise until after the annual report figures were finalised.

PAC Conclusion (1): The Department for Transport should recalculate its Rail savings in the light of the most accurate information available. The savings were based on the difference between the estimate of spend without VFM reform (counterfactual) and the actual spend. The Committee recommends that the baseline is recalculated such that it represents 2007-08 spend for Network Rail, and the reexamination the Department has undertaken of expenditure on Support for Passenger Rail Services, and should obtain Treasury's agreement to these recalculations.

5. The Department for Transport (DFT) agrees with the Committee's conclusion. The Department has recalculated its rail baselines and savings, drawing on the most up to date information available, as recommended by the National Audit Office (NAO). This has enabled the Department to utilize information, such as actual expenditure, that was not available at the time that baselines and savings targets were set. By drawing on the most up to date information available, the Department has been able to clearly demonstrate the real savings that have been made, whilst ensuring that the method of calculation is clear, transparent and robust.
6. The NAO has confirmed that it is content with the changes the Department has made to rail baselines and counterfactuals. The Treasury has confirmed their agreement to these revised calculations, which will be published alongside the Resource Accounts in this year's modified Annual Report.

PAC Conclusion (2): The Department for Transport should review of all reported savings prior to publication. The Committee recommends that as well as the Internal Audit review of reporting systems, required by Treasury guidelines, the Department needs to ensure that all significant savings, are real and are publicly defensible. If possible this review should take place before the figures are published in Annual and Autumn reports.

7. The Department for Transport (DFT) agrees with the Committee's recommendation. The Department's Internal Audit team has provided independent challenge to the 2009-10 savings disclosed in the DFT Annual Report, which the NAO has confirmed addresses their recommendation.

PAC Conclusion (3): Reported savings should clearly distinguish between savings meeting the Treasury's criteria and other improvements in value for money to give credit to activities, which do not count towards the CSR07 target but are nevertheless worthwhile. The Home Office wishes to incentivise activities which improve efficiency, but which do not necessarily contribute to its savings target, because they do not release resources in the short term. Better use of police time, which does not allow redeployment and innovative procurement of long-term contracts are two such areas highlighted in this report.

8. The Home Office agrees with the Committee's recommendation. The Department's value for money (VFM) strategy encourages all business areas to report on both activities that meet the CSR07 NAO savings criteria, and on activities that lead to efficiency improvements, but do not meet the savings criteria. Guidance for 2010-11 VFM planning has included the requirement for business areas to distinguish between activities that meet the CSR07 savings target and other efficiency activities.

PAC Conclusion (4): The Home Office should issue further guidance for police forces on the difference between cash releasing savings and service improvements, and rules covering the carry-over of savings made in previous years. A substantial proportion of police savings result from efficiency measures that do not release cash but enable key resources to be reallocated to priority frontline services. To distinguish these savings from more qualitative improvements, forces should be specific in how savings are being reinvested.

9. The Home Office agrees with the Committee's recommendation that it is important that police forces understand the difference between cash releasing savings and services improvements. The Department has already issued clear guidance to Police Authorities on the definition of "cashable savings" in the Technical Note to the Efficiency and Productivity Strategy for the Police Service: 2008-11. This definition covers both budget reductions and the reallocation of resources made available through value for money improvements. The Department's target for the delivery of efficiency savings by the police service is defined in terms of cashable gains and it is only these on which Police Authorities must report to the Department.

10. However, the Department wishes to avoid burdening authorities with further guidance on defining gains, for which there is no central reporting requirement, for the CSR07 years. The Department will seek a suitable opportunity to emphasise the existence and importance of the relevant guidance.

PAC Conclusion (5): The Home Office should review of all reported savings prior to publication. The Committee recommends that as well as the Internal Audit review of reporting systems, required by Treasury guidelines, the Department needs to ensure that all significant savings, including those made by police forces and other arms length bodies, are real and are publicly defensible. If possible this review should take place before the figures are published in Annual and Autumn reports.

11. The Home Office agrees with the Committee's recommendation. The Department's internal Audit and Assurance Unit (AAU) already has a system, which ensures savings reported are reviewed regularly and are consistent with the CSR07 NAO savings criteria before they are published. The Department was clear, in the statement made in the report, that all gains remain estimated until the full year impact could be measured.

12. Police Authorities already operate within a framework of inspection and audit by Her Majesty's Inspectorate of Constabulary (HMIC) and the Audit Commission, which provides a sufficient level of assurance. It is the responsibility of police authorities to set VFM targets for forces and hold them to account. Police Authorities are obliged to report their efficiency gains publicly. In particular, that now includes declaring gains on Council Tax Bills (albeit including locally allowed carry forward), as well as reporting the new per annum gains to the Department.

PAC Conclusion (6): The Home Office should establish clear budgetary baselines for evaluating major procurement projects and administrative spending. In order to demonstrate that reported savings have released cash as claimed, and is meeting the 5% target for administrative spending, the Department should be able to reconcile actual spending to a defensible counterfactual based on its spend in 2007-08.

13. The Home Office agrees with the Committee's recommendation. Within the Department, in support of the strategic objective to reduce costs, a simple four point plan has been developed to support spend savings and cost reduction targets. The plan covers: cutting discretionary budgets; significantly reducing spend on Consultants and Contingent Labour; leveraging all non-strategic spend through the Department's Shared Procurement Platform; and targeting major programmes and contracts for renegotiation. The Department is continuing to record savings that incentivise and recognise good procurement practice and result in good VFM deals.

14. The application of the CSR07 savings criteria has been recognised as an issue for all Government Departments. The Home Office, as one of the first Departments to be audited, has been engaging with the *Office of Government Commerce* (OGC) and the Treasury on developing guidelines that incentivise, encourage and recognise appropriate action by procurement professionals. The Department is also developing, in collaboration with OGC, advice and guidance to identify and calculate savings that, within the overall total, fall within the more restrictive CSR07 criteria.

Thirty Third Report: Appendix G

Department for Work and Pensions (DWP)

Department for Work and Pensions: Pensions Protection Fund

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Department for Work and Pensions: Pensions Protection Fund* report, which was published on 5 February 2010.

2. The Committee concluded that for the Pension Protection Fund (the Fund) to represent value for money, it must manage the balance of its assets against its liabilities to provide an adequate level of protection, while minimising the cost of the levy. To achieve this balance, the Fund must invest efficiently and have suitable means to assess and respond to the potential impact of future claims. Against these criteria, the Fund has delivered value for money. It managed its investments satisfactorily to achieve an aggregate return in 2008-09 of 13.4%, after taking into account deals to manage the impact of inflation and interest rate changes. The Fund has also developed a suitable model for assessing the impact of potential future claims.

3. However, the Fund needs to take steps to maintain value for money in future, in particular, adapting its investment processes to reflect the growing value of its assets, continuing regularly to audit its risk model and establishing a framework for illustrating the sensitivity of its longer term risk modelling projections.

PAC Conclusion (1): The value of assets transferred to the Fund is expected to reach at least £4 billion by April 2010. For its investment operation to continue to operate efficiently in the light of an increasing portfolio of assets, the Fund should:

- (a) complete its review of the roles and responsibilities of its Investment Committee and Asset and Liability Committee. This should consider increasing the delegation of responsibility to the Asset and Liability Committee, particularly with regard to the replacement of investment managers;**
- (b) fully develop objective procedures for actively responding to ratings decline among Fund Managers and appointing replacements; and**
- (c) further develop, in line with best practice, capability for detailed analysis of the prospective performance of managers to minimise the risk of counter-productive investments.**

4. The Department agrees with the Committee's recommendations. The Fund's Board reviewed the division of investment responsibilities in January 2010 and confirmed a broad allocation of responsibility for investment risk, strategy and implementation. As part of this delineation, it was determined that the Investment Committee should retain power to appoint and replace external investment managers.

5. The Fund's Investment team is undertaking a full review of its fund manager monitoring that includes the process for it to respond to manager rating downgrades and the framework for evaluating prospective manager performance. Completion of the review is planned for September 2010, when the Fund's Asset and Liability Committee will appraise the proposals and decide on implementation.

PAC Conclusion (2): The Fund has developed a suitable model for assessing its potential future liabilities. For the Model to be more responsive to changing circumstances, the Fund should:

- (a) review the transition matrix, which models how probability of default against credit can change over time, in light of recent experience;**
- (b) continue to audit the Model regularly, and at least once every five years to review the cumulative effect of small structural changes, or when large model changes occur, to continue to provide assurance that the methodology and outputs are reasonable and robust;**
- (c) model routinely over the truly long term (15 to 30 years);**
- (d) continue to improve the documentation of the Model in line with emerging best practice;**
- (e) establish a framework for illustrating to a wider audience the sensitivity of modelling results to all key assumptions, such as the specific circumstances of recessionary scenarios; and**
- (f) consider further consultation on the operation of the Model to make it more accessible to employers paying the levy on behalf of schemes.**

6. The Department agrees with the Committee's recommendations. The Fund's Risk and Modelling team is reviewing the Fund's use of the current transition matrix (supplied by Moody's KMV) in comparison with a matrix supplied by Barrie & Hibbert Limited. The Barrie & Hibbert matrix is updated annually and incorporates recent experience of financial stress. The Fund's Risk and Modelling team is currently analysing model outputs, produced on the basis of each matrix, in collaboration with the Government Actuary's Department (GAD). The Fund's Asset and Liability Committee will make a decision in July 2010.

7. The Fund proposes to continue to audit the Fund's Long-Term Risk Model (LTRM). GAD reviewed the model's methodology and assumptions in December 2009. The Fund's Risk and Modelling team is currently upgrading its documentation of the model in line with relevant standards, a task that will be finished in September 2010. Upon completion, the Fund plans to agree the terms of reference for the next external audit of the model, which will take place early 2011.

8. Longer-term model runs are now a routine feature of the analyses conducted by the Fund's Risk and Modelling team. Model runs, over 20 years, are required as part of the Fund's funding strategy work and have been performed on a quarterly basis since December 2009. Details of the latest 20-year run will be presented as part of the funding strategy statement, which is planned for publication by July 2010. Full documentation in line with external standards (those applicable to insurance companies seeking to meet Solvency II requirements) is scheduled for completion by 30 September 2010.

9. An extensive framework of sensitivities of key assumptions was developed for the Fund's Board as part of the Board strategy day in December 2009. The publication of the Fund's funding strategy will include the sensitivity framework, which will form part of the supporting technical material. Additionally, LTRM output is a central and visible component of analysis supporting the Fund's funding strategy. The Fund will judge stakeholder demand for even greater visibility of the LTRM on the basis of feedback to this communication exercise.

PAC Conclusion (3): The recession could increase the Fund's deficit considerably as it takes on the under-funded schemes of a growing number of insolvent employers. To guard against the prospect of an unmanageable deficit, the Fund regularly discusses key metrics, such as the ratio of the assets to liabilities, with the Department and the Regulator. The Fund and the Department should review these metrics each year to confirm their suitability.

10. The Department agrees with the Committee's recommendation. The Fund's Risk and Modelling Team has reviewed these metrics and, as a result, a new Financial Risk Dashboard was proposed to, and approved by, the Fund's Board in March 2010. The dashboard provides a set of metrics for the quantification and monitoring of key financial risks to the Fund's funding objective. It is reviewed internally by the Fund's Executive Committee and Board and presented to the Department as part of the Quarterly Accountability Review (QAR) process.

Thirty Third Report: Appendix H

Department for Environment, Food and Rural Affairs (DEFRA)

DEFRA: reducing the impact of business waste through the Business Resource Efficiency and Waste Programme

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Department for Environment, Food and Rural Affairs: reducing the impact of business waste through the Business Resource Efficiency and Waste Programme* report, which was published on 5 March 2010.

2. The Committee concluded that there are indications that the Programme may have generated cost savings and increased income to those businesses that participated and had some effect in reducing business waste, but it was not possible to conclude whether the £240 million of expenditure delivered value for money because:

- the Department did not have comprehensive and timely data to target resources effectively and did not establish specific, quantified objectives for the Programme;
- the Committee found low awareness amongst businesses of the support available through the Programme. Given that businesses had to apply for assistance, it is reasonable to suppose that the Programme's initiatives were insufficiently targeted on the areas of greatest impact. However, the Department does not accept that awareness was low as the take-up was broadly comparable to another similar scheme; and
- as no evaluation of the Programme has yet taken place, the Department has not been able to establish which initiatives had the greatest impact and thus warrant ongoing funding.

3. The Secretary of State for Environment, Food and Rural Affairs announced, on 15 June, a review of Government waste policies. The Department will ensure that the Committee's recommendations are fully addressed in the conduct of the review, as far as this affects business waste.

PAC Conclusion (1): To better target and monitor ongoing and future funding of initiatives to reduce business waste, the Department should:

- (a) undertake a formal evaluation of the Programme in order to inform the priorities and direction of the new single delivery body;**
- (b) use the data from its proposed survey of commercial and industrial waste to improve the targeting of future initiatives and direct resources to where they are most needed; and**
- (c) identify whether in future it could monitor change more cost-effectively by, for example: identifying a cohort of key organisations to measure change in business waste over time.**

4. The Department agrees with the Committee's conclusions and will carry out a formal evaluation of the Programme in 2010. This will aim to estimate the overall impact of the programme, both in quantitative and qualitative terms; and further inform the priorities and direction of the new single delivery body: the Waste and Resources Action Programme (WRAP). The Department will place the evaluation report in the House of Commons Library, when available.

5. The Department's forthcoming national survey of commercial and industrial waste will provide a more up-to-date assessment of developments in these waste-streams. The Department will use the results of the survey to improve the targeting of future initiatives and direct resources to where they are most needed. Provisional results of the survey are due to be published in October 2010, with the final results in December 2010. Furthermore, the Department is examining ways of obtaining more robust and regular data on these waste-streams, while minimising administrative burdens on businesses.

6. The Department has established a new model that provides a more cost-effective means of monitoring and assessing the impact of initiatives on business waste and wider resource efficiency. The methodology provides a more robust assessment, because it forecasts, verifies and identifies impacts. Forecasts are verified through testing, with a range of audiences, including a cohort of key organisations. Final results are identified through comparison between the reported and verified results. The model has been used to quantify the results of resource efficiency interventions funded by the Department in 2008-09, and is providing valuable insights around the targeting of initiatives.

PAC Conclusion (2): To drive efficiency and performance from its delivery bodies the Department should:

- (a) put targets and performance measures in place from the outset in any future funding arrangements;**
- (b) set up and validate data collection and collation arrangements, so that useful data are produced on a timely basis;**
- (c) use performance data to challenge the funded bodies effectively; and**
- (d) remind its senior officials of the need to balance demands for urgent action adequately against the risk that expenditure may not be managed effectively in these circumstances.**

7. The Department agrees with the Committee's conclusions. During 2008-09, the Department conducted a review of its delivery landscape of support to businesses, consumers and the public sector on resource efficiency. This resulted in WRAP's appointment as the single delivery body for material resource efficiency in England, with effect from April 2010. As this change was made, the Department also introduced improved tasking, monitoring and evaluation arrangements for WRAP, which included:

- basing WRAP's programme proposals around four clear themes, which result from early engagement between the Department and WRAP about priorities;
- establishing targets and performance measures prior to the commencement of activities, and mapping these against expenditure; and
- encouraging more continuous engagement between the Department and WRAP throughout the year, across all areas of delivery, in order to enable the fine-tuning of activities.

8. The new model for assessing the impact of its resource efficiency initiatives provides the Department with more reliable and comprehensive information on the impact of delivery body activities. The model's forecasting and verification functions give the Department more confidence about the return on investment, and provide detailed information about the benefits of particular activities. The new model also ensures that final delivery body results are produced in a timelier manner, with the report for activities, carried out 2009-10, due by September 2010.

9. Performance against WRAP's agreed programme proposals, targets and performance measures is formally monitored on a quarterly basis through meetings between the Department's policy leads and WRAP. The meetings provide an opportunity for the Department to challenge WRAP about its performance, trajectories for activities, and delivery of value for money.

10. The Department will write round to all of its senior officials to remind them of the need to balance demands for urgent action adequately against the risk that expenditure may not be managed effectively in these circumstances.

PAC Conclusion (3): To achieve more substantial reductions in the tonnage of business waste sent to landfill, the Department should:

- (a) set clear objectives and targets for reducing the tonnage of waste produced and the tonnage sent to landfill;**
- (b) identify opportunities for integration between its business and municipal programmes, including encouraging;**
 - (i) shared recycling and treatment infrastructure where this will result in economies of scale; and**
 - (ii) joint collection and disposal of commercial and industrial waste.**
- (c) task its Waste Strategy Board with monitoring and challenging the level of coordination between the municipal and business waste programmes.**

11. The Government wishes to achieve more substantial reductions in the tonnage of business waste sent to landfill, as part of an overall drive towards a zero waste economy.

12. The Department has established clear delivery plans for WRAP, which incorporates targets and trajectories across WRAP's activity, including targets for reducing the tonnage of waste produced and the tonnage sent to landfill. The Department's forthcoming national survey of commercial and industrial waste will be used by the Department to help inform the setting of future targets with WRAP, as well as any possible wider targets for business waste.

13. The Department will carefully examine the evidence on the effectiveness of existing programmes, and other activities, when deciding whether more needs to be done to integrate programmes on municipal and business waste. The existing programmes include:

- Local authority trade waste recycling pilots;
- Trade waste pilot bring bank (recycling point) pilots; and
- Private Finance Initiative (PFI) credit criteria encouraging local authorities to explore with neighbouring authorities the opportunities for joint working when considering major infrastructure procurements; and to consider the potential for including other waste-streams, such as commercial and industrial waste, alongside municipal waste.

14. The Department expects the level of coordination between the municipal and business waste programmes to feature in the waste review.

PAC Conclusion (3): To improve awareness of its services amongst key waste producers, the Department should draw up and implement specific engagement strategies with key organisations and business sectors, setting out the interventions that are likely to prove effective, the anticipated results, and the mechanisms for monitoring success.

15. The Department will consider the Committee's recommendation as it engages key organisations and business sectors in the waste review. Some of this engagement is delivered through WRAP, which is an important partner for the Department for engaging key resource intensive business sectors. WRAP already develops sector specific strategies to help businesses to take action to reduce their waste, recycle more, use their resources more effectively, and so save money.

Thirty Third Report: Appendix I

HM Treasury and Cabinet Office

Re-organising Central Government

1. On the basis of a report by the Comptroller and Auditor General, the Committee has endorsed the conclusions and recommendation of the *Re-organising Central Government* report, which was published on 18 March 2010.
2. The Committee concluded that the value for money of central Government re-organisations cannot be demonstrated given the vague objectives of most re-organisations, the lack of business cases, the failure to track costs, and the absence of mechanisms to identify benefits and make sure they materialise. It concluded that some arm's length bodies apply sound cost management and systematic benefits measurement, but that, even they cannot necessarily demonstrate value for money. Overall, it concluded that the value for money picture is unsatisfactory and the costs are far from negligible.
3. The new Government is committed to turning old thinking on its head and developing new approaches to government. The Government has a programme of radical reform to end the days of centralised big government and distribute power to the people, and the most urgent task facing the country is to tackle the record debt and achieve sound finances. These objectives will inevitably require reforms to the structures of government including to reduce the number and cost of arm's length bodies, but they also reinforce the new Government's commitment to ensure that costs are tightly managed, benefits are delivered and that any changes represent value for money.
4. While some changes to the structure of central government have been made since the election – notably the creation of the Office for Budget Responsibility and move of the Office of Government Commerce into the Cabinet Office as part of the creation of a new Efficiency and Reform Group – the new Government has not made significant changes to the structures of central government as has been the case following previous General Elections.
5. In addition to responding to the Committee's conclusions, set out below, the Government has decided to introduce a greater degree of rigor to its consideration of possible Machinery of Government changes. The Coalition Agreement for Stability and Reform sets out that "any changes to the allocation of portfolios between the Parliamentary Parties during the lifetime of the Coalition will be agreed between the Prime Minister and Deputy Prime Minister".
6. The Cabinet Secretary will continue to advise the Prime Minister on all significant machinery of government changes and he will now, in addition, seek the views of the Government's Senior Non-Executive Director and reflect them in his advice. This does not fetter the Prime Minister's responsibility for the overall organisation of the executive and the allocation of functions between Ministers. It does however reflect the importance the Government attaches to properly planning Machinery of Government changes and ensuring a full assessment of the cost and benefits of the different options is undertaken. The new Efficiency and Reform Group, under the leadership of the Minister for the Cabinet Office, will also play a greater role in supporting departments to implement any machinery of government changes in the most efficient way.

PAC Conclusion (1): There should be a single team in Government with oversight and advance warning of all government re-organisations. Over time we would expect the impact of having such a team in place to be that the number of re-organisations would reduce. This central team should have the skills and experience to exercise quality control over re-organisations, with the authority to insist that any conditions it judges necessary are in place and, if they are not, to assign people with relevant skills to the reorganisation project. In order to intervene effectively, the central team would need prior notice of all proposed re-organisations.

The central team should:

- (a) oversee a 'cool-off' period for re-organisations of departments, during which time most staff would stay in their current organisations and change would be achieved through, for example, a small support team for ministers and changed reporting lines;**
- (b) oversee a review process of these minimally disruptive arrangements after two years, leading to the implementation of more permanent change, if appropriate, at that stage;**
- (c) undertake continual assessment of how well the interaction of central Government bodies is working and where there is scope or need for improvement; and**
- (d) be accountable for overseeing the overall reporting set out in subsequent recommendations.**

7. The Government disagrees with the Committee's conclusion for a single team. The Government feels, as explained below, that the current arrangements are best able to meet the two distinct roles the centre has in managing Machinery of Government changes and Arms Length Body (ALB) reorganisations. However, the Government agrees with some of the proposed functions the Committee recommends for the single team and has explored how these could be accommodated within the current arrangements.

8. The Centre has a very different role to play, depending on what type of change occurs. If a central Government Department is reorganised, usually as a consequence of changes to the allocation of Ministerial responsibilities, then this is a Machinery of Government change and, as set out in the *Ministerial Code*², is a matter for the Prime Minister. If the change is to an Arms Length Body (ALB), without changing Ministerial responsibilities, this is, in the main, a matter for the relevant Minister, subject to the usual Cabinet Committee clearance process. These two distinct roles do not lend themselves to a single team.

9. Within the Centre, responsibility for supporting the Cabinet Secretary, to advise the Prime Minister on Machinery of Government changes, lies with the Cabinet Secretariat in Cabinet Office. As is recommended by the Committee at 1c, the Cabinet Secretariat has a broader understanding of the high-level policy issues; how central Government Departments interact; and the policy and delivery tensions and synergies. This is crucial when thinking about Machinery of Government changes.

10. The Cabinet Office's Propriety and Ethics Team, and the Treasury, have the expertise to advise Departments on corporate governance issues and change management in Arms Length Bodies. The Government sees no immediate reason to alter these arrangements. It is also important that there is a sensible division of labour and resources allocated to this role. It would not be sensible for Cabinet Office to be involved in every change, particularly small ones. Permanent Secretaries and Chief Executives need the autonomy to build their own Departments or bodies in response to the requirements of their Ministers.

11. The Government does not support the recommendation that there should be a 'cool-off period' for reorganisations. Minimally disruptive changes such as joint Ministerial appointments or small cross Departmental bodies are likely to be considered when analysing options to address a particular challenge. If these are rejected in favour of a Machinery of Government change or an ALB reorganisation, then the change should be implemented as swiftly as possible to avoid uncertainty and enable the objectives of the change to be achieved quickly.

12. Whilst the Government does not agree that a single team should formally exercise quality control over reorganisations, the centre recognises it has a role to support departments and the Cabinet Office has recently made changes to the support arrangements that the Centre can offer to Departments, particularly those going through a Machinery of Government change. The Cabinet Office published a new *Machinery of Government changes: best practice handbook* in January 2010³.

2 http://www.cabinetoffice.gov.uk/propriety_and_ethics/ministers/ministerial_code.aspx

3 <http://www.cabinetoffice.gov.uk/media/332838/mog-handbook.pdf>

13. The Cabinet Office now provides Permanent Secretaries, affected by Machinery of Government changes, with supplementary guidance outlining what support, particularly in establishing corporate functions, Departments can expect when implementing these changes. Additionally, the new Efficiency and Reform Group, in the Cabinet Office, will have a greater role in providing corporate support to Departments going through a machinery of government change and holding Departments to account to help secure the intended benefits of the change.

14. The Cabinet Office will update and re-issue its guidance to Departments on public bodies to ensure that Government policy on the creation and management of public bodies is fully understood and implemented across all Departments. This will ensure that the Centre is properly consulted and informed on all re-organisations in the ALB sector and that best practice in corporate governance and project management is followed, when creating new public bodies or re-organising existing bodies.

PAC Conclusion (2): For announcements of significant re-organisations, a statement should be presented to Parliament, quantifying expected costs, demonstrating how benefits justify these costs and showing how both will be measured and controlled. Recognising the Treasury principle of 'cost neutrality' for re-organisations, the statement should identify which activities are expected to be cut to pay for the reorganisation.

PAC Conclusion (3): Intended benefits should be stated in specific measurable terms that enable their later achievement (or otherwise) to be demonstrated. The broad terms in which reasons for reorganisation are currently expressed do not enable a clear assessment to be made of whether reorganisation is necessary. A lack of clearly stated intended benefits hinders subsequent assessment of whether the aims of reorganisation have been achieved.

15. The Government agrees with the Committee's conclusions. Following any significant Machinery of Government change the usual practice is for Cabinet Office to place a document in the Libraries of both Houses of Parliament explaining the changes. Where possible, this sets out the expected costs and benefits.

16. However the Government acknowledges that more could be done to ensure there are strong business cases in place for any Machinery of Government changes. Building on the issues already considered when making a Machinery of Government change, as set out in the *Machinery of Government changes: best practice handbook*, the Government will look closely at how it can ensure sufficient weight is given to value for money considerations and specific measurable benefits. This should help guard against changes being made which have weak value for money cases or lack clear benefits. However it will be for individual Departments to identify savings to fund machinery of government changes in a cost-neutral way.

17. On a regular basis, the Cabinet Office will co-ordinate reports from Departments that have undergone a significant machinery of government change and report to Parliament, setting out the progress made towards the achievement of the costs and benefits identified as part of the change.

18. The revised Cabinet Office guidance on public bodies will also make it clear that any re-organisation in the ALB sector must be supported by a robust, and fully costed, business case, and ensure that the headline information, in the business case, is put in the public domain.

PAC Conclusion (4): The planned and actual costs of re-organisations should be separately identified within financial accounting systems so costs can be managed and subsequently reported. All bodies affected by a reorganisation should set planned costs before implementation begins, or soon after where this is not practicable.

19. The Government agrees with the Committee's conclusion. The overall principle is that machinery of government changes, in isolation, should not affect the spending power of either the transferring or receiving Department i.e. neither Department should be left worse or better off as a result of transferring the budget or Estimates provision. Therefore, there is no net cost to the Exchequer, as a result of reorganisations. Within these overall spending limits, it is likely there will be a cost, but it is for Departments to manage these costs, without affecting the quality of key frontline services, and while continuing to ensure value for money for the taxpayer. The costs of any reorganisation should be recorded on the COINS database and the Treasury would therefore expect that this information is available in future publications of the COINS database.

PAC Conclusion (5): A breakdown of planned and actual costs and financial benefits of every significant central government reorganisation should be reported to Parliament in the organisation's annual report in the year the reorganisation is announced. This report should also set a date for a final report on reorganisation costs and benefits, and for an interim report at three years if the final report is expected later. The central reorganisation team should consider the level of detail Parliament requires, but this should include all significant costs and financial benefits. The team should also set a clear and appropriate definition of what constitutes a significant reorganisation for reporting purposes.

20. The Government agrees with the Committee's conclusion. The Cabinet Office will consider the level of detail Parliament requires and advise Departments accordingly. The Cabinet Office will also set a clear and appropriate definition of what constitutes a significant reorganisation for reporting purposes. Departments will then be expected to report to Parliament in their Annual Report. If practical, this should be done in the year the reorganisation is announced.

21. In the ALB sector, where significant re-organisations usually require primary legislation, the role of Parliament is different. The new Cabinet Office guidance, however, will reinforce the need for greater transparency and accountability in ALBs and require headline information on costs and benefits to be published.

PAC Conclusion (6): Each body at the heart of a central government reorganisation should share with the Cabinet Office an analysis of lessons learned within two years of the date of the reorganisation. Such analysis should collect insights from other bodies involved in the reorganisation and draw on feedback from staff and stakeholders. The Cabinet Office should review and update its own guidance annually on the basis of its analysis of these submissions and of the reports recommended above on costs and benefits. The current lack of systematic analysis is a lost opportunity to improve implementation in an area of central government activity that is repeated many times a year.

22. The Government agrees with the Committee's conclusion. In the *Machinery of government changes: best practice handbook*, the Cabinet Office asks that all Departments, undergoing a Machinery of Government change, to carry out an evaluation, which should be submitted to the Cabinet Secretary. The evaluations will be for internal use only and will not be published unless the Department considers it appropriate.

23. The Cabinet Office will review and update its own guidance annually on the basis of the evaluation submitted. The Cabinet Office will also be revising, and re-issuing, its guidance to Departments on public bodies. This will incorporate recent lessons learned from Departments, and other organisations, on the creation and re-organisation of ALBs. It will place a stronger requirement on Departments to identify and share each other lessons learned from such re-organisations.



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