



Update on the Treasury Minutes to the Thirty Fifth Report, together with the Fifty Seventh to the Sixty Fifth Reports from the Committee of Public Accounts 2006-2007

- 35th Report BBC Outsourcing: The BBC's contract with Siemens Business Services
 – Update
- 57th Report DEFRA: Reducing the reliance on landfill in England
- 58th Report Estimating and monitoring the costs of building roads in England
- 59th Report Pay Modernisation: A new contract for Consultants in England
- 60th Report Big Science: Public investment in large science facilities
- 61st Report Managing the Defence Estate
- 62nd Report The Thames Gateway: Laying the foundations
- 63rd Report HM Treasury: Tendering and benchmarking in PFI
- 64th Report The management of staff sickness absence in the Department for
 Transport and its Agencies
- 65th Report Filing of VAT and Company Tax Returns

**Presented to Parliament by the Exchequer Secretary to the Treasury by
Command of Her Majesty
February 2007**

TREASURY MINUTES DATED 21 FEBRUARY 2008 WITH AN
UPDATE TO THE THIRTY FIFTH REPORT, TOGETHER WITH
THE FIFTY SEVENTH TO THE SIXTY FIFTH REPORTS FROM
THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2006-07

© Crown Copyright 2008

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.

Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

Thirty Fifth Report

Department for Culture, Media and Sport

BBC Outsourcing: The BBC's contract with Siemens Business Services – Update

1. The Department for Culture, Media and Sport (DCMS – the Department) has added further clarification the BBC's response on PAC Conclusion (8).

PAC Conclusion (8): Following Michael Grade's departure from the BBC, the BBC had to put in place new mechanisms with him and with the Board of ITV to protect the confidentiality of BBC information. It is good practice for contracts to contain provisions protecting the BBC's intellectual property and the confidentiality of sensitive information and providing for cooling-off periods for departing senior staff. The Department of Culture, Media and Sport should formulate terms of appointment for BBC Trustees and the new Chairman of the Trust which contain adequate safeguards when individuals leave, including, for example, provision for an appropriate interval between departure and taking up positions with competitors.

2. Under the BBC's Charter, appointments to the BBC Trust are made by Order in Council. Government is responsible for setting the length of terms of appointment and the remuneration of members and members' pensions, allowances and gratuities. The Charter sets out the circumstances in which a member of the Trust shall cease to hold office.

3. The Charter does not, however, include a provision for including a non-compete clause that would place restrictions on Trust members leaving to join competitors. The Government does not believe it is appropriate to include this in the Charter. This is because it is the BBC's intellectual property and the confidentiality of sensitive BBC information, which is potentially at risk. It is, therefore, the responsibility of the BBC to manage the risk and ensure adequate safeguards are in place for when individuals leave.

4. In its response to the PAC Report, the BBC Trust set out the safeguards, including a non-compete clause, that Trust members had voluntarily accepted.

Fifty Seventh Report

Department for Environment, Food and Rural Affairs

DEFRA: Reducing the reliance on landfill in England

1. The Department for Environment, Food and Rural Affairs (DEFRA – the Department) welcomes this report by the Public Accounts Committee in which it examined the progress made towards achieving the targets set out in the EU Landfill Directive. The Directive represents a challenging target for the Department in part because of the UK's historical reliance on the use of landfill to manage our waste and in part because delivery of change on the ground is directly managed through Local Authority activity. The challenge for DEFRA is therefore to provide appropriate support that will influence this activity.

PAC Conclusion (1): The amount of biodegradable municipal waste sent to landfill sites in England fell by 2.3 million tonnes between 2003-04 and 2005-06, but will need to fall by nearly another 5 million tonnes by 2013 to comply with the European Union's Landfill Directive. Failure to meet the targets could result in a considerable fine from the European Commission, estimated at up to £180 million a year.

2. The Department agrees with the PAC conclusion. Failure to deliver this programme carries the risk of substantial fines from Europe. The Department is therefore making every effort to mitigate these risks through the delivery of the England Waste Strategy 2007. As outlined above, this remains a challenging task, given that the delivery of diversion of municipal waste takes place at local authority rather than at national Government level.

3. However the new Waste Strategy combined with other drivers such as the Landfill Allowance Trading Scheme (LATS), a successful recycling campaign (household recycling rose to 30.9 per cent in 2006-07), a substantial increase in PFI credits for Waste in the spending round), and increases in the landfill tax escalator, make the task more deliverable and lead us to a position of increased confidence but without complacency.

PAC Conclusion (2): The Department's four consultation papers and strategies on waste management between 1995 and 2000 lacked sufficiently clear responsibilities or timetables, which led to considerable delays in taking action. The Department's revised waste strategy, published in May 2007, sets out the actions required to meet the European Landfill Directive, but several initiatives, such as the proposed removal of the ban on charging households for waste reduction and recycling, depend upon further consultation. The strategy established a Waste Strategy Board with officials from relevant government departments to take responsibility for implementation, but did not determine how it would be resourced. The Department should determine and clarify funding arrangements to enable the Board to progress the initiatives outlined in the strategy.

4. The Department welcomes the PAC's endorsement that the 2007 revised Waste Strategy sets out the actions required to meet the EU Landfill Directive. Since publication of the strategy in May 2007 the Department has carried out consultation on a number of specific items as planned in the waste strategy including on financial incentives for household waste reduction and recycling. The Waste Strategy Board does not in itself require any significant funding for it to function. Delivering the waste strategy itself certainly requires funding; but the Government believes that the funding announced in the 2007 Comprehensive Spending Review including over £2 billion local authority PFI credits for new waste infrastructure should be adequate to ensure its delivery.

PAC Conclusion (3): The Department had not yet compared the 2005-06 data from local authorities with its projections for the development of infrastructure, to determine the likelihood of meeting the European Union's targets. The Department should regularly update its model to reflect progress on the ground, and promptly notify any authorities that appear to be lagging behind.

5. The Department accepts the need to use current data and endeavors to do so. The Department can confirm that data relating to the 2005-06 local authority returns has been used to inform projections relating to the need to deliver additional waste management infrastructure. England must landfill no more than 11.2 million tonnes of biodegradable municipal waste (BMW) in 2010, 7.5 million tonnes in 2013 and 5 million tonnes in 2020. England has nearly met the 2010 target.

6. Local authorities land-filled an estimated 11.6 million tonnes of BMW in 2006-07. This has reduced from an estimated 15.7 million tonnes in 2001-02 and 12 million tonnes in 2005-06 (the first year of the landfill allowances trading scheme (LATS)). As noted above, the Landfill Directive and Government policies have been successful at focusing local authorities' attention on landfill diversion. Local authorities are collectively land-filling less and recycling more. The trend in BMW land-filled indicates good progress towards national targets.

7. Management of residual waste lies beneath minimisation and recycling in the waste hierarchy, but even when maximising these other routes represents a significant part of the waste stream. The Waste Infrastructure Delivery Programme (WIDP) is therefore charged with helping local authorities deliver the major infrastructure required to collectively divert sufficient residual waste from landfill to meet national targets without undermining efforts to increase recycling.

8. WIDP maintains and constantly assesses available information about the capacity of infrastructure in place and at various stages of planning and development. Except where infrastructure is to be supported with PFI credits, WIDP is reliant on authorities volunteering information; it will not therefore have specific information on all infrastructure investment undertaken, especially smaller plant such as material recovery facilities (MRFs) and composting facilities.

9. The Department concludes however, with increasing confidence, from reasonable extrapolation of the available information, that on the balance of probabilities there is likely to be sufficient residual waste infrastructure in place to meet the 2010 Landfill Directive targets. At present the 2013 and 2020 targets remain challenging; however given the current rate of progress the prospects are reasonable that these targets can be met also. Depending on the assumptions made, this view spans scenarios of a shortfall in capacity, to an excess of capacity. In the case of a potential national shortfall, local authorities – to mitigate the risk of large financial penalties or high prices for available LATS credits – are likely to put in place additional recycling and composting capacity to ensure the national landfill diversion targets are met.

10. LATS allows for authorities to meet their obligations in a number of ways, for example, through LATS trades, or through infrastructure delivery. The Government has the power to financially penalise any Authority that does not meet its obligations. All authorities have so far met their obligations either by land-filling less BMW and/or banking/borrowing/buying LATS allowances to meet their assigned limits. The Environment Agency and the Department will continue to monitor Local Authority performance against LATS obligations and Ministers will act where an authority fails.

PAC Conclusion (4): Local authorities are moving from weekly to fortnightly collections and there are greater demands on the public to sort their rubbish more effectively, yet householders are facing increased costs of disposal. 57 per cent of the public state that they are committed to recycling, but the Department needs to promote collection arrangements which incentivise rather than frustrate this commitment.

11. DEFRA agrees with the Committee about the importance of promoting collection arrangements, which incentivise rather than frustrate the public's commitment to recycle. DEFRA and WRAP encourage local authorities to adopt collection arrangements which make it as easy as possible for the public to recycle and reduce residual waste, including through WRAP's detailed advice to local authorities on good collection practice. The Government's proposals for new legislation in the Climate Change Bill to pilot local authority household financial incentives for waste reduction and recycling have the same objective in mind.

12. Many local authorities have introduced schemes with a reduced frequency for non-recyclable waste collection. The aim is to provide an incentive for householders to separate recyclable material into the recycling collection. The lower cost of the residual waste service frees resources to fund investment in recycling services. Reduced frequency residual waste collection is not appropriate for all authorities and whether to adopt it is a decision for local councils in the light of their local circumstances and the views of residents.

13. Experience shows the importance of wide consultation, provision of a high quality recycling service, support to residents and appropriate containers as key to success. An increase in the total costs of disposal by local authorities will be necessary in order to fund investment in waste infrastructure and divert waste from previously cheap, but environmentally damaging, landfill. However evidence from overseas comparisons suggests that the cost of waste collection and disposal in the UK (on average around £112 per household) remains low by international standards.

PAC Conclusion (5): Despite public willingness to recycle waste, householders can find it difficult to work out what items go in each bin. National as well as local initiatives to encourage the public to recycle more, and to explain the action required, should be conducted through local authorities. Public information could then reflect the local recycling arrangements developed by each waste collection authority.

14. A substantial proportion of WRAP's *Recycle Now* campaign is already delivered through local authorities, in order to capture the benefits described by the Committee. However, it would not be appropriate to deliver the entire campaign this way. For example, WRAP's campaign to encourage householders to waste less food is appropriately delivered through national media.

15. Through its support for WRAP's *Recycle Now* and the wider 'Act on CO₂' campaign the Department has sought to develop strong national messages about the case for increased recycling. For the reasons suggested by the Committee these have been coupled with WRAP working with local authorities to develop effective communications about how to recycle locally, taking account of the collection and recycling services available from that authority. This approach has been effective in raising public support for recycling generally and increasing participation locally. For example, in West Devon District Council a local communications campaign alone succeeded in increasing participation rates from 61 per cent to 77 per cent.

16. This combined approach using consistent imagery and iconography for national and local communications is also cost effective in the sharing of the costs of research, design and public recognition costs. 64 per cent of the population now describe themselves as committed recyclers, 81 per cent report that they find it convenient to recycle and unprompted recognition of the *Recycle Now* brand has increased steadily to 65 per cent.

17. The national branding has also encouraged important intermediaries like the supermarkets and well known consumer brands, to adopt the standard messaging.

PAC Conclusion (6): The introduction of the European Union Packaging Directive and the Waste Electrical and Electronic Equipment Directive has led to some public confusion on how to dispose of such items. The Department should clarify the public's rights and responsibilities by providing guidance on the implications of both of these Directives.

18. The Department accepts this recommendation in part. There is no evidence that the EU Packaging and Packaging Waste Directive in itself, which has been in place since 1997, has led to public confusion. Packaging waste is like any other household waste in the sense that householders can dispose of packaging in the same way as they would treat other items made of similar material, according to what gets collected and recycled where they live or through community facilities such as bottle, can and clothing banks and local authority waste amenity sites. If householders are confused about what materials their local authority collects for recycling at the doorstep they should seek advice from the authority.

19. However, the Government accepts that there is a need to increase the amount of packaging that is recovered for recycling and it has recently consulted on higher targets for 2008 and beyond, to meet Directive requirements and 2007 Waste Strategy goals.

20. The Waste Electrical and Electronic Equipment (WEEE) Directive, and the systems in place to implement it, are new and inevitably not well understood by the general public. Now that the systems of WEEE implementation in the UK are coming into effect on the ground, the Government accepts that there is a need to provide further information about them to the public. The Directive places responsibility on producers to fund treatment, reuse and recycling when the material concerned becomes waste. These responsibilities include appropriate labeling.

21. There are also responsibilities on those who sell electrical and electronic equipment to provide information to consumers on how they can dispose of such equipment. These requirements are enforced by Vehicle Certification Agency.

PAC Conclusion (7): Some of the reduction in food waste collected by local authorities may have arisen because local authorities have increased charges for waste collection from small businesses, making it cost effective for restaurants and pubs to rely on private contractors instead. Any such reduction in food waste collected by local authorities will contribute towards their Landfill Allowance targets, but the waste is still likely to end up in a landfill site. The Department should review the rules of the Landfill Allowance Trading Scheme to encourage the diversion of this organic waste to suitable processing plants.

22. Local authorities must collect commercial waste when requested by the producers of the waste. LATS has not changed this obligation. Authorities may charge a reasonable amount for the service. LATS has not changed this obligation. Commercial waste producers have a choice of service providers and will generally choose the organisation that provides them with the most cost-effective service. In some cases this will be the local authority and in other cases it will be a private sector company.

23. The landfill tax escalator is increasing the costs of landfilling all waste, both municipal and non-municipal, and this is expected to reduce the total amount of waste landfilled. LATS is intended to ensure England meets its share of landfill directive targets to divert BMW from landfill. LATS offers an incentive for local authorities to collect additional, separated food waste from commercial premises and divert it from landfill. There is no need to change the way LATS operates to encourage diversion of food waste from landfill.

PAC Conclusion (8): Energy-from-waste plants, which incinerate, an aerobically digest, or compost waste to generate electricity, may be necessary to achieve the reductions in landfill required, but typically take nine years to become operational. By summer 2006 the Department's modelling of forecast completion dates showed a significant risk that many of these plants would not be operational in time for the United Kingdom to comply with the European Landfill Directive. To help local authorities deliver these projects on time, the Department should:

- (i) review the effectiveness of the simplified planning process developed in conjunction with the Department for Communities and Local Government and published in July 2005, so that any changes required can be implemented promptly;**
- (ii) develop a standard briefing pack on the health and environmental impacts of the main types of waste plant, so that planning officers and councilors can draw on well evidenced information when considering local proposed schemes; and**
- (iii) prioritise support on financing and building new infrastructure for waste disposal authorities most likely to make the biggest impact on whether the United Kingdom will meet the European Union's targets.**

24. The Department accepts these recommendations. With regard to sub para (i): the Department is keeping under review the impact of its 2005 overhaul of planning policies on waste management and the policy guidance on the preparation of municipal waste management strategies which underpin waste procurement. The Department continues to work closely with both local Government and industry to ensure the integrated framework expected by the 2005 reforms is in place, and the new waste management facilities needed to meet EU obligations and national policy are delivered.

25. The planning application approval rate for waste developments is high – at around 90 per cent – but the Department is not complacent about the planning risks associated with delivering waste facilities including energy-from-waste plants. The Department is supporting implementation through its reforms of the planning process set out in the Planning White Paper *'Planning for a Sustainable Future'* and with specific initiatives on waste including, for example, DEFRA's Waste Infrastructure Delivery Programme guidance on improving the interaction of infrastructure promoters with waste planning. This identified actions that will facilitate favourable determinations of planning applications and speed the delivery of waste infrastructure.

26. With regard to sub para (ii): the Department intends to ensure, through its communications work, that all stakeholders involved in decisions about waste schemes have access to appropriate information. The Department has already published extensive information about the impact of waste facilities on health, and is currently supplementing this with further research into the sources and pathways of emissions, including those from novel waste treatment facilities. All of this information will be made available to local decision makers and others in due course.

27. With regard to sub para (iii): The Department has developed the Waste Infrastructure Delivery Programme, which aims to support authorities who wish to build Waste Management Infrastructure to divert residual waste from landfill. The Programme provides a pipeline management approach to its support and encourages authorities to work together in partnership to deliver improved value for money solutions. It has responsibility for managing the CSR settlement in respect of PFI credits and the pipeline approach helps to focus this financial support in the most deserving areas where greatest potential for deliverable diversion exists.

Fifty Eighth Report

Department for Transport

Estimating and monitoring the costs of building roads in England

1. The Department for Transport (the Department), welcomes this report by the Public Accounts Committee in which it examined the approach taken by the Department, the Highways Agency and local authorities in estimating and monitoring the costs of road building. The Department had recognised the need for improvements in cost estimating, and the previous Secretary of State had accordingly commissioned a report by Mike Nichols of the Nichols Group into the Highways Agency's roads programme in July 2006.

2. The Department has noted the Committee's conclusions are consistent with those of the Nichols Review, and the Committee's acknowledgement of the difficulties of providing cost estimated against a background of higher than expected inflation in the construction industry and in land costs, but agrees with the conclusions that improvements should be made.

PAC conclusion (1): As sponsor of the Programmes, the Department should:

- (i) hold the Agency to account for delivery to time, cost and quality through rigorous assessment of progress against milestones and forecasts; and**
- (ii) investigate the reasons for variations between actual costs and original estimates in local authority schemes and use this information to challenge future forecasts made by local authorities.**

PAC conclusion (3): The current measures of scheme progress monitor whether key events have taken place, but do not take account of the resources used to achieve them. The Agency needs to set targets for schemes related to elapsed time, delivery date and expenditure and measure progress against them.

3. The Department currently holds the Highways Agency to account for delivery to time and cost through the Business Plan process. For 2007-08 the Highways Agency has targets to open at least 23 major national and regional schemes between 1 April 2005 and 31 March 2008 and deliver at least 2666 'progress points' (points are awarded for schemes progressing against milestones), all of which must be achieved whilst remaining within the Highways Agency's budget.

4. Following the Nichols Review, the Department and the Highways Agency have developed improved performance measures for the delivery of the Highways Agency's major roads programme. The measures are based on Earned Value Management techniques that allow cost, time and quality to be combined allowing a balanced consideration of performance. For schemes earlier in their project lifecycle progress is measured against key milestones and the successful completion to appropriate quality of products necessary for a scheme to advance in its lifecycle. Targets against these new measures will be included in the Highways Agency's 2008-09 Business Plan. The Department will continue to develop these performance measures and the overall performance framework for the Highways Agency to ensure effective delivery on an ongoing basis.

5. Variations between actual costs and original estimates in local authority schemes have arisen for a number of reasons. These include the failure to identify potential construction difficulties, such as poor ground conditions and the scale of utility diversions work, programme slippage sometimes due to extended statutory procedures and for some schemes delays caused by the Regional Funding Allocation exercise; construction cost inflation running at significantly higher levels than originally anticipated and also changes in scheme design to take account of issues raised at Public Inquiry.

6. Responsibility for developing proposals and preparing cost estimates for new road schemes on the local road network lies with Local Highway Authorities. Over the last few years the Department has taken a number of important steps to ensure that local authorities improve cost estimation and cost control on their major schemes before they submit a bid for funding to the Department. In particular, the Department has issued guidance on the estimation of scheme costs, which encourages local authorities to develop realistic cost estimates including appropriate allowance for construction inflation.

7. The Department now expects that capital cost estimates are supported by evidence of how base cost estimates have been derived, with comparisons against benchmarks and, where possible, reflecting market testings. In addition, local authorities are expected to submit an independent surveyor's report, alongside their funding bid, verifying the capital costs of the scheme. The Department also now requires local authorities to agree to contribute a minimum of 10 per cent towards the estimated total scheme cost, 50 per cent of any increase up to an 'Approved Scheme Cost' (based on half the optimism bias) figure, and 100 per cent of any increase above that figure.

8. The Guidance also makes clear that we expect local authorities to undertake a thorough Quantified Risk Assessment (QRA) and to produce a risk register for any scheme they wish to take forward. The results of the QRA feed directly into the scheme costings. Bringing these measures into place provides a stronger incentive for Local Authorities to produce robust cost estimates.

9. As a matter of practice the Department always investigates the reasons for an increase in cost estimates of local authority schemes. Scheme costs can increase for a diverse range of reasons, as the National Audit Office report concluded. Although there are common factors such as high construction inflation, significant elements of cost increases can be scheme specific such as particular archaeological or environmental issues. Therefore, the Department considers it best to review the reasons for Local Authority cost increases on a scheme-by-scheme basis. It uses the lessons learned from these to inform its consideration of other local authority cost estimates.

PAC conclusion (2): The roads schemes now being developed are generally bigger and more complex than those already delivered under the Targeted Programme of Improvements since 1998. The Agency needs to strengthen its estimating, project appraisal, project and contract management, and post project evaluation techniques as a matter of urgency.

10. Following the Nichols Review the Department and the Highways Agency have put in place a detailed programme of activities to strengthen the estimating, and project and contracting management of major roads programme. This includes the development of a new Project Control Framework, similar to Network Rail's Guide for Rail Investment Projects (GRIP), to strengthen the project management of major roads schemes. The previous Targeted Programme of Improvements has been replaced by a roads programme split into three clear phases Options, Development and Construction. Budgets are only provided to move a scheme through a particular phase and there are regular defined points (stage gates) where schemes must be formally assessed before they progress to the next stage in their lifecycle.

11. The Department and the Agency have also developed revised estimating methods, replacing point estimates with ranges to more accurately reflect the uncertainty and risks that impact on schemes, particularly early in their lifecycle. The Agency is also taking responsibility for the production and challenging of estimates in house, reducing the reliance on consultants. A new Commercial Division, which will be staffed by experienced highway estimators and commercial managers, will undertake this role. Data on the cost of the actual schemes is being collected and analysed by the Highways Agency to inform estimates.

12. The Agency has strengthened its evaluation arrangements, as part of the Project Control Framework, with an evaluation of delivery of the scheme to date against planned delivery being undertaken at the end of each stage and each phase. These will also evaluate the reasons any changes to the cost estimate. Lessons learned will be fed back into the scheme delivery process.

13. Evaluations of overall project benefits are undertaken 1 year and 5 years after projects are completed through a Post Opening Project Evaluation (POPE) process. The role of POPE is to compare the costs, benefits and other impacts predicted at the appraisal stage for a project with the actual impacts after it has been constructed. This enables the effectiveness of the appraisal processes to be judged and any improvements necessary made to ensure effective decision-making. Every two years the Agency produces an evaluation drawing together the lessons learned from all the recent POPE reports. The next of these evaluations is due to be held in 2009 and the Agency will use this as an opportunity to review whether further improvements to evaluation are necessary. These evaluations will all be published on the Agency's website.

14. The Highways Agency is also strengthening the project management and commercial skills of its staff. An assessment process has been undertaken for staff in the Agency's Major Project's Division to evaluate their Project and Programme Management skills as well as their performance against the Professional Skills for Government Competencies. The results will inform a personal development plan for each Project Manager. In addition the Agency is undertaking external recruitment exercises to deepen and broaden the skills of its workforce.

PAC conclusion (4): Regional Prioritisation of road schemes mean that neither small low cost local schemes nor schemes of national importance are given appropriate priority. It would be more appropriate for:

- (i) large schemes of major strategic significance to belong in the national, rather than the regional roads Programme; and**
- (ii) specific funds to be made available for small schemes to meet local problems.**

15. Part and parcel of any spending prioritisation is the trade off between the value of very large schemes against a range of smaller ones. Removing large schemes from the RFA process would not create any new money and would not necessarily improve the funding prospects of any individual scheme. The Department has also discussed with regions the possibilities for allocating part of the RFA budgets for smaller schemes but believes this is a judgement that should be made at regional level, rather than a nationally implemented top-slice of available funds. The Government intends to hold a further round of regional prioritisation over the next three years and this will provide an opportunity for the regions to consider how locally important schemes should feature in their advice to Ministers.

16. The Department's approach to changing the way we plan transport in the longer term is set out in 'Towards a Sustainable Transport System', published on 30 October. Consistent with the findings of the Eddington and Stern reviews, this sets out a timetable for moving towards a strategy in which we define goals non-modally, bringing forward a range of solutions and prioritising the schemes with the highest benefit. Any review of the mechanism for linking funding to local, regional and national priorities will take place in the context set by Eddington and Stern.

PAC conclusion (5): The Department and Agency have not kept abreast of emerging trends in the construction market. To improve the quality and accuracy of their estimates, the Department and the Agency should analyse forecasts for the costs of construction material, and labour quarterly, and develop strategies for keeping costs down.

17. The Agency is now regularly reviewing and updating its forecasts of future construction inflation for major projects, taking into account international pressures, such as the cost of oil and steel, and any local market pressures caused by, for example, infrastructure spend on the Olympics and Crossrail. The Agency is also investigating how to use its improved cost data to produce its own road construction index to allow more accurate estimation of inflation than is currently available.

18. The Agency continues to explore opportunities to reduce the costs of roads construction, through alternative forms of contracting, lean construction methods or through collaborative alliancing. Lean construction is a quality assurance system that focuses on improving processes during construction to reduce construction time and cost. The principle of collaborative alliancing is that letting a series of contracts, to an alliance of contractors, provides a guaranteed level of work (subject to performance) and so allows greater incentivisation and procurement savings from the supply chain.

PAC conclusion (6): The Agency has yet to collect sufficient data to compare performance in terms of scheme costs and delivery time across different projects. The Agency should be more proactive in seeking comparisons internationally and with other major construction projects.

PAC conclusion (7): The Agency has made slow progress in identifying the unit costs associated with building roads. The Agency should build a database of unit costs for new roads, road widening and major maintenance schemes.

19. The Agency is in the process of developing a comprehensive system for collecting cost data, based on a similar system to that used by Network Rail, which will be available for use in projects from April 2008. This database will be based on the actual costs of completed projects and so allow unit costs to be produced to feed into the estimating process for future schemes.

20. The Agency participated in a benchmarking study undertaken by the Conference of European Directors of Roads, which reported in August 2007. The report benchmarked the costs of constructing highways in 13 European countries. The report also highlighted many of the differences between European countries that sat behind the differences in costs such as population density affecting land purchase, compensation payments, design standards, incidence of junctions and the regulatory environment. The Agency is undertaking a separate research study to understand how these areas impact on the costs of road building in England. The Agency will continue to look for opportunities to make comparisons internationally.

PAC conclusion (8): The Agency has yet to evaluate Early Contractor Involvement contracts. The Agency should commission an assessment of the effectiveness of Early Contractor Involvement and publish the findings.

21. The Agency instigated a review of the effectiveness of Early Contractor Involvement (ECI) in May 2007, which will be completed in May 2008. The review compares the performance of ECI contracts with the previous Design and Build contracting methods to analyse the impacts of the different contracting approaches on cost, time taken to deliver schemes and quality of schemes delivered. In addition, the study is looking at the contracting approaches of other major infrastructure providers for comparisons on how different contracting approaches are managed. Subject to commercial confidentiality issues the Agency will publish the results of the ECI review on its website in due course.

PAC conclusion (9): Reliance on consultants to challenge the estimates and costs proposed by contractors can lead to conflicts of interest. The Agency needs to recruit and retain staff with the commercial skills and experience to challenge costs and negotiate target prices, which offer value for money, and to plan now for future staff changes. The Department needs to have staff, who can act as intelligent customers of the consultants advising them on the reasonableness of estimates and requests for increased funding in Local Authority schemes.

22. As mentioned above, the new Highways Agency Commercial Division will be responsible for producing and challenging cost estimates, and negotiating target costs. It will be staffed by experienced commercial managers familiar with the highway contracting industry. Further development will also be provided for all project managers within the continuing emphasis on improving project management capability.

23. The Department is also strengthening its sponsorship of the Agency's major roads programme. A Road Projects Division has been established within the Department with project sponsors who will specify project requirements and work with HA Project Teams to ensure the satisfactory delivery of schemes. They will have a clear role in approving key products during a schemes lifecycle (such as the cost estimates). This closer working relationship between the Department and the Agency on major road schemes will enable issues to be identified and mitigated earlier. The Department has also established the Highways Investment Board to monitor performance in delivering the roads programme and advise Ministers on investment approval at key points within a scheme's lifecycle.

24. The Department makes use of technical consultancy expertise, where appropriate, to support its assessment of local authority cost estimates. The Department's new rules on the funding of cost increases mean that Local Authorities now have a clearer financial incentive to ensure robust initial cost estimates and cost effective procurement. As the new rules start to take effect we will review our approach, including a consideration of what the optimum level of scrutiny should be, and what capacity and expertise will be required to carry it out.

Fifty Ninth Report

Department of Health

Pay Modernisation: a new contract for NHS Consultants in England

1. The Department of Health (the Department) welcomes the Committee's report and recommendations on the first major revision of the consultant contract for over 50 years. The report examined the contract negotiation; the cost implications; the effectiveness of the implementation process; and the extent to which the expected benefits for patients and the NHS had been realised.

2. The consultant contract is a fundamental reform to the way the NHS contracts with its most senior doctors. The contract introduces improved transparency and accountability. It provides a strong platform on which to build; however, it represents a major cultural change. The costs and benefits of the contract therefore need to be judged over a reasonable time frame.

PAC Conclusion (1): The Department underestimated the cost of the new contract by at least £150 million. It did not model its financial assumptions in a rigorous way and did not draw, for example, on all available workload data. The Department should use sufficient, relevant and reliable data to cost new policies more accurately.

PAC Conclusion (2): The Department did not pilot the new contract before implementation, and it underestimated the scale of change in introducing the new contract. The implementation of the new contract was rushed and hospital trusts concentrated on getting new consultants on to the new contract, rather than planning how to use the contract to improve the delivery of services. Major new Human Resource policies should be fully piloted within the NHS before implementation to test any assumptions and effects.

3. The Department accepts that the contract cost more than was first estimated and allocated. The Department's Workforce Directorate, supported by its Finance and Economic & Operational Research Directorates, conducted extensive and thorough financial modelling using all the available data. A key problem at the time was the lack of robust information from NHS organisations about actual consultant activity. A potential cost pressure was identified during implementation; based on estimates of this pressure an additional £150 million funding was invested, although subsequent analysis suggested that the actual cost pressure was nearer to £90 million. The National Audit Office report stated that measuring the actual cost of the contract is complex, but estimated the actual cost as between £649 million and £765 million, compared to total Departmental funding of £715 million.

4. The Department agrees that relevant and reliable data should be used to cost new policies. For workforce and pay policies, the introduction of the Electronic Staff Record (ESR) system will provide much more extensive data to inform the modelling and costing of new workforce policies. ESR now covers over one million NHS staff and its implementation is due to be completed by April 2008. The importance of reliable data has been reinforced in the *NHS Operating Framework*, published by the Department on 13 December 2007, which states: “From April 2008, the data warehouse fed from the Electronic Staff Record will increasingly be used for strategic workforce planning and monitoring purposes. Trusts should focus on workforce data quality.”

5. The Department has also introduced new procedures for ensuring that policy costing is subject to rigorous testing. In May 2006, the Department established the Revenue Investment Branch (RIB) to help improve the quality of forecasting the financial impact of its policies on the NHS, central budgets and arm’s length bodies.

6. In July 2007 the RIB issued guidance in a costing handbook, which will assist policy makers (and their analytical staff) to cost policy proposals and ensure transparent accountability for risk and uncertainty. The RIB has also provided a series of workshops for policy staff to assist them to apply the methodology set out in the handbook.

7. The RIB has already reviewed the costs associated with a range of significant policies to ensure that proposals have been adequately tested and that the quality of the financial advice provided is sound.

8. The Department agrees it should consider whether to pilot new HR policies before implementing them across the NHS, and to do so where this is practical and beneficial. This approach has already been applied in the reform of non-medical pay where extensive and thorough cost modelling for Agenda for Change was supplemented by one year’s information from 12 early implementer (pilot) sites. The Department did wish to pilot the consultant contract but in negotiations the British Medical Association (BMA) was not prepared to accept any pilot exercise.

PAC Conclusion (3): Many hospital managers negotiated more hours with consultants than their NHS trust could afford. NHS trusts failed to set a cost envelope and clinical managers agreed hours of work based on historical patterns of working, which they could not afford. In taking the contract forward, NHS trusts should set boundaries within which managers should negotiate individual contracts based on a clear understanding of what work the trust needs and can afford.

9. The Department agrees that some trusts had cost over runs, others managed to work within the financial envelope. However, trusts have improved their job planning processes and as mentioned in paragraph 17 of the Committee’s report, “since 2005-06 the average number of programmed activities (PAs) that NHS trusts have agreed with consultants has decreased and therefore the cost pressure has reduced.”

10. The Department agrees that job planning between employers and consultants should be based on a prospective assessment of the contribution required from consultants to meet patient and service needs. This should be informed by local delivery plans, trust business plans and sound financial planning.

PAC Conclusion (4): Productivity of consultants has decreased, consultants are now working fewer hours than they did under the old contract, and activity per consultant has reduced. The Department expected that the new contract would deliver productivity gains of 1.5 per cent per year through efficiency gains and quality improvements. The Department's original method for evaluating productivity suggests it has decreased by 0.5 per cent in the first year of the contract. The Office of National Statistics has now developed more sophisticated measures of productivity but figures are not yet available for 2005 and 2006. NHS Employers should help NHS trusts identify appropriate ways of measuring and comparing productivity of consultants locally.

11. The Committee's report clearly states in paragraph 21 that it is too early to tell the effect of the contract on consultant productivity. This does not support the conclusion that consultant productivity has decreased.

12. The introduction of the new contract reflected the Government's clear intention to reduce individual consultant hours to improve consultants' working lives, quality of patient care and patient safety, and comply with European Working Time Regulations. Activity per consultant was expected to fall in line with this reduction in hours worked but this is not the same as a reduction in consultant productivity.

13. An ONS publication on health productivity in January 2008 included new estimates of NHS productivity. Measurement of health productivity is very difficult, and caution should be taken when interpreting the figures that are sensitive to the method of measurement. However, they do show that the trend of declining productivity since 2000 levelled off in 2004, 2005 and particularly 2006. This improvement is due to renewed focus on efficiency across the NHS, and in particular to improvements in front line service design and care pathways. The new contract provided the flexibility and incentives by which consultants could be engaged to lead and deliver these important changes that are continuing. The ONS figures currently include only partial recognition of improved quality of healthcare and health outcomes.

14. The NHS Employers organisation is working with a range of stakeholders to develop productivity measures across the NHS. In the meantime, the Department remains keen that trusts are able to benchmark the clinical activity of consultants. The Department has therefore produced *Delivering Quality and Value: Consultant Clinical Activity 2005-06*, (which measures inpatient activity but excludes other duties such as management, teaching and research etc) and enables clinicians and managers to:

- compare the activity rates of consultants within their trust to national activity rates;
- compare activity rates across specialty areas;
- identify the highest performing consultants to spread the working practices and techniques that are enabling high performance;
- inform job planning and appraisal;
- help consultants consider where their efforts might best be applied to achieve greatest productivity and patient care improvements.

15. The Department plans to repeat this exercise using data for 2006-07 and 2007-08.

16. The information presented in the *Delivering Quality and Value* publication is consistent with that used in the Better Care Better Value Benchmarking tool launched by the DH and NHS Institute in September 2006. This tool allows trusts and primary care trusts (PCTs) to compare their performance in key areas with other organisations, to identify the areas that provide the greatest opportunity for delivering efficiency and productivity gains through service improvements.

PAC Conclusion (5): NHS trusts with their clinical managers did not have the time or expertise to negotiate or carry out effective job planning. The Department and NHS Employers should develop training aids and tools, such as electronic job plan software, to help managers improve their capability and capacity to carry out effective job planning, and NHS trusts should allocate enough time to medical managers for job planning.

PAC Conclusion (6): In the first two years of the contract, job planning tended to follow historical patterns of service provision, with insufficient links to organisational objectives and little consideration of redesigning services, such as introducing evening clinics, to meet patient needs. NHS trusts should agree job plans, in partnership with consultants or teams of consultants, which are consistent with organisational objectives and reflect feedback from patients. Whilst job plans should be renegotiated annually, managers and consultants should assess individual job plans more frequently and agree to modifications, where appropriate, if they fail to meet patient needs.

17. The Department agrees that trusts did not all have the time or expertise to carry out effective job planning during the early stages of implementation: this worked best where it was done in partnership between clinicians, financial managers and HR managers. The Department agrees that appropriate tools should be used by NHS trusts to support effective prospective job planning including annual and ongoing review.

18. However, the Department issued a number of guidance documents at the time the consultant contract was being implemented. One of these was the Job Planning Toolkit, developed by the former NHS Modernisation Agency and launched jointly with the BMA in January 2005. This is still available online at NHS Employers website for NHS trusts and employers to use. It includes a job planning handbook, a training package, a reference manual and an evaluation framework.

19. More recently, the Department of Health has commissioned NHS Employers to deliver a Large Scale Workforce Change Programme over ten months from October 2007. This is a fast-paced programme based around the consultant contract, and focused on sharing good practice to deliver benefits to patients, staff and employers. The specific overall aim is to help trusts and consultants to identify, articulate and share benefits and learning that have been secured through effective implementation of the contract. This includes consideration of how the NHS is using IT applications to manage and update consultant job plans. The programme is running at full capacity, with 46 trusts participating. NHS Employers will communicate the learning to the wider NHS in autumn 2008.

PAC Conclusion (7): The proportion of time consultants spend on direct clinical care has not reached the expected 75 per cent level, and NHS trusts have not used the contract to extend patient services, such as providing out-patient clinics at the weekend. NHS trusts should negotiate job plans for consultants based on the Department's objective that at least 75 per cent of their time should be spent on direct clinical care. They should use the job planning process, in partnership with consultants, to redesign services and improve the patient experience. NHS Employers should identify and share good practice in using job planning to extend patient services and tailor them to patient need.

20. The Department does not support the recommendation that all consultants' job plans should assign 75 per cent of their time to direct clinical care. This would remove one of the key flexibilities in the contract that allows employers to tailor consultants' duties according to patient and service need.

21. It was not the Department's objective to set such a target. The Heads of Agreement between the Government, NHS Employers and the BMA in July 2003 stated that full time consultants would "*normally devote on average 7.5 programmed activities per week to direct clinical care except where their agreed level of duties in relation to supporting professional activities, additional responsibilities and other duties is significantly greater or lower than 2.5 programmed activities. In this case, there will be local agreement as to the appropriate balance between direct clinical care and other activities*". The model contract leaves the balance to be agreed locally.

22. The amount of time spent on direct clinical care has increased as a proportion of time worked since the implementation of the contract. Whilst individual consultant hours have reduced there has been an increase in the number of consultants, resulting in the number of consultant hours devoted to direct clinical care increasing from around 695,000 in 1998 to around 920,000 in 2005. The Department therefore sees no need to constrain the local flexibility that allows employers to secure and adjust the consultant contribution according to changing patient and service needs, and to ensure that appropriate consultant time is allocated to other important duties such as teaching, management, audit and research.

23. The Department agrees that employers should use the job planning process to improve the patient experience. The Large Scale Workforce Change Programme, mentioned above, will speed the spread of best practice.

PAC Conclusion (8): Consultants' pay has, on average, risen by 27 per cent in the first three years of the contract compared to the Department's prediction of a 15 per cent increase. Higher pay has helped improve recruitment and retention and has halted a rising trend in the amount of private practice carried out by NHS consultants. The increased pay will only be justified, however, if the expected improvements to productivity are achieved. In return for their increased pay, consultants should increase their support for service redesign with the aim that productivity gains will be achieved by working differently.

24. Consultant pay has increased broadly in line with the Government's intention which was to deliver, over time, a 15 per cent real terms increase in career earnings and a 24 per cent increase in the maximum basic salary. These increases were accompanied by a multi-year pay deal providing headline awards of 10 per cent over three years.

25. Pay for consultants in NHS trusts did increase by an average of 27 per cent over the first three years of the contract. However, the total average increase (for all NHS consultants) was 24 per cent. Figures from the DH historical pay bill model show average consultant pay in 2002-03 was £88,222 and in 2005-06 £109,338 – showing an increase of 24 per cent over the first three years of the contract (2003-04 to 2005-06). These figures include all NHS organisations, including PCTs and Strategic Health Authorities. The NAO modelling used data from a sample of NHS organisation (NHS trusts).

26. The Department agrees with the recommendation that the contract was a “*something for something deal*” with investment in return for reform. The Department remains committed to ensuring continuous improvement in realising the benefits of this important change.

Sixtieth Report

Department for Innovation, Universities and Skills

Big Science: Public investment in large scientific facilities

1. Since 2000, the Department of Trade and Industry, now the Department for Innovation, Universities and Skills (DIUS (the Department)) and the Research Councils have allocated over £860 million to constructing 10 new large scientific facilities and have earmarked £270 million for five more projects. These facilities range from the successful construction of a new research vessel, the RRS James Cook, which can operate in the tropics and at the edge of the ice-sheets (budget £40 million), to the timely and within budget construction of a new Diamond Synchrotron (£383.2 million), which will produce intense X-rays and shorter wavelength emissions for examining structures at molecular and atomic level.

2. The Department welcomes this report by the Public Accounts Committee and accepts the conclusions, and the recommendations, made in the Report, with significant progress made in their implementation.

3. The National Audit Office (NAO), DIUS and Research Councils UK (RCUK) published jointly in November 2007 a handbook: *'Large Scientific Facilities: Strengthening the Preparation of Project Proposals'*. This handbook cites examples of best practice that have already been demonstrated by the Research Councils in the preparation of Large Scientific Facility projects (such as clearly setting out critical success factors for project delivery, scientific outcomes and value for money for the Diamond Research Complex; the good use of options analysis for assessing at an early stage the costs and risks to the research ship James Cook; the evaluation of tradeoffs between up front capital investment and anticipated operational running costs for the proposed new Laboratory of Molecular Biology (LMB); evidence based assessment of the scientific case for Diamond and the whole life costing analysis given to the recently opened HECToR high performance computing service).

4. The handbook aims to improve the quality and consistency of project appraisal and evaluation, and highlights current good practice for project teams preparing proposals for large scientific facilities. In future, business cases for new large facility investments will include:

- a. a detailed analysis of the potential for industry use of new facilities;
- b. a clear statement of the ongoing costs of running the facility in question, and how these would be met by the Council;
- c. the proposed success criteria for the investment and how these will be measured;
- d. an assessment of whether the expected costs or benefits have changed significantly from those stated at initial prioritisation and, if applicable, the reasons for the final choice of location; and
- e. any other relevant Green Book requirements.

PAC Conclusion (1): The first two projects, the Royal Research Ship James Cook and the Diamond Synchrotron (Phase 1), have been delivered largely to time and budget but other projects still at an early stage are forecasting slippage. The Department, working with the Research Councils, should require project teams to study and apply the lessons learned from existing projects, for example by using incentives in contracts, and effective risk sharing. Project teams should be required, through the Gateway process, to consider explicitly these issues when taking forward new projects.

5. All project teams will be asked to consider how to implement best practice for the preparation of a clear strategic outline business case, and the assessment of the economic case in terms of options, costs and benefits, in line with the joint handbook mentioned above. The Research Councils' Procurement Organisation (RCPO) is now responsible for communicating best practice across the Councils.

6. In addition, the Research Councils have agreed, wherever possible, to ensure that the project board of each new project includes a member (in some cases from another Research Council) with experience in facility development projects. As an alternative, a mentor (with experience in facility development projects) will be identified as a key contact point for new project teams. Following completion of a project, the project team will now be required to produce a Lessons Learned document that will be made available to all new and current project teams.

7. A number of Councils are acquiring a body of experience and expertise in managing large-scale projects. The project team for individual facilities will typically be assembled from a mixture of in-house and external personnel. The effectiveness of their programme management is enhanced by:

- following the Office of Government Commerce (OGC) Gateway processes and best practice methodologies;
- applying the underlying principles of Treasury's Green Book;
- establishing a focused and well managed project team; and
- establishing at the outset a sound business case for the investment.

8. Improvements will be made in terms of:

- sharing best practice between Councils;
- ensuring that the findings of Gateway assessments are consistently and rigorously applied;
- recognising within the Councils the importance of project management; and
- holding occasional workshops at which best practices and experiences can be shared between the various project teams within all of the Councils.

9. The 'one-off' nature of projects and their relatively infrequent periodicity within individual Councils means that the experience of staff has often been difficult to capture and specialist expertise is often contracted out to avoid carrying unnecessary staff overheads. In future, the Research Councils will seek to exploit the full range of experienced project teams across all Councils.

PAC Conclusion (2): Five of the six most mature projects have forecast significant increases in the initial estimates for operating costs, two in excess of 80 per cent. Research Councils should draw upon wider experience in the private and public sectors, for example in the Ministry of Defence, and require the preparation of more robust estimates of whole-life costs at an early stage. They should give explicit consideration to through life costs when approving the design of new facilities.

10. The establishment of the RCUK pool of expertise in project management will be accompanied by an increased emphasis on whole life costing (that is design, construction and operation). Experience with the large facilities constructed to date will provide a clearer body of evidence and tools to enable Councils to make more accurate estimates of the realistic running costs at an earlier stage in future projects.

11. Since the publication of the NAO report, the Department and the Research Councils have agreed that projects that have funding earmarked from the Large Facilities Capital Fund (LFCF) will be reprioritised by Councils, and resubmitted to the Department if necessary, in cases where:

- the scope of the project has changed significantly;
- the timescales have slipped; or,
- the costs, including projected whole life costs, have escalated significantly.

12. The Councils will share best practice in this area and where appropriate utilise private sector expertise but an approach will also be made to the Ministry of Defence (MOD) and Department of Health (DH), with a view to gaining some insight from them on how whole life costs are determined and managed and how they apply the Green Book principles to achieve the desired results.

13. The Councils will also work towards the adoption of standard contingency rates (as used by the construction industry) for operating costs, recognising that the most appropriate rates may vary depending upon the nature (level of risk) of the facility in question.

PAC Conclusion (3): The Research Councils have had difficulty recruiting the project management expertise needed to deliver some projects. Research Councils should have regard to the significant impact such expertise can have on the achievement of value for money overall, and the high cost of using consultants should direct recruitment fail. Research Councils should jointly develop a cadre of project management expertise and seek to share these skills as new projects are taken forward.

14. In addition to the proposed actions in response to Conclusion (1), Research Councils will continue to develop and retain staff with project management skills. The Engineering and Physical Sciences Research Council (EPSRC) has maintained the considerable expertise in the project management skills necessary for high performance computing, having managed the successful procurement of CSAR¹, HPCx² and now HECToR³. Within the Medical Research Council (MRC) external project managers are supervised by an in-house Project Sponsor, who also has project management skills. On larger projects each of these is usually supported by other staff and every endeavour is made to ensure that the two groups work as a single team. This promotes exchange of knowledge, ideas and skills.

15. Some Councils have a strong project management capability, and are keen to develop expertise in this area and Gateway reviews and project teams are established in accordance with good practice principles as advocated by the OGC's PRINCE 2. However, appropriate use has to be made of contracting out specialist project management skills and mechanisms put in place for sharing in-house knowledge and capability. Councils, the NAO and RCPO are working to ensure that there is a greater sharing of know-how and that best practice is applied more universally.

PAC Conclusion (4): The 10-15 year road map of facilities which the Research Councils expect to be needed provides a structure for identifying priorities, but at present there is a limited input from the wider scientific community and industry. There is a risk of leaving decisions on the selection of new facilities in the hands of a small group of scientists without input from the wider community. The Department and Research Councils should draw upon expertise available in the broader scientific community and industry, to contribute to key points in the decision-making process.

16. Since the NAO report was published, Councils have, with the encouragement of the Department, significantly changed the scope of the Large Facilities Roadmap, so as to make it a more transparent process and document. The Roadmap now explains the strategic context in which large facilities are being developed and describes all current and proposed facilities that are of a high strategic importance and require significant capital investment (rather than just describing those facilities that are eligible for Large Facilities Capital Funding). This provides the research community, the Research Councils and the Department with a comprehensive picture of the large facilities landscape.

17. The Councils have consulted formally on the 2007 version of the Large Facilities Roadmap so as to provide an opportunity for all stakeholders, including those from industry, to submit their views on prioritisation and ideas for future planning purposes.

Prioritisation Process for Large Facilities

18. The process by which proposals for large facilities are prioritised by individual Councils varies according to the nature of the science and of the facility but will typically involve the following:

¹ Computer Services for Academic Research <http://www.csar.cfs.ac.uk/>

² High Performance Computing <http://www.hpcx.ac.uk/>

³ High-End Computing Terascale Resource <http://www.hector.ac.uk/>

- A consideration of the strategic need for the facility in the context of the Council's mission and strategic plan, and usually involving the high-level strategic advisory structure within the Council.
- Input from the scientific and other stakeholder communities (including other Councils) on the need for and use of the facility and the expected quality and application of the research output. In the case of renewal of existing facilities this is likely to draw heavily on reviews undertaken of past and current activity.
- Advice from technical experts on aspects such as design, location, management and operations and capital and operational costs.
- The wider international context and particularly the potential for partnership

PAC Conclusion (5): Research Councils have not always sufficiently evaluated options for locating new scientific facilities. If there is a choice of location, the Department should be explicit about the criteria to be used by Research Councils in assessing potential options.

19. Research Councils will now undertake a full locations options appraisal as part of the production of the full business case and Gateway Review process. To assist new project managers in this exercise, the joint NAO, DIUS, RCUK publication '*Large Scientific Facilities: Strengthening the Preparation of Project Proposals*' provides guidance on the identification of options. Councils accept that decisions about location can be sensitive and will be more transparent in future decision-making processes.

PAC Conclusion (6): Research Councils have sometimes had difficulty in attracting a sufficient number of bidders for contracts to help build new facilities. Research Councils should educate potential suppliers on the opportunities likely to be available in assisting the construction of new facilities. To overcome misplaced or unnecessary concerns about the technical demands of such projects, they should brief them on the varied content of the available work, and where possible package the work so as to broaden the range of potential contractors.

20. Procurement strategies are a balance of risks and costs and utilising the available internal and external expertise to best effect. Strategies also need to take account of the supply base, which can be limited (for instance with Halley VI the number of potential suppliers of a ship to the specification required was extremely limited).

21. Research Councils will continue to use competitive tendering involving both UK and overseas-based companies.

22. RCUK, on behalf of the Research Councils as a whole, will initiate discussions with relevant trade associations to develop a joint understanding of large facility investments. Publication of the Roadmap also provides an indication to companies of the nature of large capital projects that could be the subject of future commercial interest.

PAC Conclusion (7): Little is known, in the UK or internationally, about the economic impact of hosting large scientific facilities. The Department and Research Councils should place greater emphasis on assessing both the immediate benefit to the local economy and the potential impact on the national pool of technical skills. The Department should track the economic impact of the current group of large-scale facilities and draw lessons for the development of future facilities.

23. Quantifying the full range of benefits of these projects is complex and not straightforward. Councils share the NAO's assessment that there is little material internationally that can be used. Councils are continuing to work with the Department better to define success criteria for economic impact.

24. In 2007 the Department awarded a contract to SQW Consulting to assess the economic impact resulting from the location of large-scale facilities in the UK, including:

- economic and social effects resulting from the physical location of the facility itself;
- impact associated with the flow-on enhancements to the UK research base, and the subsequent changes to the economic impacts of the research base.

25. This report will be produced in early 2008 and its findings will be used to inform the development and appraisal of future projects.

26. In addition, the Department and the Councils have developed an economic impact framework for the Councils' activities; it will provide a structure for an annual report of progress indicators and evidence. The economic impact reporting frameworks are published by Councils annually.⁴

PAC Conclusion (8): Performance indicators used by the Research Councils and project teams for monitoring the success of these facilities are not always sufficiently comprehensive or measurable. Before approving the business case for a new facility, the Department and Research Councils should establish indicators to enable the success of the project to be measured. Measures should include the extent to which available capacity is utilised.

27. Success criteria for all projects will be defined as clearly as possible at the time of project initiation. These will be refined as necessary as the project moves through the approval process, and as experience of using the facility develops. The UK has led the way in adopting success criteria and performance metrics for large facilities; business cases will indicate the type of success criteria against which future evaluation of the project will be made.

⁴ <http://www.rcuk.ac.uk/aboutrcuk/eirf.htm>

PAC Conclusion (9): Research Councils need to make better use of the potential these facilities offer to inspire the next generation of scientists. The Department and the Research Councils should have plans in place specifying how these facilities might bring the wider community into contact with science and encourage the choice of scientific studies, qualifications and careers.

28. The Research Councils recognise that these large facilities can play a leading role in encouraging people to take an active role in engaging with science – this is especially true once the facilities become operational. Now that facilities such as the Diamond Synchrotron and the RRS James Cook are becoming operational, the Councils will be discussing with DIUS and the Department for Children, Schools and Families (DCSF) how they can best market their activities to increase awareness about the work being undertaken there and to stimulate interest from schools. Examples of outreach activities include:

- all Biotechnology and Biological Sciences Research Council (BBSRC) – sponsored institutes support scientist-schools links,⁵ enabling teachers and school students to meet scientists and complement classroom science with experiences of cutting edge research;
- EPSRC, in collaboration with the Science and Technology Facilities Council (STFC), in May 2007 invited applications for research projects in conjunction with the Research Councils’ centrally supported facilities.⁶ This call, for which up to £4 million will be made available, will be managed by EPSRC.

⁵ http://www.bbsrc.ac.uk/society/schools/institute_activities.html

⁶ <http://www.epsrc.ac.uk/CMSWeb/Downloads/Calls/NextGenFacUsers07.doc>

Sixty First Report

Ministry of Defence

Managing the Defence Estate

1. The Ministry of Defence (the Department) welcomes this report by the Public Accounts Committee (the Committee) in which it examined the defence estate, with particular emphasis on the standard of Service accommodation; cuts and injections of funding and the Department's ability to prioritise estate projects effectively; and its response to staff shortages in Defence Estates (DE) – (the MOD organisation responsible for the defence estate). The Department accepts that much Service living accommodation requires upgrading or modernisation and that more work is required.

2. The Department is pleased that the Committee noted the size and complexity of the defence estate, and the considerable efforts, which are being made to improve the quality of land and buildings on the defence estate.

PAC Conclusion (1): More than half of single living accommodation and over 40 per cent of accommodation for families does not meet the Department's definition of high-quality accommodation and is therefore substandard. The Department needs to prioritise upgrades to the 138 houses at the lowest Standard 4 and then to the 2,000 Standard 3 houses, irrespective of location. Occupants should be offered the opportunity to move to other accommodation for the duration of works, including rented accommodation. The Department should not allow any more housing to fall into Standard 4.

3. It is accepted that much of the Service Families Accommodation (SFA) and Single Living Accommodation (SLA) is below the top standard. The Department recognises the scale, importance and sensitivity of the need to upgrade and improve Service accommodation. Considerable investment in accommodation has therefore taken place in the last 6 years, which has led to 20,000 new SLA and 12,000 upgraded SFA. Given the numbers of properties involved (71,000 SFA and 165,000 SLA worldwide) and the legacy of decades of under-funding, this task will inevitably take time to complete. However, as part of the Comprehensive Spending Review, £550 million was ring-fenced for the upgrade of housing and other living accommodation over the next three years.

4. So far as SFA is concerned, the Department has identified a 10-year upgrade programme based on an anticipated investment of £38 million for 2008/09 and £48 million per annum thereafter. This represents a planned increase of over £20 million in 2008-09 and £30 million a year thereafter on previously planned levels of investment. It will be targeted at areas of greatest need first – principally houses in the two lowest standards for condition plus houses which are needed urgently because of unit moves – thus the unit cost of the early upgrades will be relatively high. In addition to the 5,500 upgrades completed over the last three years, the programme will deliver 600 upgrades in 2007-08 and 2008-09 and up to 800 per annum in subsequent years.

5. Unless the work is of a minor nature it is normal for it to take place when the property is unoccupied as this avoids any inconvenience to the family. If that is not the case and the occupants are content, the Department offers wherever possible temporary accommodation while the work is being carried out. In addition to upgrading properties, around £32 million is being spent during 2007-08 on improvements such as new kitchens or bathrooms which, while not sufficient to fully upgrade a house to the next level, will make a significant contribution to the quality of life of the occupants. The current funded upgrade programme will ensure that no Service families will need to be housed within Standard 4 accommodation by April 2009.

6. Turning to SLA, the Department has committed an additional £80 million to the Single Living Accommodation modernisation project (SLAM) over the next three years (2008-09 to 2010-11). This is in addition to the £335 million already announced for SLAM Phase 2. Since 2003, the Department has improved some 20,000 SLA (through both SLAM and other projects and major Private Finance Initiatives). These upgrades include the recent opening of 452 single en-suite bedrooms at Tidworth, 144 new bedspaces at the Duke of Gloucester Barracks South Cerney and a further 96 bedspaces at RAF Wittering. It is planning to deliver a further 30,000 improved bed spaces by 2013. Funding is in place for a further phase of SLA upgrading in the five years to 2018.

PAC Conclusion (2): Poor accommodation for single personnel and for families has a negative impact on retention but the impact on retention rates of upgrading accommodation is poorly understood. The Comptroller and Auditor general concluded in previous work that it is more cost-effective to retain personnel than to recruit and train replacements. The Department should investigate the relationship between the quality of accommodation and retention rates, to assess how far extra investment to achieve a swifter improvement in the condition of housing could be expected to be offset by savings in recruitment and training costs.

7. The Department is very well aware that there is a link between the quality of accommodation and retention. This is tested as part of the annual Tri-Service Continuous Attitude Survey (CAS), which features a series of questions on accommodation to establish its influence on the intention to stay or leave the Armed Forces. Although accommodation does not normally feature within the top four reasons to leave, the CAS is a constant reminder of the importance the Armed Forces place on decent accommodation. That is why we will be spending over £8 billion on accommodation in the next 10 years. It is not, however, possible to show a direct link between additional investment in accommodation and reduced recruitment and training costs because there are too many other factors, which might influence the latter.

PAC Conclusion (3): Service personnel and their families who are living in the worst accommodation do not know when their housing will be upgraded. As it works to improve substandard accommodation, the Department should publish detailed programmes of the houses and single living spaces it intends to upgrade well in advance to give Service personnel and their families more information.

8. The Department programmes upgrading of housing over a two year rolling programme and publishes this to the Armed Forces. Residents on housing estates within the programme are informed as soon as possible and, as the programme is refined to minimise disruption to occupants, individuals are given at least three months advance notice of work through local meetings involving representatives from DE and Modern Housing Solutions (the Housing Prime Contractor). By April 2009 no Service personnel should be housed in Standard 4 accommodation. The Department also has identified a 10-year investment programme for service housing of £38 million for 2008-09 and £48 million per annum thereafter. Information about work to be carried out on SLA is provided to Service personnel through the chain of command.

PAC Conclusion (4): There are significant gaps in the Department's understanding of the cost of its estate and it still has no effective way of knowing where funding is needed most. The Department should improve its understanding of the costs of maintaining and running its estate. In particular, it should:

- a) develop a deeper knowledge of the costs which lie with the three Services and other internal customers, including funding for Minor New Works and the overheads of Customer Estate Organisations and Site Estate Representatives; and**
- b) implement Integrated Estate Management Plans for all defence sites, compiled according to a standardised methodology.**

9. The Department fully accepts that more work is needed to understand the cost of the estate, so that there can be no doubt where funding is needed most. DE has been asked to capture the data lying within the three Services and other internal customers, which will lead to improved visibility and understanding of estate information. This work will be completed by September 2008.

10. The completion of standardised Integrated Estate Management Plans (IEMPs) for all MOD sites is a very high priority and good progress is being made. As of September 2007, 60 per cent of MOD sites had formally agreed IEMPs in place. IEMPs at all other sites remain at the draft stage and it is anticipated that all MOD sites will have an authorised IEMP by March 2009.

11. As a major step in providing greater clarity on the estate overall, the Department will be producing, in early 2008, a Defence Estate Development Plan (DEDP). The Plan will set out the first framework, looking forward to 2030, for the coherent development of the estate to meet the future needs of defence, and the priorities for investment and rationalisation arising from it. Decisions and actions emanating from the management of the Plan will be notified to the appropriate Command chains to ensure personnel are informed accordingly.

PAC Conclusion (5): The Department had to spend an additional £20 million in its contract with Modern Housing Solutions after underestimating the work required to maintain family accommodation. With better management information, the backlog could have been identified earlier, and the cost would almost certainly have been less.

12. The payment of £20 million reflected the poor condition of family accommodation encountered at the beginning of the contract and the need to maintain more houses than originally assumed. The Department accepts that better management information should have been available in respect of the condition of family accommodation. It has put in place a full condition survey, which is complete in Scotland and will be completed in England and Wales by end of June 2008. The Department is confident that the contract is now properly funded to maintain all family accommodation across England and Wales. However a further assessment will be made when the housing condition survey is complete.

PAC Conclusion (6): In 2006–07 £13.5 million of planned maintenance work was deferred in response to budget cuts, whilst the resurfacing of tennis courts and the construction of sports pitches went ahead. If the Department has to make cuts to the budget for the defence estate in future, it should consider planned maintenance together with other projects and target cuts at the lowest priority work. The Department should develop a funded plan for the completion of the deferred work, so it can hold contractors to their contractual obligations on the overall condition of the estate, and avert long-term damage to the buildings.

13. The Department accepts that better co-ordination is required in future and new processes have been implemented since the NAO report was written. However, the Department believes that it is right that the Armed Forces should be able to spend some of their resources on their highest estate priorities. Sporting facilities are often considered a high priority because physical fitness is vital to the effectiveness of Service personnel on operations. Leisure facilities, including sports pitches, are also essential to team building and morale. In 2006-07, deferrals and injections were managed in liaison with customers who set their own priorities for the estate. Service accommodation was specifically excluded from any such reductions. Of eight sports facilities considered, each case was fully supported by a business case and only four actually had work carried out.

14. The Department is developing an Estate Planning Tool, which, together with asset condition information and simplified processes, will enable better targeting of resources in future. The Department is working with its suppliers to ensure that last year's cuts will have no impact on the suppliers' ability to deliver their contractual obligations. The over-arching priority is to ensure that operational commitments are properly supported.

PAC Conclusion (7): Defence Estates and the centre of the Department received almost no advance warning of the Minor New Works projects that the three Services and other internal customers ordered in 2006–07. As a result, expenditure on the estate could not be planned, prioritised and programmed in an effective way. The three Services and other internal customers of Defence Estates should develop funded lists of Minor New Works well in advance of each financial year to allow Defence Estates to prioritise these projects effectively, and to build sensible and cost-effective programmes of work.

15. The Department fully accepts that the arrangements for planning Minor New Works (MNW) have been inadequate. It has introduced new procedures to address this conclusion. These have ensured that an agreed programme of MNW for 2008-09 was produced by the end of December 2007. DE will cost and secure confirmation of funding from Customer Estate Organisations by April 2008 with programme delivery and cost risks held by DE after that date. Lessons learned from this work are being studied by both DE and the internal customers. Improvements to the processes will be introduced for the following year as required.

PAC Conclusion (8): The Department employs only 56 per cent of the safety works staff and 57 per cent of the quantity surveyors that it needs on its estate. The Department is exposing itself and its employees to significant Health and Safety risks whilst the lack of quantity surveyors impairs the scrutiny of project contracts. The Department should:

- a) establish the specific risks arising from current skills shortages and put in place measures to mitigate these risks;**
- b) see how other public and private sector organisations overcome similar skills shortages and adopt successful practices; and**
- c) allow sufficient pay flexibility to attract appropriately skilled staff to fill the empty posts.**

16. The Department accepts that there are skills shortages of specialist staff within DE and that action is required to correct this. Although a number of measures have been put in place, the Department is still suffering from similar levels of vacancies. To address the real concerns that the Committee have highlighted, a number of mitigation measures have been adopted including Estate Professional and Talent Management Schemes. DE is using more expertise available both with its supplier community and by using additional external resources. The Committee recognised that the Department is introducing a graduate recruitment scheme to address these concerns in the longer-term.

17. A review of other public sector organisations has indicated similar recruitment problems in these specialist areas and out sourcing at a significant cost has been used. Pay levels in the private sector for these scarce skills are, however, significantly higher than those available within the Department. Other ideas are being considered, including the use of special payments in respect of these specific skills.

PAC Conclusion (9): The Department's pilot project at RAF Kinross showed that implementing energy saving measures at its defence sites would bring environmental benefits and recurring financial savings of more than £2 million annually. The Department should implement energy-saving measures on the sixteen sites it has already identified as soon as possible and should roll out similar work at all its other sites, starting with those that consume the most energy.

18. The Department is already implementing this recommendation. The Kinloss project focused on improved Building Energy Management Systems. The lessons from this work have been widely promulgated. Three sites, RAF Brize Norton, RAF Lossiemouth and RAF Halton are progressing Building Energy Management System projects at a total cost of £670,000 with projected annual energy and carbon savings of £538,000 and 1092 tons carbon respectively. Many other schemes are under consideration.

19. Building on the Kinloss experience the Department has put in place for 2007/08 an additional £5 million fund specifically for energy projects. As at 21 November 2007, 31 energy improvement projects are being taken forward this Financial Year to a value of £3.8 million. For this investment we are predicting an energy bill saving of £1.5 million every year and an annual reduction in carbon emissions of 4044 tons. Of these 31 projects, a total of 17 involve heating-related Building Energy Management Systems projects, which include a further phase of work at RAF Kinloss and the work at RAF Brize Norton, RAF Lossiemouth and RAF Halton.

20. To encourage innovation further, and build on the lessons learned at RAF Kinloss, we have incentivised the Regional Prime Contractor in the South West through a partnership arrangement to cut energy consumption by 10 per cent across 10 Royal Navy and Royal Marine sites. If successful, the initiative will be applied to other parts of the estate.

Sixty Second Report

Department for Communities and Local Government

The Thames Gateway: Laying the foundations

1. The Department for Communities and Local Government (the Department) welcomes the scrutiny by the Committee of Public Accounts of the regeneration programme for Thames Gateway. The Committee drew upon the report by the Comptroller and Auditor General, which was based on field work carried out during 2006 and published in May 2007⁷. C&AG's Report, *The Thames Gateway: Laying the Foundations*, HC (2006-07). Action taken by the Department to respond to the new vision for the Gateway set out by David Miliband and Yvette Cooper in November 2006 anticipated many of the Committee's recommendations, particularly by developing a new programme management framework and establishing a cross-Government Board. It is useful therefore in this response to be able to offer an up-to-date picture of progress.

2. Over this period, the progress in the regeneration of the Gateway has been spectacular. Key projects have advanced significantly: the opening of High Speed 1 with St Pancras and Ebbsfleet stations, planning permissions for the new container port at London Gateway (Shellhaven), residential development at Eastern Quarry, Dartford and Barking Riverside, and Government commitment to constructing Crossrail.

3. Since the publication of the Committee's report the Prime Minister launched the *Thames Gateway Delivery Plan* in November 2007.⁸ *Thames Gateway Delivery Plan*, HM Government (November 2007). This plan sets out a clear direction for the future of the Gateway backed by a cross-Government funding package over the next three years. This is reinforced by strengthened management arrangements in the Department's Thames Gateway Executive (TGE) to drive forward delivery of the commitments in the Delivery Plan.

PAC Conclusion (1): The Department's management of the programme has been weak, and has not demonstrably added value to the programme. Its programme management systems are not commensurate with the programme's size and scale of ambition. Instead of retaining direct day-to-day management uniquely for this programme, it should delegate operational management of the Gateway to the proposed new regeneration agency, the Homes and Communities Agency, to sit alongside the other housing growth programmes, and utilise the agency's housing and regeneration expertise. The Department would then be better able to concentrate on policy development and achieving cross-government coordination.

⁷ C&AG's Report, *The Thames Gateway: Laying the Foundations*, HC (2006-07).

⁸ *Thames Gateway Delivery Plan*, HM Government (November 2007).

4. The progress seen in the Gateway could not have been made without the programme management of the TGE. The Department has established a strong and effective network of local delivery vehicles, including two Urban Development Corporations with land assembly and planning powers, and secured and reclaimed large-scale sites for housing such as Rochester Riverside. Investment by the Department has been instrumental in developments such as the University of Essex /South Essex College and the fast track bus rapid transit system in Kent Thameside.

5. On 10 January 2008, the Minister for Housing and Planning informed Parliament of the delivery responsibilities of the Homes and Communities Agency (HCA). Subject to legislation, these will include a range of the delivery functions currently undertaken by the Department's Thames Gateway Executive. The HCA will be well placed to drive forward the commitments made in the *Thames Gateway Delivery Plan* as part of its wide-ranging portfolio and to build on the achievements of the TGE.

6. The HCA will give local authorities a clear strategic partner to work with on housing and regeneration. It will bring together substantial assets, resources and funding streams enabling it to respond to particular problems in different communities. The Department therefore intends to transfer to the HCA funding programmes that support local delivery partners in the Gateway. The Department will thereafter concentrate its resources on policy development and cross-Government co-ordination.

7. Until the HCA comes into operation, the Department will retain its delivery responsibilities for the Thames Gateway. The TGE is leading work with key delivery partners to agree a detailed implementation plan for 2008-09 for the commitments in the *Thames Gateway Delivery Plan*. To sustain momentum the Department has recently further strengthened the senior management of the TGE. It is now managed by a Director General, and three new Directors have been appointed. Two internal Departmental programme boards have also been established, one for Thames Gateway, the other for the Olympics, reporting to a delivery sub-committee of the Department's Board.

8. The Department has begun implementation of a programme management framework as outlined in the Delivery Plan. A key aspect of this is the programme evaluation and assembly methodology, described in paragraph 17. This will ensure that the Department obtains maximum impact and value for money for the financial investment made in selected projects.

PAC Conclusion (2): The Thames Gateway is one of 15 critical programmes prioritised by the Government, with an ambitious vision, which will require sustained prioritisation and cooperation across Whitehall. In response to the Comptroller and Auditor General's Report, the Government has established a cross- government board of senior officials to provide overall strategic management of the programme. Members of the board will need to embed the Thames Gateway programme into their departments' core work, on the basis of explicit and mutually agreed commitments defining their part in the programme, and responsibility for delivering it.

9. The Department agrees with this recommendation, noting that the cross-Government board of senior officials was established in advance of the Comptroller and Auditor General's report of May 2007. The cross-Government board has met on six occasions since then.

10. The cross-Government board was instrumental in developing the £9.6 billion package of funding set out in the *Thames Gateway Delivery Plan*. This includes commitments across Whitehall, and a clear direction for the future of the Gateway as a cross Government priority. The board has taken on responsibility for coordinated risk management across the Gateway with all member departments sharing ownership of the programme's risk register.

11. The cross-Government board is now chaired by the responsible Director General within the Department, and includes very senior representation across Whitehall, reflecting the Thames Gateway's importance as one of the Cabinet Office's 42 major projects and programmes which are monitored across Government. Ministerial responsibility lies with the Minister for Housing in the Department, and a sub-committee of the Economic Development Cabinet Committee covering housing and regeneration.

12. In addition, the Department has established a new board between the TGE, English Partnerships, the Housing Corporation, the three Regional Development Agencies (RDAs) and the Regional Directors of the three Government Offices in order to enhance the co-ordination between the Government and key regional partners. This had its first meeting in February 2008 and will be responsible for agreeing the operation of the joint RDAs/CLG £200million Strategic Economic Investment Fund announced by the Prime Minister at the Thames Gateway Forum.

PAC Conclusion (3): The Department has not translated the vision for the programme into comprehensive and measurable objectives, nor are there robust systems to measure progress. The relevant departments should agree a balanced scorecard of indicators and measure cross-government spending on the programme. The Department should publish reports annually on the programme's progress.

13. The Department set out clear, measurable objectives for the Gateway programme in the *Thames Gateway Delivery Plan*. This Plan sets out the key Government objectives, for example:

- 225,000 new jobs by 2016;
- 160,000 new homes by 2016 with 80 per cent on brown field sites;
- 10,000 new Further Education/college places by 2016.

14. The Plan sets out in table 5.2 the anticipated outputs for the Thames Gateway from the £500 million of investment planned by the Department itself over the next three years. The Department intends to publish an annual report on the Thames Gateway programme in June 2008.

15. The Department has developed a comprehensive programme management framework to ensure that the optimum programmes and projects are selected for funding. All programmes seeking Government support have been appraised consistently against four criteria: strategic fit to spatial and economic priorities; outputs such as housing numbers; financial soundness; and deliverability. The Delivery Plan sets out approval in principle to the key programmes that best meet these criteria. To ensure value for money, full approval will be subject to Green Book appraisal of the projects that make up each programme.

16. This appraisal and value for money assessment is reinforced by a monitoring and reporting regime. The Department will work closely with local partnerships to ensure that a consistent approach is taken. A common protocol for risk and opportunity management together with a centralised risk register is also being implemented.

17. The Department is working closely with the Government Offices on the negotiation of Local Area Agreements (LAAs) for local authorities and their partners within the Gateway. LAAs, and in future Multi Area Agreements (MAAs), will be key to accelerating the pace of improvement of public services and supporting sustainable economic growth. LAAs will increase the visibility of performance across all local areas and focus resources on the national and local priorities that matter most, with up to 35 targets, shared between central and local government and their partners.

PAC Conclusion (4): The delivery chain for the Thames Gateway is unclear. There are over 100 organisations involved in the Thames Gateway programme across central, regional and local government and the private and voluntary sectors. There are multiple funding streams channelling into projects and multiple lines of reporting. The Government needs to establish and set out the roles of each of the organisations involved and of each layer of government so that there is no unwarranted overlap of responsibilities or duplication.

18. The Department's view is that Thames Gateway is not (and cannot be) a single top down and centrally controlled development programme analogous to a New Town Development Corporation covering an area of 100,000 hectares and a population of 1.5 million. This is a very large existing predominantly urban and industrial area of considerable complexity. Development is appropriately delivered by a wide variety of existing public bodies and ultimately the private sector. The role of public agencies is to ensure that the most beneficial conditions for enabling such development to take place are provided.

19. The Department's role is to provide coherent overall leadership to a wide range of existing public bodies rather than seeking to manage the programme directly. The key distinction is between organisations, which directly deliver projects and programmes the Department is supporting, and local partnership bodies which enable discussion of priorities amongst a wide range of interests. As the Committee acknowledges, a partnership approach has the advantages of bringing stronger congruence between local and central government, local accountability, local knowledge, flexibility of delivery, and ability to bring in expertise. The bodies with whom the Department has a contractual direct delivery relationship are 18 local authorities, the Greater London Authority (GLA), three regional development agencies, two urban development corporations, English Partnerships and the Housing Corporation.

20. The Government is taking a number of steps to simplify delivery arrangements and reporting procedures for these delivery partners. For example, the new local government performance framework will significantly reduce the reporting burden upon local authorities and their partners. The Review of Sub-national Economic Development and Regeneration (SNR) set out proposals to simplify the delivery of regeneration, notably through the preparation of a single Integrated Regional Strategy. The creation of the HCA will greatly simplify delivery arrangements bringing together delivery functions from the Department, English Partnerships and the Housing Corporation.

PAC Conclusion (5): The Department does not know how much the regeneration of the Thames Gateway will cost the taxpayer. It has promised to establish a costed implementation plan by November 2007, linked to the outcome of the comprehensive spending review, but with the risk that the plan will only include those projects that can be immediately accommodated within departments' three-year budgets. The implementation plan should cost all the steps necessary to achieve the government's ambitions for the Thames Gateway, including those that have yet to be approved or establish their funding.

21. The Government has published the costed *Thames Gateway Delivery Plan* which sets out what Government as a whole, and the Department in particular intends to spend over the three years 2008-11. Over this period, the Government will invest around £9.6 billion in the regeneration of the Thames Gateway.

22. The Thames Gateway is a long-term regeneration and development programme. As it is not possible to make firm funding commitments beyond the Comprehensive Spending Review period, the Government has instead identified funding plans for this period and laid out its intended direction of travel for the period to 2016 in order to provide confidence to potential investors.

PAC Conclusion (6): There is a risk that the economic benefits of regeneration will not reach existing residents. Current employment levels in the Thames Gateway are lower than the surrounding region. The aim is to increase the number of jobs in the Thames Gateway, but the Department does not know how many of these jobs will go to existing residents. There is a risk that improved public services, infrastructure and housing will be concentrated in new developments. The Department should consider the impact on existing residents in developing its strategy, implementation plan and project appraisals, so that both they and new residents share in the benefits of regeneration.

23. The Government is committed to ensuring that the economic benefits of the regeneration of the Gateway are shared by its existing residents. The aim of such programmes is to enable local economies to succeed through innovation and enterprise such that a substantial number of new jobs are created.

24. The Government is dedicated to ensuring that local people are equipped with the skills required to benefit from this new employment. The Delivery Plan announced a Pan – Gateway Skills Plan developed by the Learning and Skills Council to invest £1.6 billion in teaching and learning, and £850 million in new building for further education. The Delivery Plan also reiterated our commitment to a Thames Gateway Guarantee of Assured Progression, ensuring that every level three course on offer in the Gateway leads directly to entry to a suitable level four course for learners who want to progress further.

25. A crucial element of the overall physical regeneration programme is to improve the quality of town centres and the diversity of the employment base, such that existing communities can share just as much in the benefits of new development as well as newcomers. Existing residents will enjoy an improved environment as a result of the Department's investment in the Thames Gateway Parklands. Expansion of the Docklands Light Railway, and other transport schemes supported by the Community Infrastructure Fund (CIF) will further the recovery of existing town centres across the Gateway. Such investment in commercial facilities, housing, tourism, leisure and culture will benefit all residents, old and new.

PAC Conclusion (7): Some local regeneration partners have low capacity and struggle with complex procurement and engaging potential investors. The Department has established nine local regeneration partnerships to coordinate local planning and projects and spends £10 million on their administration each year. It needs to establish a clear management and performance-monitoring framework for these partnerships.

26. The Department believes that a robust performance monitoring mechanism is in place for the local regeneration partnerships (LRPs) in the Thames Gateway, including the two Urban Development Corporations (UDCs) it sponsors directly. The two UDCs are required to produce three year Corporate Plans, which are signed off by Ministers. The Corporate Plan is monitored at regular meetings with senior officials in the Department. In addition, the UDCs prepare annual business plans which are approved and monitored by the by the Department. The activities of the Corporations are subject to annual audits by the National Audit Office.

27. In order to secure funding, we require all LRPs to produce a business plan which clearly sets out the activities the LRP expects to undertake; the projects they (and partners) will seek to deliver and the mechanisms for doing so; the budget(s) required and timescales for a three year period. The business plan has to be agreed by both the Board of the LRP and by the TGE prior to the Department releasing any funding. We also require that the business plan includes specific yearly activities and is kept under review and updated on an annual basis. Once the business plan has been agreed and signed off by all partners, milestones are entered in to the TGE programme management system, which is updated on a monthly basis.

28. In most cases, the relevant local authority is the accountable body for the financial resources allocated to LRPs. Local authorities are subject to specific assessment regimes. The inspectorates are jointly developing an outcome-focused, proportionate and risk-based Comprehensive Area Assessment (CAA), to be introduced from April 2009.⁹ The Audit Commission, Commission for Social Care Inspection, Healthcare Commission, HM Inspector of Constabulary, HM Inspectorate of Probation and HM Inspectorate of Prisons. The CAA will act as a catalyst for better outcomes delivered by local authorities working alone or in partnership.

⁹ The Audit Commission, Commission for Social Care Inspection, Healthcare Commission, HM Inspector of Constabulary, HM Inspectorate of Probation and HM Inspectorate of Prisons.

29. The Department is dedicated to supporting capacity building in local government throughout England, including in authorities in the Gateway. The Department, together with the LGA, launched the National Improvement and Efficiency Strategy in December 2007 and announced £185 million funding for Regional Improvement and Efficiency Partnerships (RIEPs). And from April 2009, the new HCA will marshal key skills in housing and regeneration and be in a strong position to provide expert support to local delivery partners to improve any weaknesses.

PAC Conclusion (8): Local MPs do not feel sufficiently engaged with the Thames Gateway programme. The programme would benefit from local MPs having a clearer role in promoting local plans and engaging local communities. The Department needs to consult and engage MPs more systematically through the Thames Gateway parliamentary group and on an individual basis.

30. The Department has used several techniques to engage MPs in the Thames Gateway, including a standing group of Thames Gateway MPs meeting on a quarterly basis, at more informal evening briefings, and individual meetings. The views of Thames Gateway MPs themselves are being sought by the Department as to how this communication and dialogue can be improved and strengthened. The Department intends to meet with the Thames Gateway Parliamentary Group at the earliest opportunity to discuss how the programme can most effectively engage MPs. The three regional ministers covering the Thames Gateway programme (Tessa Jowell for London; Barbara Follett for the East of England and Jonathan Shaw for the South-East) could also have an important role in helping build a stronger relationship with MPs.

PAC Conclusion (9): Many stakeholders are calling for better engagement with the private sector. The private sector will provide most of the investment needed in the Thames Gateway but the Department cannot give assurance on the amount of private funding levered in by taxpayers' investment and has not explored all options for raising private finance. The Department needs to bring on board institutional investors and developers to advise them on how better to engage the City and other private investors.

31. The *Thames Gateway Delivery Plan* sets out the clear direction for the future in order to secure the confidence of potential investors. As public sector investment bears fruit, the Department estimates that up to £43 billion of private sector investment could come into the Gateway over the next 20 years. The Department's role is to pump prime and ensure that infrastructure obstacles to development on particular sites are identified and overcome.

32. To fulfill this role the Department has regular dialogue with the major landowners, mostly on an individual basis, and this is essential in terms of bringing forward the large often complex development sites. Some of those landowners are represented on the Thames Gateway Strategic Partnership, chaired by the Minister responsible for the Thames Gateway, and private sector interests are already provided for on the boards of the Regional Development Agencies, English Partnerships and the Urban Development Corporations. The Department strongly supports the recommendation to strengthen institutional investors' and developers' role in the promotion of major development opportunities or sites. In the Delivery Plan the Department committed to establish an Investors Group for the Gateway to ensure a continuing dialogue with investors and provide a clear point of contact.

PAC Conclusion (10): Multiple inward investment agencies operating within the region and the lack of a coordinated marketing strategy have led to poor visibility of the programme outside the area and amongst potential investors. To raise awareness of the programme and attract investors, employers and new residents to the area the Department should develop a coordinated marketing campaign including a central marketing suite open to the public and potential investors; a branding strategy agreed amongst all partners; and appropriately targeted advertising.

33. Inward investment activity within the Thames Gateway is primarily the responsibility of the three RDAs, supported by sub regional investment bodies such as Gateway to London and Locate in Kent. In order to improve coordination, a pan-Gateway investment programme is being proposed by the RDAs and UKTI, who have seconded a specialist to the TGE.

34. The Department agrees that a revitalised marketing strategy is needed for the programme. However, it also recognizes that the specific locations are often more important to inward investors than promoting the Thames Gateway. Stratford City as part of the overall Olympics development area is perhaps a case in point. The challenge is to be clear where promotion of the overall Thames Gateway is relevant and helpful and those circumstances where concentrating on specific sites or opportunities is more intelligible to the potential inward investor. The Department is therefore discussing with the investment organisations, principally UKTI and the RDAs, a single approach to be established in 2008 for handling inward investment inquiries for the Thames Gateway as a whole.

Sixty Third Report

HM Treasury

HM Treasury: Tendering and benchmarking in PFI

1. Since 2004 the proportion of deals attracting only two bidders has more than doubled, with the risk of no competition if one bidder is weak or drops out. Lengthy tendering periods and high bid costs are already cited by bidders as key reasons for greater selectivity, and new procurement regulation regulations require a greater degree of bid development earlier in the process.

PAC Conclusion (1): Where only two detailed bids are forthcoming, project teams should investigate the reasons for the lack of interest, and departmental Private Finance Units should consider what lessons can be applied for future PFI deals.

2. The Treasury accepts the conclusions of the PAC. It is important that Departmental Private Finance Units track the level of competition for the PFI contracts they take responsibility for delivering. HM Treasury will write to Departmental Private Finance Units to encourage them to take a proactive approach in monitoring the competition for their PFI projects and to ensure that any lessons learned from this are applied to future PFI deals. The Treasury will ask Departments for an annual written summary of the results of this monitoring. In this exercise departments will need to focus not just on the number of bids, but also on the quality of bids. Departments must judge the health of competition based not simply in terms of the average number of bidders.

PAC Conclusion (2): The average tendering time for projects in 2004-06 was 34 months, compared to 33 months for projects that closed prior to 2004. The average cost of advice was £3 million, reflecting the length of the process, and delays to projects cost the taxpayer at least £67 million. The Treasury should encourage departments to impose sector specific targets for the completion of deals and require the completion of post-signing project evaluations by project team. A summary of the evaluations should periodically be published by the Treasury to help spread good practice and learn lessons for the future, for example, on the need to have, the right skills and experience in the public sector team.

3. A number of sectors, including education and street lighting, already have benchmarks for PFI procurement times. The Treasury agrees that setting benchmarks for procurement times is good practice and shall write to PFUs encouraging them to adopt this approach. In this letter the Treasury will note that benchmarks should be set within a range, rather than a spot target. A range will be more appropriate than a spot target as within each sector there will be a diverse set of projects of differing size and complexity. When benchmarks are in place in departments, the Treasury will publish a summary of the different benchmarks across the different PFI sectors.

4. The Treasury agrees that post-signing project evaluations are an important means of capturing the lessons learned from PFI procurement. The Treasury will write to departments encouraging them to systematically collect post-signing project evaluations from project teams and will request that a sample of these be provided to the Treasury on a bi-annual basis.

PAC Conclusion (3): One third of public sector teams made changes to PFI projects after they had selected a single, preferred bidder. Although new procurement regulations may reduce the scope to make significant changes after the competitive process has ended, the practical effect of these regulations has yet to be tested. The Treasury and Departments should assess the impact of the new procurement regulations by mid-2008, including whether they have reduced the incidence of late changes to deals.

5. The Treasury agrees that it is important to monitor the impact of Competitive Dialogue on the PFI procurement process. The Treasury and the OGC will shortly be issuing additional practical guidance for procuring authorities as to how to manage the Competitive Dialogue process. New procurement regulations came into effect on 31 January 2006. The Treasury does not believe that there has been sufficient time for enough projects to be completed on the Competitive Dialogue process for a useful assessment of the impact of the regulations to be made by mid-2008. The Treasury will work with departments to make an assessment of the impact of Competitive Dialogue by mid-2009.

PAC Conclusion (4): Benchmarking and market testing, which might have been expected to improve prices during the contract period, have in practice increased prices by up to 14 per cent. The private sector has been able to negotiate price increases for the provision of existing services with more than half the local project teams examined. Such increases put at risk the value for money case for long-term arrangements to provide facilities services such as catering and cleaning. Such arrangements should be avoided unless the value for money case can be shown to be insensitive to the sort of price increases (or equivalent service reductions) through the contract period that have already occurred on other projects.

6. The Treasury does not believe that removing value testing arrangements from PFI contracts will provide good value for money. The cost of soft services (e.g. cleaning and catering) tend to be more volatile than the general inflation index because of volatility in the underlying input costs. Where there are risks of cost inflation that are beyond the control or management of PFI contractors it does not make economic or financial sense to contract for a fixed price over the long term. If the public sector took such an approach, PFI contractors would price significant risk premiums into their bids that would outweigh the benefits of having a stable price – this would not be a good value for money. The value testing process provides a good opportunity to the public sector to re-evaluate their service delivery needs and to more closely align these with the contract from time to time.

PAC Conclusion (5): Public authorities have found it difficult to find appropriate data to benchmark PFI service costs, placing them at a disadvantage in price negotiations. Incumbent suppliers will be in a strong position if authorities cannot place them under competitive tension. Partnerships UK (PUK) should bring to an early conclusion its current work to collect data on PFI bench markings and market testing. The Treasury should then work with department departments to consider whether, taking account of the PUK data and other departmental cost databases, further cost data are needed to enable project teams to negotiate robustly on any future PFI value testing exercises.

7. The Treasury agrees that good quality price comparison data is important to ensure good value for money from value testing exercises. PUK has published a database on benchmarking and market-testing results and this is available to all authorities on its website. PUK's will continue to keep this source updated as more data from completed value testing exercises becomes available. The Treasury will seek feedback from departments on whether this data, along with their own sources, is sufficient to provide a robust platform to achieve value for money from value-testing exercises.

8. The Treasury's policy on value testing is that market testing is generally a more effective form of value testing than benchmarking. One of the reasons for this is that market testing allows competitive tension to be generated even in the absence of good quality price comparator data.

PAC Conclusion (6): There is evidence that, faced with price increases, public authorities had to cut back on services in hospitals, including portering, to keep the contracts affordable. Where such cutbacks have been made so far the authorities believed that they would not compromise the service to the users though cutting services could, in some situations, impact on users. Where reductions in services provided under PFI deals are agreed, they should be notified to the relevant departmental Private Finance Unit. The Treasury should review the results of user surveys to identify any evidence that such service reductions have put satisfaction in doubt.

9. Value testing arrangements give the public sector an opportunity to re-evaluate the quality and quantity of soft service provision they require from PFI contracts and to more closely align these with the contract from time to time. It is for Departments to decide what level of service provision they require to deliver their objectives.

10. HM Treasury will undertake a cross-sector user satisfaction survey for PFI contracts. This will include questions regarding the impact of variations in services that have resulted from value-testing exercises.

PAC Conclusion (7): There is a continuing lack of PFI experience and skills within public procurement teams across the public sector. One-third of procuring authorities admit that they have insufficient resources or in-house expertise for part or all of the PFI tendering process. The Treasury and the Office of Government Commerce should implement two linked changes to allow all complex procurements such as PFI projects to be staffed by people with relevant experience and skills:

- (i) the establishment of a career structure to create and retain a cadre of appropriately rewarded public sector procurement professionals, expert in complex procurement such as the PFI; and**
- (ii) the development of a secondment model which would allow interchange between procurement experts in the public and private sectors.**

11. The Treasury agrees with the PAC. The OGC has begun the process of reforming the Government Procurement Service (GPS). This will put in place more structure to the profession of public procurement. Research into the priority areas for enhancing the Learning and Development opportunities for GPS members has identified complex procurement and PFI as priority areas. The GPS will put in place training packages for GPS members that will address all the priority areas identified in this research exercise.

12. The GPS will encourage the interchange of procurement experts between different areas of the public sector by providing information on relevant vacancies and opportunities to members. Where appropriate the OGC and the Treasury believes that the interchange of procurement professionals between the public and private sector can also add to the public sector's procurement capability.

Sixty Fourth Report

Department for Transport

The management of staff sickness absence in the Department for Transport and its agencies

1. The Department for Transport welcomes this report by the Public Accounts Committee and its proposals for reducing sickness absence across the Department including its Agencies. The Department accepts that the Driving Standards Agency (DSA) and Driver and Vehicle Licensing Agency (DVLA) had absence levels in excess of 13 days in 2005 and, as these employ over half the workforce in the Department, they have a major impact on overall absence levels.

2. The Department is taking action through a sickness absence strategy agreed last October based on gaining a better understanding of the reasons for sick leave, improving management capability and focusing on areas that could have the most positive impact. That strategy will now be updated in light of the Committee's recommendations.

3. The Department is pleased that the Committee has recognised that in four Agencies and in the central Department, sickness absence levels were below rates found in comparable public and private sector organizations; and that a concerted effort is now being made across the Department to tackle absences.

PAC Conclusion (1): (a) The DSA needs to explore regional variations in sickness absence and whether, for example, demographic factors influence levels of sickness absence in test centres; and (b) the DVLA should benchmark its levels of sickness absence against local authorities and other local employers of a comparative size, to test if there is a specific problem in Swansea and whether there is any local best practice that the agency can draw on to improve its performance.

4. The Department accepts recommendation 1a. The DSA has already undertaken some analysis to identify the main causes of absence and differences in sickness levels within test centres. Musculoskeletal injuries linked to the role of the driving examiner account for an average three days sickness per driving examiner each year. The Agency is working with health and safety representatives to reduce them and has reviewed its policies against British Standards to ensure it is doing everything it can to minimise risk. Absence rates in DSA locations are now reviewed each month and specialist support is being provided to local managers in test centres with higher sickness rates to reduce both short and long-term absences. Absence levels in the Contact Centre are consistently high, and a study started at the beginning of February 2008 into the job content/design for the roles within this environment, to explore any potential for job enrichment and improvements in job satisfaction.

5. The Department accepts the principle in recommendation 1b about benchmarking with other local employers, and sharing best practice. As DVLA is a unique employer in Swansea, because of its size and the high proportion of female employees, benchmarking in recent years has covered employers in the wider South Wales area. The Agency continues its networks with other Government Departments and public sector organisations, such as Police Forces, to exchange information about specific initiatives. In recent months contact has also been made with the IPO (Patent Office), Newport to share information to improve performance.

PAC Conclusion (2): The Department and its agencies need to have strategies for managing both short and long-term sickness absence and to tackle them continuously.

PAC Conclusion (4): The central Department, the Government Car Despatch Agency and the DVLA should set realistic, but challenging targets to reduce sickness absence levels.

6. The Department accepts these recommendations and put in place last October a new strategy for improving absence management, based on the adoption of best practice principles by the seven Agencies and the central Department. To implement the strategy, each business has developed a continuous improvement plan that identifies specific initiatives for managing both short and long term absence. Targets have been set for the Department and each business with the aim of achieving the Health and Safety Commission target of seven and a half average working days lost to sickness across the whole Department by 2010.

PAC Conclusion (3): The DFT has reviewed long-term cases and taken disciplinary action where appropriate. The DSA and the DVLA should carry out similar exercises as a matter of urgency.

7. The Department accepts that all parts of the business should actively manage cases of long-term sickness. As part of the new absence management strategy, all Agencies and the central Department have agreed to review all potential long-term sickness cases within three weeks from the start of the absence and then on a regular basis. Mental health / stress related illness accounted for 25 per cent of all sickness in 2006 and these are now being reviewed at the earliest opportunity, along with any other specified conditions identified in each business.

8. In the DVLA, a review of all long-term sick cases was completed in March 2007. Some cases have been resolved more quickly than others, but all are now being proactively managed, with 44 dismissals and seven ill health retirements in the year to November 2007. Directors are reviewing all long-term cases with their direct reports to ensure proactive case management. Sickness absence levels in the Agency dropped from an average of 14 days in 2005 to 12.9 days (11.9 excluding pregnancy related sickness) in the year ending November 2007.

9. DSA has also taken a more proactive approach in managing cases of long-term sickness. The attendance management team is undertaking review meetings much earlier, with a view to either facilitating a return to work, or progressing retirement or dismissal as early as reasonably possible. All potential long-term absence cases are now reviewed within three weeks and immediately if the cause is psychological. In the year to November 2007, there were 11 sick absence cases that resulted in dismissal and five ill health retirements. All managers in the Agency were retrained in attendance management in 2007. Sickness absence levels in the Agency fell in the year to November 2007 to an average of 12.5 days (excluding pregnancy related sickness).

PAC Conclusion (5): The Department's recent Capability Review found that only 47 per cent of the Department's staff are proud to work for it. The Department and agencies are taking steps to identify good leaders and to develop their leadership capability. They need to pay particular attention to repetitive work, where sick leave tends to be higher, to make staff feel valued and motivated to come to work.

10. Results from 2007 staff surveys indicate that pride in working for the Department varies across business areas. For example, 59 percent of respondents in the DSA said they were proud to work there and in the Vehicle Certification Agency the figure was 69 percent. However, the Department accepts there is significant room for improvement. The Department has implemented a new competency framework in 2007, based on Professional Skills for Government. It also launched a new leadership programme based on 360-degree feedback and, following workshops and action learning sets, managers are now developing their skills on feedback from their teams.

11. In response to the Departmental Capability Review, one of four themes in the Department's action plan focuses on improving leadership. The Department is committed to engaging with colleagues at all levels to develop its understanding of good leadership and effective behaviours, and to establish clear standards for leadership right across the Department including its Agencies. New leadership standards were agreed at the end of last year to be communicated in February 2008, and a leadership programme is under development.

12. The Department agrees with the Committee's recommendation that leaders should focus on repetitive work to improve motivation and morale. Specific initiatives to improve morale and motivation in repetitive work areas are already underway in some Agencies. For example, the DVLA is implementing a "Health and Well Being" strategy for staff, and is rolling out a successful job design pilot, completed last year, to provide staff with more opportunities for variety, challenge and growth. There are also plans to tender for a 'Quality of Working Life' assessment of the workforce in 2008 to identify issues and improve well being, reduce stress and increase employee engagement. In the DSA, new values have recently been introduced, with a view to improving employee engagement and motivation further across the organisation, and it plans to re-promote its "Road to Health" scheme in 2008.

PAC Conclusion (6): The Department should take the lead to encourage more systematic sharing of good practice by raising the profile of staff sickness management within the department and across agencies. It should organise workshops, conferences and training events for line managers and Human Resources Directors.

13. The Committee's recommendation to raise the profile of sickness management and promote sharing of best practice is fully supported. The Department's sickness management strategy is designed to raise the profile of this issue, and to promote the implementation and sharing of best practice. Improvement plans are being coordinated by the central Department and will be shared across Agencies. Quarterly Departmental Occupational Health and Safety meetings have been held with Agencies for some years and a new group has now been set-up specifically to focus on sickness management issues and to facilitate sharing of best practice.

14. On training, for example, the DSA has retrained all its managers in the last 12 months through a two-day Attendance Management course. Refresher training/workshop sessions will be reviewed once an updated sickness management policy is introduced. In the Highways Agency, stress management training is being delivered to all team managers working in the Traffic Officer Service, a workshop on long-term absence has recently been held for human resources staff, and updated awareness sessions for managers are planned for early 2008.

15. In the central Department, updated guidelines and training for managers have been developed and will be implemented after consultation with trade unions on changes to its sickness management procedures have been concluded.

PAC Conclusion (7): The Department and Agencies should.

(a) draw on information from return to work interviews and other sources to determine if sickness absence is used in place of annual leave to cover unplanned absence; and if so

(b) implement measures which allow staff throughout the Department and Agencies to use their annual leave provisions more flexibly.

16. The Department agrees that more flexible use of annual leave and gaining a better understanding of how staff deals with unplanned personal events could help improve attendance at work. Flexible working arrangements are already widespread across the Department as part of the commitment to promoting diversity and equality, and encouraging employees to balance their work and home commitments.

17. Allowing staff the flexibility to take annual leave at short notice to cover unplanned or emergency absences is already well embedded in DVLA. Managers are also allowing shift swapping and are seeking staff views on preferred shift patterns. The Highways Agency already adopts a flexible approach to taking annual and flexi leave and will often allow staff to take leave at short notice, but this is more difficult in the Traffic Officer Service where unplanned absences have a more immediate impact. In 2007, revised guidance on managing annual leave was written for the Traffic Officer Service.

18. DSA is currently considering a revised annual leave policy, to provide clarity of approach for examiners and their managers with regard to balancing employee leave requests with customer service commitments. Agencies are being encouraged to explore how much sickness absence is used to cover annual leave and address any issues that are identified.

PAC Conclusion (8): The Highways Agency has shown that if used to good effect, practices such as 'return to work interviews' help line managers identify and deal with underlying issues, such as general ill health and low morale. The Department and other agencies have policies to deal with sickness absence but line managers are not complying with them. To address this issue:

- (a) the Department and its agencies need to hold managers to account for compliance with existing policies and practices in the management of sickness absence; and**
- (b) training for the introduction of the Shared Services Centre will need to reinforce the role of line managers in managing sickness absence.**

19. The Department accepts that it can do more to improve management accountability for reducing sickness absence. In some businesses, such as the Highways Agency and Vehicle and Operator Services Agency, clear management accountability has been in place for some time and in other agencies and the central Department improvements are being implemented in consultation with trade unions. For example, there is an increased focus on sickness absence by senior management in DVLA, where the new Chief Executive now has fortnightly meetings with Directors to specifically discuss issues and monitor progress.

20. The Department accepts that managers must be trained to understand the implications of the Shared Services Centre for their management of sickness absence. DVLA has already developed new processes that require line managers to record absence and return to work interview details, and refer stress absences promptly. Information provided by the Shared Services Centre will give quicker access to absence information for case management and trigger purposes. This is currently being applied in the DVLA and DSA and will be rolled out with manager training to the central Department and Maritime and Coastguard Agency this year.

Sixty Fifth Report

HM Revenue and Customs

Filing of VAT and Company Tax Returns

1. HM Revenue and Customs (HMRC) collect £129 billion a year in VAT and Corporation Tax. Some 1.8 million businesses are registered for VAT and 1.8 million companies registered to file Company Tax returns, which include a Self Assessment of the amount of Corporation Tax payable. 600,000 businesses file both types of return. Businesses are normally required to file VAT returns quarterly and Company Tax returns annually. The Department spends over £9 million a year on processing over nine million VAT and Company Tax returns and incurs further costs in chasing businesses for overdue returns and correcting errors.

PAC Conclusion (1): One in five Company Tax returns and one in seven VAT returns are filed late or not at all each year, putting at risk over £1.5 billion in tax revenues. The Department takes a firmer approach on filing Income Tax Self Assessment returns where it achieves around 90 per cent on time filing and has a target of 93 per cent. If the filing obligations on businesses can be reduced without risk to tax revenues, the Department should formalise and communicate the reduced requirements to businesses. But where the statutory obligation to file remains, the Department should aim to achieve levels of on time filing of over 90 per cent.

2. The Government does not accept the Committee's conclusion that filing level targets are the most appropriate way to improve filing compliance. It notes the Committee's concern that £1.5 billion tax is "at risk" from outstanding returns, but considers that this represents the estimated VAT and CT protected by HMRC. The Department has efficient and effective systems to establish an enforceable debt, and collect revenue as early as possible after a taxpayer has failed to file or pay on time.

3. The Government's approach to increasing the level of compliance with CT and VAT filing obligations is to balance a rigorous and fair application of penalties with measures to simplify the filing obligations and administrative burdens for businesses. For VAT the tax assessed is automatically increased in the continuing absence of a return, so discouraging taxpayers from repeatedly accepting assessments which are too low, and if a CT return remains unfiled, the company incurs increasing flat rate penalties. The Department is currently consulting on further reform of the penalties regimes, which apply across all taxes.

4. To meet its targets to reduce the administrative burdens of the tax system, HMRC is considering a range of measures both for CT and for VAT, including work on reducing the frequency of VAT returns through improved take-up of the Annual Accounting Scheme and its possible extension to larger businesses. Further progress against HMRC's targets will be reported at Budget 2008.

5. However, while the Government shares the Committee's concern to improve tax compliance, it does not consider that targeting rates of filing on time is necessarily a priority for the use of resources or the most effective way to improve compliance. The Government's overall tax compliance strategy is aimed at safeguarding revenue and closing the tax gap. Recent experience with the 93 per cent target for filing Income Tax Self Assessment (SA) returns has shown that measures, which reduced burdens have also had an impact on filing performance.

6. In the case of SA, reducing the size of the filing population in recent years has resulted in a higher proportion of taxpayers with more complex tax affairs in the remaining population, who inevitably perform less well against the original filing target. Raising SA performance further, by even a small margin, is now unlikely to enable this target to be reached. Undue focus on filing rates could require movement of HMRC resource from other activities, which are of greater value and provide better returns on investment.

PAC Conclusion (2): The Department lacks information on which businesses repeatedly file late or which fail to file both types of return, and on the link between late filing and other forms of non-compliance. These gaps undermine its effectiveness in targeting its compliance work and its assistance to help businesses comply, and in identifying areas where it could make significant improvements. The Department needs to:

- (i) identify which businesses have more than one return outstanding and which are late in filing both VAT and Company Tax returns;**
- (ii) analyse the linkages between late filing and other non-compliant behaviour such as filing inaccurate returns and late payment; and**
- (iii) devise a programme for obtaining comparative information for each main tax and taxpayer group, covering timeliness and accuracy in filing returns, paying tax due and levying and collecting penalties.**

7. The Department accepts the Committee's conclusion. Whilst it believes that most overdue taxpayers file returns within a short time of the filing date, HMRC recognises that there are gaps in its understanding of the links between non-filing across taxes and between non-filing and other risks, and plans to address those. To analyse better the risk posed by businesses with more than one return outstanding, and who may be late filing both VAT and Company Tax returns, a feasibility study is due to start in 2008 on developing a joint CT and VAT filing risk capability, which would allow HMRC to identify trends in non-filing and ensure that it initiates the most effective compliance activity at the right time.

8. HMRC has National Business Pictures, which allow it to identify basic filing trends among different groups of taxpayers. These will be developed further during 2008-09 to provide a full picture of the links between late filing, and other risks such as non-payment. The Department has also already developed a risk tool to show comparative information for each of the main taxes, accessing data from a wide range of departmental databases. Further development is planned to give a more complete picture of risks associated with non-filing and non-payment.

PAC Conclusion (3): The penalty regimes for non-compliance with VAT and Corporation Tax are very different, the fixed rate penalties for a late Company Tax return are low, and penalties are not routinely applied. As part of its Powers, Deterrents and Safeguards Review, the Department should introduce a consistent approach to penalties for both taxes that relates the penalties to the size of business and targets those who persistently do not comply. It needs to enforce all penalties and assess the effect of changes in the penalty regime in securing higher levels of on time filing.

9. The Department notes the Committee's recommendation. Its review of Powers, Deterrents and Safeguards aims to introduce consistent penalties for late filing and late payment across the range of its responsibilities. The January 2008 consultation on penalties reform sets out the design principles of any new penalty, which are that it should influence behaviour, be effective and be fair (that is they should be proportionate, customer focussed and subject to appeal). Penalties need to assure fairness for the compliant majority, recognise the seriousness with which non-compliance is viewed and deter non-compliance. The Department recognises that to be effective, any penalty for late filing or late payment must be rigorously enforced, and be supported by management information systems so that its effectiveness can be monitored.

PAC Conclusion (4): The Department could make more use of non-financial incentives to encourage businesses to file returns on time. The Department should evaluate the benefits of introducing tax clearance certificates, which have been used with some success by the Irish Revenue. It should also compare its performance in getting returns in on time with the performance and practices of other tax administrations to identify other incentives it could use to encourage on time filing.

10. The Department notes the Committee's conclusion. The Powers Review consultation document 'Payments, Repayments and Debt: The Developing Programme of Work' published in June 2007 sought views on the potential benefits of a tax clearance certificate scheme, what such a certificate should cover, and what safeguards would be appropriate. The Review is looking further at these ideas in the light of the responses received. The Department is also considering other tax administrations' practices and experiences in developing effective and robust penalties to encourage filing on time.

PAC Conclusion (5): Less than 10 per cent of businesses filed their VAT or Company Tax returns online in 2006-07. The Department plans to make online filing mandatory by 2012. We reiterate our previous recommendation that before resorting to compulsion, the Department should be offering a good quality service which a high proportion of businesses are willing to use voluntarily.

11. The Department notes the Committee's conclusion. More and more businesses are choosing to file CT and VAT returns online. In the year to the end of December 2007, 9 per cent of CT returns were filed online, a 44 per cent increase on the number filed online during 2006. In the same period, 12 per cent of VAT returns were filed online, a 49 per cent increase on the same period last year. This shows a steady increase in voluntary take-up of online filing in advance of the requirement to file online, upon which the Department is building.

12. In March 2006, the Government accepted the recommendations of Lord Carter of Coles' Review of HMRC Online Services, for phased requirements for business to file their returns online, and rigorous testing in advance of compulsory online filing to ensure that those services are robust and reliable. For VAT these requirements will not come into force before 2010. For company tax returns they will apply from April 2011. In advance of those dates, as Lord Carter also recommended, HMRC is enhancing its CT and VAT online services in consultation with customers and their agents, to ensure that they are robust, reliable and secure and meet customers' needs.

PAC Conclusion (6): The Department's online services for VAT and Company Tax returns do not fully meet the needs of businesses for robust and secure online systems, which offer the facility to communicate electronically and view their tax liability statements and records. Overseas tax authorities provide specialist services for agents and public access to online facilities, as well as differential filing dates for paper and online returns, earlier repayments of tax for those who file online and pre-populating returns with information they hold. The Department should facilitate routine use of electronic communications and payments by businesses and their agents, and consult businesses and agents on the benefits of implementing the other measures.

13. The Government accepts the Committee's conclusion. Lord Carter's Review considered the full range of potential incentives to increase the use of online services, including those offered by overseas tax authorities. He concluded that online services can provide benefits for the customer including greater certainty, integral validation and help, faster completion of the filing task and faster repayments, but that to maximise these benefits the services need to be customer-focused, designed to meet the needs of users, and reliable.

14. In the UK, most VAT traders are offered an additional seven calendar days to file returns if they pay electronically. If they file online and pay by direct debit, they have an extra three days on top of the additional seven days allowed for filing online and paying electronically. CT already offers services for companies and their agents to view their tax liabilities and payments online and ask for changes to be made to certain company details. For both CT and VAT, repayments are usually processed faster where the return is filed online. A range of electronic methods is already available for payment of CT and VAT.

15. HMRC will continue to consult customers and their agents on further enhancements to these online services to ensure that they are increasingly customer-focused and reliable, and that future developments are designed to meet users' needs.

PAC Conclusion (7): Filing obligations account for between 30 per cent and 50 per cent of businesses' compliance costs on VAT and Corporation Tax. Substantial reductions in the administrative burdens associated with filing VAT and Company Tax returns are needed to achieve a meaningful reduction in the overall costs for businesses in dealing with their tax obligations. The Department's target is to reduce by 10 per cent the overall administrative burden of the tax system on businesses. To make a real difference, the Department should set and publicise differential targets, which seek greater reductions in those obligations which businesses find particularly onerous.

16. The Department notes the Committee's conclusion, and recognises the importance of making improvements in those areas which businesses find most burdensome. At Budget 2006 the Chancellor announced targets for HMRC to reduce the burden of forms and returns by 10 per cent, and of audits and inspections for compliant businesses by 15 per cent, by 2010-11. To help address the areas that matter most to business, HMRC works closely with the externally-chaired Administrative Burdens Advisory Board (ABAB), which consists of members from business organisations as well as people with hands-on experience of running businesses in the UK. The Board's business perspective is particularly valuable in helping HMRC to identify and prioritise work that will make a real difference to businesses, both contributing to its targets and tackling the burdens that most concern business.

PAC Conclusion (8): On current plans it is unlikely that businesses will see significant change in the costs and ease of compliance before 2011, six years after HM Revenue & Customs was set up. To introduce more rapid improvements, the Department should:

- (i) improve the content and navigation of its website so businesses have ready access to full, clear and up to date information on filing VAT and Company Tax returns;**
- (ii) provide businesses with a single point of contact covering the range of taxes, and share internally information it holds on individual businesses for the different taxes, so that businesses have to provide the information the Department needs only once;**
- (iii) align the dates for filing Company Tax returns, payment of Corporation Tax and the filing of accounts with Companies House.**

17. The Department accepts the Committee's recommendation about its website. It has an improvement programme underway to introduce better navigation and better content, based around identified customer needs. The content for VAT is currently being written with a view to publication in early 2008-09; and work on CT is planned for mid 2008-09.

18. The Department's long-term aim is to provide a joined-up service across HMRC Taxes, allowing businesses to deal with all their affairs easily and conveniently, to provide common information only once, and to be confident in any dealings with it that the Department has the full picture. Meanwhile it is making improvements for particular customer groups, for example introducing Client Relationship Managers to co-ordinate its interactions with businesses dealt with by the Large Business Service, and for businesses more generally is planning by 2011 to provide substantially improved access to information and transactions via *Businesslink.gov*, for which HMRC now has responsibility.

19. In November 2005 HMRC and Companies House published a joint consultation document, "Aligning Filing Dates for Companies". Following consultation the Government announced that it would work towards providing a single online filing facility by 2010 but concluded that, for now, the right approach would be to encourage earlier voluntary filing of company tax returns, rather than to introduce an earlier statutory filing date. HMRC continues to work closely with Companies House on a range of improvements to make this easier for businesses, and will keep the question of an earlier statutory filing date under review.



Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-173222-2

