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Presented to Parliament by the Exchequer Secretary to the Treasury by Command of Her Majesty
October 2007
Twenty Seventh Report
Office of Government Commerce and Cabinet Office

Delivering successful IT-enabled business change

1. The Government welcomes the Committee’s report and agrees that, despite a growing track record of successful information technology (IT) projects, there is still a lot more that can be done to protect investments in IT-related programmes. This is particularly important if government services are to be radically improved in line with the “Transformational Government” agenda.

2. The Office of Government Commerce (OGC) and the Cabinet Office’s Transformational Government Team (TG), formerly the e-Government Unit, are working together, and with departments, on a number of measures. Over the next three months, they will be developing plans to ensure there is tougher scrutiny of all the government’s most complex projects and programmes and much earlier remedial action where there are signs of failure.

PAC conclusion (i): A fifth (21 per cent) of Senior Responsible Owners of mission critical and high risk IT enabled programmes had not met with the nominated Minister and a further 28 per cent met the Minister less than once a quarter. For these major high risk undertakings to succeed, Ministers need to be briefed fully and candidly at least quarterly on risks, progress and cost escalations, including key findings from Gateway Reviews and mission critical reporting, and assessment of the performance of suppliers and contractors.

3. The Government agrees with this recommendation, which should be followed for all significant projects. The frequency of briefing responsible Ministers and Accounting Officers on individual programmes and projects will be tested in OGC Gateway Reviews. Ministers and Accounting Officers should, in particular, be briefed when there is significant deviation from the programme or project plan – that is, where there is more than three months slippage or where a negative cost or benefit variance exceeds five per cent.
PAC conclusion (ii): The role of the Chief Information Officer Council, comprising senior board level representatives of all major government departments, is not yet clear and its profile remains low. The Council offers the potential to identify key risks to the delivery of programmes and projects and to drive up and ensure greater consistency of practice and performance across government. It needs to raise its game, acting more like its American counterpart to become a key influence in government IT by, for example:

a) reporting regularly on the emerging risks around the Government's portfolio of and making informed judgements about the Government's capacity to handle that portfolio;

b) providing authoritative advice and promoting good practice, and encouraging the greater use of tools and techniques such as the IT industry body Intellect's Concept Viability Service to help test at an early point the robustness of new IT enabled plans and proposals; and

c) acting to strengthen relationships with the supplier community, for example by seeking ways to encourage the involvement of smaller suppliers through streamlining and standardising processes such as pre-qualification questionnaires.

4. The Government CIO, under the governance of the CIO Council, has introduced quarterly reporting of the Pan-Government Portfolio of IT-enabled Business Change programmes. This allows generic issues and risks to be surfaced and addressed and also for programme/project specific issues to be discussed and addressed at Ministerial level, including departments’ capabilities to deliver. This reporting looks for the department to certify that they are avoiding the common causes of failure and they are compliant with the National Audit Office (NAO) Actions for Success.

5. The OGC has also reported regularly on departments’ ‘mission critical’ projects and programmes as an integral part of the portfolio approach. The Government will ensure that the reporting requirements placed on departments by the centre are rationalised to ensure that the collective needs of the centre are met, whilst the burden on departments is reduced. The CIO Council have agreed to a ‘Right of Intervention’, which allows anyone with a concern or issue about a project or programme to intervene via the departmental CIO.

6. For IT-related programmes and projects work is already being taken forward by the Strategic Supply Board (SSB) and the Transformational Government Reliable Project Delivery work stream, both under the governance of the CIO Council. The good practice developed by these work streams is being embedded in the individual departments, supported and monitored by the CIO Council.

7. In June 2007, OGC launched its refreshed best practice framework for IT service management (ITIL). This draws on the best of innovative private and public sector practice internationally to provide guidance on how to integrate – rather than simply align – IT service management successfully with business strategy. Other core OGC guidance, on Managing Successful Programmes, Management of Risk and the OGC Gateway process, has also been revised in 2007.
8. OGC is developing a mechanism to ‘standardise’ the pre-qualification questionnaires (PQQs) demanded by departments of suppliers, thereby reducing bid costs and time. This should encourage smaller firms, in particular, to bid for public contracts.

9. In respect of projects, government and suppliers have begun to use the Joint Statement of Intent as a means of improving mutual understanding of the specific outcomes each party is seeking from a particular project. Joint supplier and government teams, starting with desktop services, are reviewing underlying costs with a view to eliminating unnecessary cost.

10. OGC will continue to develop and implement ways to reduce barriers for smaller businesses seeking public procurement opportunities. A national opportunities portal has been created to publicise smaller contracts and regional training events have been run for small businesses.

PAC conclusion (iii): The Payment Modernisation Programme and Pension Credit demonstrate that success can be achieved in major Government IT-enabled programmes and projects. Evidence from across government shows that to replicate this success more widely, departments need to make significant changes to their management practices. For example:

- more than 70 per cent of Heads of Centres of Excellence remain concerned about a lack of programme and project management skills within departments; and

- over half of Senior Responsible Owners (SROs) are in their first SRO role, and nearly half spend less than 20 per cent of their time on such duties. Lack of relevant experience, combined with a regular turnover of post-holders, adds unnecessary risk to the management of IT-enabled change.

To address these issues, departments should appoint a Senior Responsible Owner at the outset of an IT-enabled business change on the presumption that he or she will remain in post until the programme or project is delivered, with performance and reward linked to agreed targets and milestones.

11. The Government agrees that continuity of leadership is of critical importance. Although the natural progression of civil servants between roles may mean that a project has more than one SRO during its lifetime, the expectation should be that the SRO should change only when absolutely necessary, at appropriate stages to allow an orderly handover, and that the SRO will not move on until a replacement has been put in place.

12. The Government CIO and IT Profession Team will work with departmental CIOs to develop and implement processes which enable the matching of the skills and experience of the SRO to the complexity and level of risk of the IT-enabled business change programme or project they are to lead. For each major IT-enabled business change programme and project, the skills and experience levels of the SRO and complexity and risk level of the programme or project will be reported in the departments’ quarterly report to the centre.
PAC conclusion (iv): Within departments, there is a lack of clarity about the respective roles of Chief Information Officers and Centres of Excellence, and how, in turn, they should support individual Senior Responsible Owners of programmes and projects. 38 per cent of Senior Responsible Owners, for example, have no involvement with their Centre of Excellence. The Office of Government Commerce and the Delivery and Transformation Group should set out clearly for departments their expectations of Chief Information Officers, Centres of Excellence, and Senior Responsible Owners. Departments should in turn translate these into clear management hierarchies and reporting structures at a local level.

13. The key delivery roles are set out in guidance such as Managing Successful Programmes, but within a department these roles may be combined in different ways. Since departments vary greatly in their structures and the nature of their project portfolios, there is no standard hierarchy and departments need to develop their own.

PAC conclusion (v): There is potential confusion between the Delivery and Transformation Group’s initiatives to strengthen the IT Profession through the Technology in Business Fast Stream and the wider Professional Skills for Government agenda, and the role of the Office of Government Commerce in developing the Programme and Project Management Specialism. To obtain the full benefit of these initiatives and to build the collective IT knowledge base across government, they need to be overseen by a single body with a clear brief to develop career paths and succession planning. This should include developing and consolidating individuals’ skills over a succession of major programmes and projects and ensuring that the contributions of successful teams are exploited fully.

14. The Government agrees that there is a need for close working between specialisms. IT, Procurement and PPM professionals within government all contribute to major projects, and many individuals employ a combination of these skills to do their jobs. The Cabinet Office’s Transformational Government team has already put in place a mechanism for clarifying the career structures within the IT profession using the Skills Framework for the Information Age (SFIA).

15. There is a clear distinction between the roles and responsibilities of the Government IT Profession, the Technology in Business Fast Stream and Professional Skills for Government initiative. The IT Profession is seen as an exemplar for the other professions.

PAC conclusion (vi): The lessons from Gateway Reviews are not shared consistently across departments, with only some three quarters of Centres of Excellence routinely receiving such Reviews. Within departments, Gateway Reviews and mission critical reporting should form the focus for regular discussions between the Chief Information Officer, Centre of Excellence and Senior Responsible Owners. Departments need also to seek the views and concerns of suppliers in Gateway Reviews.
16. The Government agrees with this recommendation. Each department should have a mechanism for engaging its delivery professionals in learning lessons from experience and from its suppliers. It is standard practice to interview supplier representatives at the appropriate Gateway stages.

**PAC conclusion (vii):** Of all the IT-enabled programmes and projects that had completed a Gate 4 (Readiness for service) Gateway Review by June 2005, only a third had by June 2006 completed a Gate 5 (Benefits evaluation) Review. Following the example of the Payment Modernisation Programme, departments should appoint a senior nominated individual to make sure that Gate 5 Reviews occur within twelve months of a preceding Gate 4 Review, and to ensure that new IT processes are exploited to achieve their full potential, as would be the case with an expensive IT investment in the commercial world.

17. The Government agrees with this recommendation. Departmental PPM Centres of Excellence are already required to intervene if there has been no action 12 months after a preceding Gate 4 review, but this needs to be reinforced. OGC will be working with departments to tackle barriers and tighten compliance, paying particularly close attention to requiring Gateway 5 reviews of the benefits derived from major projects.

18. OGC and the Government CIO will work together to review PPM practices to drive forward substantial performance improvements in the delivery of major projects and programmes by departments, including adherence to Gateway Review timetables.

19. The status of Gateway Reviews, in terms of both timing (planned and actual) and RAG status, on individual IT-enabled business change programme and projects will continue to be reported on in the quarterly departmental report to the centre as they are in the current Pan-Government Portfolio of IT-enabled business change programmes. Reporting requirements on departments will be rationalised.

**PAC conclusion (viii):** Where IT-enabled programmes and projects have succeeded, the organisations concerned were clear about the business process they wanted to change and the outcome they wanted to achieve. In the case of Pension Credit, for example, the project team were thus enabled to resist demands for unnecessary alterations to the initial specification. Britannia Building Society's board kept control over changes to its "Really Big" transformation programme by requiring expenditure over a 3 per cent contingency to be referred to the board. Where changes to original specifications are planned that involve expenditure or time delays beyond any pre-agreed thresholds, the Senior Responsible Owner should re-submit the business case to the departmental board, setting out why a change is necessary.

20. The Government agrees with this recommendation. It is recognised good practice (within PRINCE2) to set tolerances for time, cost and specification as part of the investment approval process and when these tolerances are exceeded for the project to go back for further approval. The Government CIO and the CIO Council have developed the quarterly Pan-Government Portfolio of IT-Enabled Programmes, which will ensure that the rationale for any re-scoping of a programme is reported.
Any re-base lining of major programmes and projects will be reported in the quarterly departmental report to the Centre. The rationale for re-base lining will be explained.

PAC conclusion (ix): The Office of Government Commerce and the Delivery and Transformation Group have not had the power to halt failing programmes and projects. The Treasury’s new Major Projects Review Group will however be reviewing all new business cases for high risk or mission critical programmes and projects for robustness and deliverability in order to ensure that departments do not embark on ill thought out ventures. It will need well-rehearsed action plans to intervene to stop programmes and projects that begin to falter.

21. The Government agrees that the MPRG should make it clear to Departmental project owners what they need to do to address its concerns. The Government CIO and the CIO Council have agreed an intervention process where a programme is failing. This intervention process is via the departmental CIO whose responsibility it is to ensure that any action plans are implemented.

PAC conclusion (x): Nearly half of Audit Committees are not briefed on the results of all Gateway Reviews. To fulfil their key role in providing independent scrutiny and oversight of a department’s portfolio of programmes and projects, Audit Committees need regular briefing about the status of those activities and information about emerging risks. The Statement on Internal Control signed annually by the Accounting Officer should confirm that the Audit Committee has received this information.

22. Audit Committees have an important role to play in advising Accounting Officers on risk management, control and governance. The prime responsibility for overseeing programmes and projects rests with the Accounting Officer and the Board. However, the Government agrees that Audit Committees need to be able to obtain information about significant risks in major projects.

PAC conclusion (xi): Very little has been made public about the identity or performance of the mission critical programmes and projects that underpin much of the Government’s IT strategy. In response to the Committee’s request, however, the Office of Government Commerce has provided a list of the 90 mission critical programmes and projects agreed with departments in July 2006. This is an important first step in improving the transparency of departments’ management of major IT-enabled change, but it needs to be extended into regular reviews of the progress and performance of individual programmes and projects within the Annual Report of the Delivery and Transformation Group.

23. Information on progress of individual projects will be included in the quarterly report as part of the Pan-Government Portfolio of IT-Enabled Business Change Programmes. The first Annual Report to Parliament on the progress made towards delivering the Transformational Government strategy published full details on progress across all agreed actions and the list of all of the major programmes. Full costs of departmental IT spend were also provided for the first time. Updated information on the performance of major programmes and projects will be published in future Annual Reports on the Transformational government strategy.
Twenty Eighth Report
HM Revenue and Customs

ASPIRE – The re-competition of outsourced IT services

1. Aspire (Acquiring Strategic Partners for the Inland Revenue) is HM Revenue and Customs' (HMRC's) contract with Capgemini for the provision of IT services. The contract initially involved only the Inland Revenue and replaced the contracts it had with EDS and Accenture for IT services and National Insurance Recording System (NIRs2) respectively. The change from one supplier to another was the first of this scale in the public sector. Following the merger of Inland Revenue and HM Customs & Excise in 2005, the latter's IT services contract with Fujitsu was incorporated within Aspire in April 2006.

   PAC Conclusion (i): The successful bid for the contract was originally £2.83 billion, based on levels of IT demand in 2003; but as its demand for IT services and projects has increased and the former HM Customs and Excise IT contract has been included, the Department's forecast cost has risen to £8.5 billion over the 10 year term. Before concluding the deal, the Department should have evaluated bids against a range of demands for IT services. To inform its negotiations, it should also have analysed the effect of different scenarios on suppliers’ prices and profit margins.

2. The Department notes the Committee's conclusions. At the time of the procurement, sensitivity analysis was carried out to test the impact of changes in volume on the value for money assessment of the bids. The estimate of £2.83 billion was based on 2003-04 prices and approved Inland Revenue funding at the time. It was always understood that costs would rise if more work was added to the contract. A PA Consulting led team developed a Should Cost Model using benchmarked service costs to allow the Department to challenge bidder assumptions. It ensured that bids were financially viable and no major elements of the cost had been omitted. The Department has since reviewed the impact of subsequent changes and increases in IT demands. Using the revised figures, Capgemini provides a lower price than both RPS – the competitor bid from EDS – and the Should Cost Model.

3. The contract is divided into various service areas, each of which attracts a fixed target profit margin percentage. There are mechanisms to allow for economies of scale and volume discounts, but these percentages are held constant for all contract changes and additional work. The achievement of the forecast profit is dependent on continued satisfactory performance of the contract.

   PAC Conclusion (ii): The Department did not conduct a formal evaluation of the work of its consultants, believing that it had obtained reasonable value. As a general principle, Departments should evaluate the performance of consultants and lessons learned from their use, not only for their own benefit, but for that of other departments.
4. The Department accepts the Committee’s recommendation. The Department’s consultancy procurement team is tightening the procedures around consultancy management to ensure that all significant procurements produce end-of-assignment evaluation reports. HMRC also continues to work to ensure that in areas where it does use consultants the relevant skills are transferred to its staff where this is appropriate. On completion of the Aspire procurement, the Department undertook a Project Evaluation Review, which covered performance of the whole procurement process. The Department reviewed its requirements at major stage points before determining consultancy requirements for the next stage. High-level periodic reports were provided on performance and individual consultants who were not providing satisfactory performance were promptly removed from the project.

PAC Conclusion (iii): By contributing to bid costs and paying transition costs to secure competition for the new contract, the Department incurred a premium of £51.9 million. The need to generate competition for a contract of this size and complexity made a defensible case for not expecting the bidders to meet these costs. But the cost was high, and any savings from more competitive pricing remain uncertain. Where exceptionally Departments pay bid and transition costs, they should expect to have to show that there was no other cost-effective way of securing competition.

5. The Department notes the Committee’s recommendation. Transition payments were made to provide a level playing field for bidders and ensure a continuity of customer service. The National Audit Office (NAO) in its report of July 2006 considered the competition to be an essential step to achieving value for money in this deal. NAO has also stated that the procurement costs compare favourably with PFI contracts. Compared to the total costs of the Aspire contract, the costs of procurement and transition totalling £75 million were small — some two per cent of the projected value of the contract. The private sector comparator is around three per cent. The competitive pressure achieved by attracting bidders has helped to secure substantial cost savings by comparison with the Should Cost Model.

PAC Conclusion (iv): The Department negotiated the actual costs of transition after the contract was awarded, including a profit margin of 15.5 per cent. The purpose of paying transition costs was to level the playing field between the incumbent supplier and an incoming supplier. If, exceptionally, departments decide to pay transition costs they should be negotiated before the deal is concluded to benefit from the competitive tension, and should not include a profit margin.

6. The Department accepts the Committee’s conclusion. With hindsight, it may have been better to agree a fixed fee for transition. However, this was difficult to achieve at the time as only one of the bidders was willing to incur these costs and the Department had already agreed to remove such costs from the comparison of offers. HMRC believed that offering profits on the transition was the only way to guarantee that the incoming supplier would bring the high quality skills crucial to delivering a secure transfer of services. HM Treasury at that time also agreed that there was justification for paying profits on transition costs in the case of Aspire. Its policy has since developed in the light of experience and is now not to pay a profit on these costs.
7. The Department does believe that these costs were reasonably incurred. They secured business continuity and delivered significant savings by comparison with the Should Cost Model. The National Audit Office’s investigation did not show any costs that were not proper to the transition. The total expenditure on the transition was below expectation and budget.

PAC Conclusion (v): On NIRS2, the Department paid £28.9 million to put a new contract and supplier in place and upgrade the system, though in the event Capgemini retained Accenture as a subcontractor following difficulties and delays in upgrading the new system. The Department therefore paid for a transition, which in respect of Accenture effectively did not take place. If departments agree to pay transition costs they need to negotiate terms that allow for the abatement of their contribution if transition does not take place as planned.

8. The Department notes the Committee’s recommendation. The decision was taken to retain Accenture’s experience and their understanding of particular business areas – mainly NIRS related – to ensure that project timescales and quality would not be jeopardised. NIRS transition and re-platforming was achieved at a cost of £14.9 million, £1.3 million less than the budget of £16.2 million. The additional £14 million paid to Accenture, for the licence to use their software, related to the previous NIRS (PFI) contract rather than to the new Aspire contract. The NIRS2 system stores details for 70 million citizens and allows payment of pensions and other vital services. Since re-platforming, the performance of the system has significantly improved:

- The throughput of on-line transactions has increased by over 30 per cent from 1.3 million up to 1.9 million per day;
- Batch performance has also improved by up to three times; and
- 19,000 more users in both HMRC and DWP are using the system.

PAC Conclusion (vi): Our predecessors highlighted in 2002 the challenge the Department would face in overcoming the barriers to competition when the NIRS2 contract came to an end. By the time it has to replace ASPIRE, the Department will need to have secured viable alternative bidders to achieve effective competition, for example by making use of the facility it has in the contract to use a range of other suppliers.

9. The Department accepts the Committee’s recommendation. Following the re-competition the Department has prepared lessons learned papers that are available to Other Government Departments (OGDs) for advice. Prior to any successor competition(s) the Department will consider how it wishes to package services to attract the optimum level of interest. HMRC is not locked into using Accenture on the NIRS2 system. Accenture are now part of the Aspire Contract and there are break points within the contract.
PAC Conclusion (vii): Almost 90 per cent of the ASPIRE projects are being delivered on time against the Department’s target of 75 per cent. The target is not rigorous and does not impose sufficient discipline. The Department should set more challenging performance targets which reflect the demands it faces in improving its business operations, distinguishing as necessary between mission critical projects and other projects.

10. The Department shares the Committee’s desire to improve supplier performance. The 2006-07 target for all projects was 75 per cent, with 92.45 per cent achieved, and 90 per cent for mission critical projects, with 90 per cent achieved. This performance, covering 53 major projects, is comparable with the best of government agencies – average completion of IT projects is 70 per cent – and private sector projects. The 2007-08 targets are more demanding with a 90 per cent target set for all projects and current performance to date is on track to achieve this.

11. Since the start of the contract the Department has monitored supplier performance using over 500 performance measures. Of these, some 200 are key performance indicators (KPIs) where poor performance can lead to the supplier paying service credits. As both a percentage of the total measures and an absolute number, the trend for failures is falling. There are also provisions in the contract to ensure continuous improvement in the service levels and an annual review process to reset the basic contractual levels where they are being routinely exceeded.

12. Overall the Department regards Aspire performance as being good with the bulk of mission-critical IT services achieving availability results on target. Mission critical aspects are now being looked at more specifically in the targets.

PAC Conclusion (viii): Forecast spending on ASPIRE has increased significantly as the Department’s demand for IT services and investment in new systems continues to grow, the aim of which is to reduce its costs to meet future spending limits. The Department will need to demonstrate that the benefits of its investment are achieved in practice by establishing reliable baselines and tracking the costs, service improvements and efficiency savings actually achieved.

13. The Department notes the Committee’s recommendation. The Department is keeping the contract under review with a rolling programme of internal benchmarking activity. For example a Programme Governance Framework that ensures rigour in IT costs and savings in business cases, that form the financial baseline for investments, has been implemented. IT projects now forming part of the Departmental Transformation Programme (DTP) have to provide full business cases and these are only approved or forwarded to HMRC’s Executive Committee if all benefit management products have been completed.

14. Since the contract began HMRC and Aspire have successfully delivered a number of new systems and services to budget including:

- The New Construction Industry Scheme (CIS);
- The STRIDE project, the largest project of its kind in Europe, under which 1,100 file servers and 110,000 workstations were upgraded to Windows XP and 750 in-house applications were integrated to work in Windows XP;
The implementation of Enterprise Resource Planning (ERP) to budget and within 11 months, matching best private sector standards; and

- The re-platforming of NIRS2 in 2005, a significant infrastructure project, which modernised the UK Government’s largest database and the second-largest relational database in the world.

15. 2.9 million people, 40 per cent more than in 2006, chose to file their SA returns online this year. During the filing peak the HMRC website was processing more than six thousand returns each hour.

PAC Conclusion (ix): The higher volumes of work on ASPIRE have increased Capgemini’s overall profits on the contract, but profit margins have not reached the thresholds which trigger the profit sharing agreement. If margins remain at the current level of 10-13 per cent, the overall profit on the contract as a whole could be £1.1 billion compared to the £300 million initially envisaged. In agreeing future prices, the Department will need to undertake rigorous benchmarking of prices and margins, and should aim to get them discounted to reflect the increased volume of work.

16. The Department notes the Committee’s conclusion. The higher volumes of work have been dictated by HMRC’s changing IT needs. Major developments including New Tax Credits, reform of CIS, MPPC (Modernising PAYE Processes for Customers), Child Trust Fund, STRIDE and ERP illustrate the greater demand for IT improvements.

17. Profit levels are as expected at the time of contract signature and should not be regarded as grounds for concern. The open book audit process provides HMRC with assurance about levels of profitability. The contract has various mechanisms to regulate value for money which can be used to address concerns about the impact of growth:

- The Department has initiated a rolling programme of benchmarking to validate prices;
- HMRC can require the supplier to engage ‘co-partners’. As well as bringing in extra capacity that is not available to the prime contractor, this can provide an opportunity to test the value for money in the base contract; and
- If the Department is unable to resolve pricing issues through benchmarking or co-partnering, ultimately it has the right to market test parts of the solution.

18. The Department is currently working with Aspire on a cost challenge to look at how IT running costs can be reduced to meet the requirements set out in the Comprehensive Spending Review (CSR).
PAC Conclusion (x): In settling its claim against the previous supplier, EDS, for the Tax Credits computer problems, the Department agreed that £26.5 million of the settlement could be paid in instalments dependent on the new business EDS won from government. Most of the £26.5 million remains to be paid, and it remains to be seen whether and when the Department will obtain payment of the settlement in full. We reiterate that Government should not be placed in the invidious position of having to commission further work from the contractor in order to recover compensation for underperformance.

19. The Department notes the Committee’s recommendation. HMRC’s settlement with EDS for £71.25 million included an upfront payment and additional payments over time. It is the largest settlement of its kind in UK history. The Department’s strategy in its negotiations was to maximise the cash received from EDS and it received advice from its lawyers to accept the settlement. However, final settlement of the dispute is contingent on EDS paying the full amount of £71.25 million. Payments are being pursued each quarter and the Department has reserved the right to reopen court proceedings if the full amount is not received. Any bids for new Government business by EDS will be considered through the usual EU procurement process and they are in no way obligated to use EDS.

20. The contract with the Department’s new IT provider, Capgemini, includes a more severe penalty regime.
Improving the use of temporary nursing staff in NHS acute and foundation trusts

1. Temporary nurses are employed across the NHS to meet fluctuations in activity levels and to cover vacancies and short-term staff absences. NHS acute and foundation trusts obtain temporary nurses from their own nursing bank, from private nursing agencies or from NHS Professionals (an NHS run temporary staffing service). Properly managed, temporary nurses play an important role in helping hospitals achieve flexibility. Excessive use can be costly, particularly when trusts are heavily reliant on agency nurses. High use of temporary nurses can also have a negative impact on patient care and satisfaction.

2. In 2001, the Department of Health stated that anticipated growth in the NHS workforce under the NHS Plan would significantly reduce its demand for temporary staff. Between 2000 and 2005 the NHS nursing workforce increased by 55,000, more than double the NHS Plan’s target of an additional 20,000 nurses by 2004. Despite this increase in the nursing workforce, however, the Department estimates that total expenditure on temporary nursing rose from £795 million in 1999–2000 to £1,098 million in 2004–05. As a proportion of total expenditure on nursing, the use of temporary nursing has remained at around nine per cent.

3. The Department does not agree that the expenditure on temporary nursing staff has remained static as a percentage of the NHS’s total nursing expenditure. We estimate that spending on temporary staffing has actually fallen from around 11 per cent of the NHS’s total expenditure on nursing staff in 2000 to around nine per cent in 2005.1

4. The Department has been particularly successful in supporting trusts to reduce spending on more expensive agency staff by increasing the use of NHS-run banks and NHS Professionals (NHSP), which offer better quality and value for money, as well as flexible working arrangements for staff.

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1 Trust PCT and SHA Financial Returns provide figures on agency spend. The Information Centre Workforce Census provides figures on bank staff numbers (full-time equivalents).
5. The National Audit Office (NAO) report: *Improving the use of temporary nursing staff in NHS acute and foundation trusts* published in July 2006 concluded that the NHS had successfully reduced its expenditure on agency nursing staff. The Department agrees that strategies for the use of temporary nursing staff need to be developed as part of wider workforce planning. The Department however believes that these strategies should be developed by trusts, with the support of Strategic Health Authorities (SHA), because temporary nursing staff have, and will continue to have, a key role to play in helping the NHS respond to local fluctuations in demand for services and staff availability.

6. Trusts should develop these strategies in the most economical and effective way possible to best meet the health needs of their local economy. The Department and NHS Employers also believe that it is the responsibility of local employers to determine acceptable levels of temporary nursing staff within overall staffing budgets. However, a range of support is available for trusts through NHS Employers.

7. The Department will continue to monitor local planning arrangements via Financial Information Monitoring System (FIMS), and will expect SHAs to be satisfied that local workforce plans are sufficiently robust to deliver planned activity. Looking forward, there is a commitment from the Department\(^2\) to develop a sustainable world-class approach to workforce planning for the NHS. The intention is to work with all stakeholders to develop a new national framework to support local delivery of workforce planning by SHAs. All aspects of the workforce will be considered, including how to make best use of temporary staffing resource. The aim is to have a new model in place for 2009-10.

8. Helping NHS trusts manage their temporary staffing is one of the key priorities for NHS Employers. In June 2006, prior to the publication of the NAO report “*Improving the use of temporary nursing staff in NHS acute and foundation trusts*”, NHS Employers produced a briefing for NHS organisations “*Managing the costs of temporary staffing*” in order to help trusts decide what they can do to better manage temporary staff. In that briefing NHS Employers advised trusts to:

- agree a strategic plan for the optimum use of temporary staff;
- agree local accountability arrangements;
- decide the format for internal management information reporting and include compliance with NHS Purchasing and Supply Agency’s Agency Framework Agreements\(^3\) (PASA);
- benchmark total spend and use with other trusts;
- consider implementing a rostering and agency invoice monitoring system; and
- audit quality standards in locum use against NHS Professionals’ standards.

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\(^2\) The Government Response to the Health Select Committee Report on Workforce Planning.

\(^3\) An Agency Framework Agreement is a legally binding arrangement between NHS PASA and a supplier on 3 main areas: a) contractual terms and conditions; b) quality specification; c) prices and discounts.
9. NHS Employers’ briefing stressed the importance for senior managers to take responsibility for overseeing and controlling the expenditure on cover for both planned and unforeseen absences, and to meet local variations in patient demand, within their overall workforce planning strategy. Between July 2006 and April 2007, NHS Employers ran a 10-month Large Scale Workforce Change programme ‘Making effective use of temporary staff’ with 26 trusts. The aim of this programme was to work collaboratively with trusts to help them reduce agency dependence and spread good practice across the NHS. The learning from the programme will be shared with all NHS employers in the Autumn 2007.

10. Since the publication of the National Audit Office report, NHS Employers has also been working on the development of a code of practice to address the employment and deployment of temporary staff. Contributions to this work have been made by service managers and stakeholder organisations through the NHS Employers’ National Temporary Staffing Forum. NHS Employers is currently reviewing the scope of the draft Code of Practice so that it will better reflect current developments in safer recruitment practices for all NHS staff and also take into account Connecting for Health developments on registration processes. These changes are likely to delay publication of the code until later in 2007.

PAC conclusion (ii): Trusts have not taken a strategic and managed approach to controlling the demand for temporary nursing. Each trust should develop a local strategy to improve its understanding and management of demand for temporary nurses. The strategy should be underpinned by a clear understanding of the requisite establishment levels needed to provide safe and effective care, which IT based workforce management and rostering systems could help to determine. Trusts should use a standard system for recording the reasons why booking temporary cover was deemed necessary. Directors of Nursing should compare booking information with information on staffing needs to determine compliance with the trust strategy on controlling demand.

11. The Department agrees that trusts, supported by their SHA, should develop local strategies for the use of temporary nursing as part of their wider workforce planning. Local NHS organisations are best placed to assess the health needs of their local community and determine the required levels of permanent and temporary nursing to best meet those needs. There is a range of support already available to trusts outlined below.

12. The Department recognises that SHAs have a role to play in supporting trusts by sharing best practice and benchmarking information. SHAs would look to Trust Boards to assure themselves of good practice. Generally, Trust Boards receive temporary staffing information through HR performance reports or Integrated Governance committee reports, all led by an Executive Director, and through FIMS returns. However, Foundation Trusts may choose to opt out of FIMS.

4 The National Temporary Staffing Forum is a stakeholders group run by NHS Employers. Its aim is to set the strategic direction on temporary staffing for the NHS and determine the priorities for the national work programmes.
13. The Department also agrees that IT based workforce management and rostering systems can help support workforce planning. More trusts are now using electronic rostering systems to help with the management of nursing staff rotas and hours monitoring. NHS Employers will be publishing a guide on their website in October 2007 to advise trusts on how they can make the most of this technology.

14. NHSP offers NHS trusts the opportunity to undergo a comprehensive temporary staffing audit. This audit covers all aspects of internal bank operation and the audit outcome is presented in the form of a cost benefit paper which outlines for the trust the benefits in terms of quality process, cost rationalisation and financial control that can be procured through using NHSP.

15. NHSP assist trusts by recording the reasons for a shift request (for example sickness cover, holiday cover, etc) as well as areas/wards where the requests come from within the trust. This information is then presented to trusts in the management information reports, which enables trusts to monitor patterns in demand and temporary staff usage. NHSP can take this management information further by mapping it to that of other comparable trusts to enable trusts to benchmark their performance. Trusts would then be able to use this data to determine how their temporary staff usage (and the reasons for this) compares to that of other trusts.

PAC conclusion (iii): When booking temporary cover, ward staff do not have sufficient information to determine the most cost-effective procurement route. Trusts should have arrangements in place to obtain temporary staff at best value, underpinned by performance measures to assess all suppliers (both in-house and external). Trusts should provide guidance to wards on the preferred route for booking temporary cover based on an objective and evidence based assessment of the cost and quality of the different options including: using nurses from its own bank; whether NHS Professionals might provide a more cost-effective option; and the cost and quality of staff from the different nursing agencies.

16. The Department agrees that trusts should have arrangements in place to procure temporary staff at best value. A range of initiatives are already in place to assist employers achieve value for money, uphold quality standards and meet the demands of their patients. Ultimately it is the responsibility of trusts to decide what options best meet their requirements at a local level.

17. PASA select commercial agencies via a rigorous procurement exercise to supply temporary staff to NHS organisations. Once selected, these agencies enter into an agreement with PASA known as an Agency Framework Agreement. An Agency Framework Agreement is a legally binding arrangement between PASA and supplier covering three main areas:

- terms and conditions of the contract which includes legal issues on liability, termination, payment terms, conduct;
- a quality specification, which sets out the standards to be met by all agency workers supplied under the agreement. PASA audits against these standards and can terminate in the event of breach;
- a set of prices and discounts, often aligned to volume demand levels, e.g. collaborative procurement.
18. NHS Employers’ remit includes spreading good practice and communicating with NHS employers on all aspects of temporary staffing. The Department has commissioned NHS Employers:

- to run the National Temporary Staffing Forum to determine the strategic direction on temporary staffing in the NHS and the priorities for national work programmes. Part of its remit is to consider the NAO recommendations of July 2006 and take them forward appropriately;

- to develop a code of practice for establishing a flexible workforce. This code will be supported by a set of standards addressing the employment and deployment of temporary staff. Contributions to this work have been made by service managers and stakeholder organisations through the National Temporary Staffing Forum. NHS Employers will publish the code of practice in late 2007 following changes to the current draft to better reflect current safer recruitment practices for all NHS staff and the requirements within Connecting for Health of standardised registration processes (including temporary staff) for secure access to patient records.

19. Between July 2006 and April 2007 NHS Employers ran its Large Scale Workforce Change programme Making effective use of temporary staff with 26 trusts. The aim of this programme was to work collaboratively with trusts to help them reduce agency dependence and spread good practice across the NHS. The learning from the programme will be shared with the service in the Autumn of 2007.

20. NHSP offers NHS trusts the opportunity to undergo a comprehensive temporary staffing audit. This audit procedure was introduced when NHSP was set up in April 2004. Out of the 55 audits that have been carried out, 37 trusts have implemented the NHSP service and the remainder was using the audit findings as baseline against which to compare their current management and spend to what they could expect by using NHSP. A number of these trusts are actively considering implementing NHSP service. This audit covers all aspects of internal bank operation and the audit outcome is presented in the form of a cost benefit paper, which outlines for the trust the benefits in terms of quality process, cost rationalisation and financial control that can be procured through using NHSP.

21. NHSP helps trusts actively manage demand by supplying management information and workforce planning expertise including local labour market information to ensure NHS trusts have the right balance of contingent and permanent employees to ensure they can maintain both patient services and a flexible approach to meeting changing market needs. For example, NHSP worked with Stockport NHS Foundation Trust and has helped the Trust reduce their temporary staffing requirement by £1.25 million in their first year of partnership. The management information reports produced by NHSP detail the use of both NHSP and agency staff over a set period of time. The reports also include information on why and where temporary cover was needed. This information can help trusts to identify and allocate resources where they are most needed.

22. NHSP’s Clinical Classification System (CCS) enables the NHS, for the first time in its history, to have a consistent way of describing the nature of assignments and the skills needed to fill them. Having this information helps trusts match resources to required level of care linked to patient safety. Before the development of the CCS, there was no common way of describing job roles within the flexible labour marker. Under the CCS, all roles are defined by a common grading system including the national Agenda for Change job profiles and helps trusts match worker’s skills and experiences more closely to trust’s temporary staffing requirements.
23. It also provides information about which shift types are being filled, when and at what cost for trusts to help them manage their temporary staffing costs more effectively. For example, Ashford and St Peter’s Hospital has used the CCS to re-evaluate costs around specialty nurses and has now reduced these costs by 29 per cent. Additionally, tighter controls on agency usage have ensured that bank fill rates have also risen.

PAC conclusion (iv): Trusts do not monitor, in a systematic way, the full costs of using temporary nursing staff. Trusts should allocate responsibility for monitoring expenditure on temporary nursing to one of its trust board members, including quarterly reports to the strategic health authority on this expenditure. Strategic health authorities should assist trusts to compare their use of temporary nurses and share good practice locally. The National Audit Office’s “Good Practice in managing the use of temporary nursing staff” provides practical examples and checklists to help improve aspects of both supply of and demand for temporary staff.

24. The Department notes the PAC conclusion on the level of trust systematic monitoring of the full costs of using temporary nursing staff. The Department believes that trusts should be responsible for monitoring temporary nursing expenditure and welcomes the NAO’s Good Practice in managing the use of temporary nursing staff published in July 2006.

25. The Department recognises the importance of accurate and detailed management information and has already taken action to support trusts in benchmarking. The Better Care Better Value Indicators (BCBVIs) were launched by the NHS Institute for Innovation and Improvement, supported by the Department, in October 2006 to assist trusts in benchmarking their performance against other trusts. The BCBVIs are released quarterly. One of the 15 BCBVIs is ‘agency costs’. Trusts and PCTs are able to use this to benchmark their position against other organisations to see how efficiently they are performing.

26. Other support already available to help trusts monitor costs of temporary nursing staff are available through ESR, SHAs and PASA’s web-based management information system.

27. The Electronic Staff Record (ESR) enables NHS organisations to link staff in post to funded establishment information, with ‘real time’ reporting capability. This enables trusts to monitor and manage workforce related costs, including absence and training.

28. One of the roles of the SHAs is to support trusts to develop strategies for the use of temporary nursing in the most economical and effective way possible, so that they best meet the health needs of their local economy. SHAs will continue to look to trust boards to assure themselves of good practice. Trust boards receive information through HR performance reports or integrated governance committee reports all led by an Executive Director, as well as through the FIMS returns. The Department will continue to monitor local plans via FIMS, and will expect SHAs to be satisfied that local workforce plans are sufficiently robust to deliver planned activity.

5 “the full cost of using temporary nursing staff” will include more than expenditure on agency staff (the BCBVI). For example, it will include bank’s staff and use of NHSP
29. PASA collect management information on a web-based system, which is populated by PASA's framework agencies. The agencies provide on a monthly basis spend by the trusts, by worker type, by hours and by shift. PASA can provide trusts with detailed reports of the information collected identifying the total monthly spend per trust and SHA. The reports produced by PASA also provide trusts with an indication of the most cost effective use of agency staff and suppliers.

**PAC conclusion (v):** At least 30 per cent of permanent nurses and at least 39 per cent temporary staff are still not receiving mandatory basic life support training. Other mandatory training for nurses such as Infection Control and Fire Training is also not being refreshed annually. Strategic Health Authorities should manage local NHS Trusts so that all nursing staff receives mandatory training. Trusts should schedule mandatory training at times that encourage maximum attendance or consider, where applicable, alternative ways of delivering training, for example through e-learning. Trusts should maintain accurate training records, which show whether nurses they employ, on both a permanent or temporary basis, have received their mandatory training.

30. The Department does not agree with the view that SHAs should manage local trusts so that all nursing staff receive mandatory training. It is the responsibility of NHS trusts to assure themselves that their temporary and permanent staff are appropriately trained and that they have quality assured standards in place that meet regulatory requirements.

31. In 2001, the Department published an occupational health and safety strategy *The Effective Management of Occupational Health and Safety Services in the NHS*. This document sets out the responsibility for all trust boards and for managers to ensure that their staff receives not only initial health and safety awareness training but also regular update training. It also sets out the responsibility of staff to undertake the training and to be aware of their duties and responsibilities under health and safety legislation. The Healthy Workplace Handbook currently being produced by NHS Employers will shortly replace this strategy.

32. In November 2006, the Chief Nursing Officer issued guidance to all who provide health care, on handling concerns about the performance of health care professionals. Reference is made to actions aimed at preventing unsafe practice and untoward incidents. This includes the particular circumstances surrounding use of locum, bank and agency staff. The guidance outlines the actions employers need to take to reduce risk:

- ensuring agencies implement sound HR practices;
- a senior member of staff reviews the work of temporary staff,
- temporary staff are included in training programmes as appropriate.

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6 Framework agencies are commercial agencies, which have been selected by PASA via a rigorous procurement exercise to supply temporary staff to NHS organisations.

33. Whilst mandatory training and updates are the responsibility of local employers, the Department recognises that it is a very important component of professional practice and that each trust should have effective governance arrangements in place. In relation to NHS Foundation Trusts, an independent regulator Monitor is responsible for ensuring that they maintain their quality of governance.

34. Each financial year the Healthcare Commission (HCC) is required to review the provision of healthcare and publish a performance ratings of all NHS organisations (including NHS Foundation Trusts) that commission and provide healthcare. This is called the annual health check. As part of this process, each NHS trust in England (including NHS Foundation Trusts) issues a public declaration on performance in meeting the Government’s core standards. They make the information available as part of the HCC’s annual health check which replaced the system of star ratings. Standard C11b includes a declaration in relation to mandatory training courses. The current figures show that 83.5 per cent of trusts declared that they ensured staff participated in mandatory training programmes. Following the submission of declarations, the HCC inspect approximately 20 per cent of trusts. Half of these will be chosen randomly and the other half will be chosen where screening information available to the commission suggests that further questions need to be asked about aspects of the trust’s declaration.

35. Professionals are required to maintain their skills, knowledge and competence throughout their career. This is a condition of their continuing registration, wherever they are employed. Whilst the Department is not responsible for ensuring employers schedule mandatory training at times that maximise attendance, it has taken a number of steps to support organisations in providing appropriate training opportunities for staff. For example, the Department has increased its budget to SHAs for training and development by 3.6 per cent for 2007-2008. SHAs through new Service Level Agreements (SLA) with the Department are expected to fully meet their training obligations to all groups including nursing staff.

36. Key performance indicators within these SLAs, which impact on training within trusts, include:

- by 1 September 2007 plans for the development of the wider workforce available and published. Plan includes opportunities for income generation and matched funding from Learning & Skills Councils; and
- staff survey results in relation to staff undertaking training shows progressive improvements for all staff groups.

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8 C11 – Healthcare organisations ensure that staff concerned with all aspects of the provision of health care a) are appropriately recruited, trained and qualified for the work they undertake; b) participate in mandatory training programmes; and c) participate in further professional and occupational development commensurate with their work throughout their working lives.

9 Every NHS trust in England has issued a public declaration on performance in meeting the government’s core standards. They have made the information available as part of the Healthcare Commission’s HCC Annual Health Check of English NHS trusts, which replaced the system of star ratings. The boards of all 394 NHS trusts have declared whether their organisation met the necessary level of performance during the year to 31 March, 2007. There was a 3.3 per cent increase in the number of trusts that said they ensured that staff participated in mandatory training programmes. Total declared compliance is now 83.5 per cent. The declaration by trusts are as yet unvalidated. The HCC will confirm the final figure when ratings are published in October.
37. Additionally, trusts have their own training budgets to support continuing professional development.

38. The implementation of ESR is due to be completed by April 2008. As of 1 August 2007 ESR is live to 476 organisations, covering 949,470 employees. ESR helps improve information to inform staffing decisions as it provides complete workforce management systems that link staff in post to funded establishment information with ‘real time’ reporting capability. This enables trusts to monitor and manage workforce related costs including absence and training.

39. NHS Employers will be highlighting mandatory training in their new edition of the Healthy Workplace Handbook, due to be published in October 2007. It will address issues around health and safety legislation in terms of staff training and the responsibilities of employers and employees.

40. NHSP provides staff with access to mandatory training including:
   - basic life support;
   - moving and handling;
   - fire safety; and
   - infection control.

41. Staff are not assigned to employers until mandatory training has been completed.

42. NHSP has also introduced placement and induction guidelines for flexible workers new to an environment. NHSP provide support and coaching for professional development and since April 2004, they have had an average of 4,000 bank only flexible workers completing the programme each year. NHSP are able to monitor take up of mandatory training and run reports from the national placement system, three months in advance, to confirm which nurses are coming to the renewal point on their mandatory training. Using this information, courses are scheduled and run with that same three-month period. If a nurse does not complete the training in that time the system will place a flag against that nurse and the nurse is then not allowed to work until they have been retrained.

43. PASA has included annual mandatory training as a requirement of all its Agency Framework Agreements for temporary staffing. This requirement is included in the compliance audit checks undertaken by PASA of individual worker files. The PASA national audit team constantly undertakes audits of all agencies that participate in its framework agreements to ensure its terms and conditions are being adhered to by the agency. PASA have audited 100% of its nursing Agency Framework Agreements and is planning to review them on an annual basis.
PAC conclusion (vi): There are no systems or safeguards to enable a trust to know whether a temporary nurse has exceeded the safe level of hours set under the European Working Time Directive. Long working hours can put at risk the health and ultimately the performance and attendance of employees, thus further increasing the pressure on nurses and exacerbating the existing problems. NHS trusts should have systems to enable them to control and monitor the total number of hours worked by each nurse, whether in direct employment or working for other employees. Specifically the Department should expedite implementation of its electronic staff record so that it can be used to monitor the hours worked by temporary staff.

44. The Department notes the PAC conclusion. Compliance with the Working Time Directive (WTD) is a legal requirement for all employers. Responsibility for its implementation in the NHS rests with local NHS employers. This has been in place for nurses since 1998. The WTD provides for minimum daily and weekly rest periods, annual paid holidays, a limit on the working week to an average of 48 hours, and restrictions on night work. Individuals may work voluntarily over the maximum weekly limit, by written agreement with their employer, but are not able to opt out of the WTD rest provisions.

45. If an employer becomes aware that a member of staff may be working such long hours that their ability to perform their duties safely is called into question they have a duty under health and safety legislation to investigate the situation immediately and take appropriate action to remove any risk to patients. This would normally include reviewing the hours worked to ensure compliance with the EWTD. Employers should take this responsibility very seriously as it is fundamental to both the quality of patient care and to their duty of care for the welfare of their staff. The proposed Healthy Workplace Handbook will reinforce this requirement.

46. ESR implementation is being expedited and this will enable NHS trusts to monitor the total number of hours being worked by temporary staff in NHS hospitals. This monitoring facility recognises the importance of health and safety and fully implements the legal requirements in the WTD. ESR also has a standard report to identify employees who have opted out of WTD.

47. The implementation of ESR is due to be completed by April 2008. As of 1 August 2007, ESR is live to 476 organisations, covering 949,470 employees. The ESR workforce and finance reports enables managers to see both temporary and permanent assignments for all employees represented as a full time equivalent (FTE). A further check on an individual employee’s data can confirm whether the hours worked is consistent with WTD. ESR allows trusts to identify employees who are exceeding their contracted FTE. This includes any employee paid directly through ESR – both temporary and permanent.

48. PASA includes, within all its Agency Framework Agreements, a requirement that the agencies should comply with the current WTD regulations. Each agency worker must produce a timesheet detailing the hours worked. This helps trusts to take reasonable steps to ensure that workers are not working beyond the statutory limit.
49. NHSP, through the operation of its Staff Bank system, are able to record the number of hours flexible staff work and monitor that against Working Time Directive Regulations. This system holds information on the number of hours that substantive staff are contracted to work thus allowing trusts to monitor hours worked and, where necessary, take action to ensure staff remain compliant with WTD.

PAC conclusion (vii): NHS Professionals faces a tension between its strategic role to improve the quality of the temporary labour market and its operational requirement to make temporary staffing more cost effective. The Department needs to clarify to NHS Professionals and trusts how the new service model and new financial model that it is working on will reduce this tension. One of the key aims in developing NHS Professionals was to improve the quality of temporary staff. Trusts should therefore compare the performance of their in-house banks with NHS Professionals, in terms of cost and quality standards, to determine whether the bank is operating effectively.

50. It is accepted that there is a conflict of interest between the strategic role of NHSP and its status as a trading business. The Department believes, however, that given a new business model, NHSP can successfully manage these tensions.

51. A new temporary Chief Executive has been appointed to NHSP with the brief of redesigning the NHSP business model. Steps already taken include:

- revising the service model offered to NHS trusts;
- begin work on a new business model using internet technologies rather than the labour-intensive procedures used at present.

52. NHSP offers NHS trusts the opportunity to undergo a comprehensive temporary staffing audit. This audit procedure was introduced when NHSP was set up in April 2004. Out of the 55 audits that have been carried out, 37 trusts have implemented the NHSP service and the remainder are using the audit findings as baseline against which to compare their current management and spend to that which they could expect by using NHSP. A number of these trusts are actively considering implementing NHSP. This audit covers all aspects of internal bank operation and the audit outcome is presented in the form of a cost benefit paper which outlines for the trust the benefits in terms of quality process, cost rationalisation and financial control that can be procured through using NHSP.

53. It is planned to have the business plan and financial forecasts underpinning the new business model with the Department for consideration by the end of the year.

PAC conclusion (viii): The NHS Purchasing and Supplies Agency (PASA) agreements have moderated the cost and improved the quality of agency nursing staff, but trusts continue to use agencies that are not on the framework agreements. PASA should use its negotiating powers to obtain greater volume discounts by consolidating its framework agreements. Trusts should only use agencies that are on the PASA framework agreements to assure the quality of temporary nurses and achieve control over their local temporary staffing market.

10 The information is provided by NHSP’s partner trusts on substantive post holders.
54. The Department agrees that PASA’s agreements have moderated the cost and improved the quality of agency nursing staff. The Department and NHS Employers cannot mandate that trusts only use agencies that are on the PASA framework agreement, but they do continue to encourage NHS employers, via its National Temporary Staffing Forum\(^{11}\) to:

- use agencies signed up to PASA framework agreements;
- utilise the services provided by NHSP; and
- to achieve quality, value for money and assist in managing their demand for temporary staffing.

55. PASA launched a Multi Regional Framework Agreement in October 2006, which will replace the 7 previous regional agreements as these expire. This has progressed rapidly and it is expected that the overall savings delivered under the Multi Regional Framework Agreement may be in excess of £40 million on a total spend of £150 million (assuming 100 per cent take up) in its first year and assuming the total spend does not reduce substantially.

56. The Framework Agreement received favourable feedback from both suppliers and trusts regarding the stringent independent audit process, which has helped participating NHS trusts reduce the risk and improve the quality of temporary nursing care.

\(^{11}\) The National Temporary Staffing Forum is a stakeholders group run by NHS Employers.
Thirtieth Report

Department for Transport

The Modernisation of the West Coast Main Line

1. By the 1990s, the busy West Coast Main Line route to the North West and Glasgow suffered from an ageing infrastructure and an increasingly unreliable service. It required substantial investment to reduce journey times and improve service frequency and capacity.

2. In 1998, two private sector companies – Railtrack and Virgin Rail Group – agreed to upgrade the line with funding from Railtrack's borrowings. As part of the deal, Virgin West Coast undertook to procure new tilting trains capable of running at 140mph.

PAC conclusion (i): The modernisation of the West Coast Main Line completed to 2006 has delivered increased passenger numbers and reduced journey times. Network Rail and the Strategic Rail Authority have worked effectively together to turn around the programme inherited from Railtrack.

3. The Department for Transport (the Department) agrees that the joint efforts of passenger and freight train operators and Network Rail were essential to ensure delivery of the modernisation scheme. The Department commends the rail industry on working together towards the common objective of achieving the comprehensive renewal and upgrade of the line and delivery of a much-improved service for passengers and freight customers.

PAC conclusion (ii): The original aims were, however, overly ambitious and work has taken longer and cost more than originally envisaged. Learning from the West Coast Mail Line experience, in approving proposals for rail enhancements and monitoring their delivery, the Department should:

a) assess whether milestones and delivery dates are achievable and realistic;

b) assess how far Network Rail has identified factors that could result in failure to deliver the project to time, cost or quality; has put in place mitigating controls; and has allocated responsibility for monitoring the risks within its organisation;

c) identify in advance the project's impact on the relevant train operating companies' ability to deliver commitments under franchise agreements; and

d) agree a franchise management strategy to give early warning of emerging difficulties in delivering franchise commitments including those, which may arise from project delays.

4. The Department agrees that the original plans for the West Coast Main Line were indeed naively based with, for example, high reliance on unproven technology. In the case of “in cab” signaling, this is still in the process of being developed. The original scheme concentrated on the operation of intercity services provided by high-speed trains. It did not take full account of passengers using local and regional passenger
services or the movement of freight. Neither was the need for track maintenance properly considered. These matters were addressed and resolved by the Strategic Rail Authority – and responsibility passed to the Department, working with Network Rail and the operators, when it took on the project sponsorship role in 2002.

5. Much as been learnt as a result of this project. For example, the importance of determining and agreeing project outputs has been highlighted. Having determined a specification and scope of a project, it is accepted that there may be a need to change aspects of either or both during course of delivery. Therefore, a systematic and disciplined process of making changes to the scope is essential, though it is also important that this does not jeopardise the required outputs. These principles are applied to all new railway projects.

6. The working relationship that has been established between the Department and Network Rail across all rail based projects, ensures that accurate monitoring is in place and that possible changes to timescales, outputs and costs are brought to the attention of, and resolved by, both parties.

7. In the case of West Coast Route Modernisation, a Joint Project Board comprising The Department, Network Rail, the Office of Rail Regulation (ORR) and Virgin Trains, oversees delivery and takes strategic decisions. Reporting to this is the Project Development Group, which takes decisions on delivery, cost / resources and operational issues. Finally, there is a Joint Board, which the train operators attend, to manage issues relating to operational performance and maintenance. The aim is to determine action necessary to achieve the required outputs within the cost constraints. More generally, the way in which Network Rail manages its business is covered by its network licence and regulated by ORR.

8. As part of the new franchise agreements with passenger train operators, implemented through a new Template Franchise Agreement, effective monitoring arrangements have been put in place. Monthly meetings between train operators and the Department review finances and operational performance, along with progress with the delivery of franchise commitments.

**PAC conclusion (iii):** The total cost of modernising the West Coast Main Line is estimated to be more than £6 billion in excess of the estimates made in 1998. Network Rail has improved control of the costs but work since 2004 is still likely to have cost £300 million more than the Rail Regulator had anticipated. Network Rail could improve control over costs, for example by:

a) benchmarking across projects, and for the network as a whole, unit costs for track renewals and work on signaling and structures to enable it to better challenge contractors’ prices;

b) making informed forecasts of when signaling equipment is likely to become out of date, drawing on experience to estimate likely maintenance requirements, and negotiating access to spares to prolong the life of the equipment; and

c) testing price and quality by awarding contracts for project management on the basis of competitive bids, and by defining and benchmarking project management costs across all its projects.
9. The Department and Network Rail agree that these are key issues. They accept that Railtrack’s original cost estimate of £2.5 billion for the modernisation work was not realistic. By the time the SRA became involved, the estimate had risen to over £14 billion. The present out turn price of just over £8 billion is the result of rigorous cost control by the SRA, Network Rail and the Department since that time.

10. The funding settlement, for 2004 to 2009, provided separate funding for the West Coast upgrade project and other West Coast Main Line renewals, but stated that Network Rail’s performance would be judged against their performance on the two elements combined. The project is expected to over-spend by around £300 million, but renewals to be under-spent by £390 million. Overall, therefore, Network Rail has achieved a small under-spend when assessed against the objective set by the Office of Rail Regulation.

11. As the project is overwhelmingly a renewals exercise, cost rates should not be significantly different to elsewhere on the network. Although comparisons with renewal work elsewhere on the railway network are useful, there are circumstances unique to the West Coast Main Line, which will influence unit costs. The build of the route, with closer spacing between tracks than elsewhere, and the higher density of traffic, have influenced the opportunities to gain access to the railway for renewals.

12. Network Rail is improving its cost controls, in the way suggested and in other ways, and the Department is working very closely with the Rail Regulator to monitor progress.

PAC conclusion (iv): Network Rail is seeking to reduce the time taken to carry out repair and replacement work. The enquiry into the train derailment on 23 February 2007 may cast further light on this issue. Meanwhile, to minimise the impact on passenger services of booked track access for engineering and maintenance work, Network Rail should develop, set and report on a target to increase year-on-year the proportion of booked train access time used effectively and minimise unused track possessions.

13. The RAIB report into the incident of 23 February is still being compiled and it would be inappropriate to pre-empt the findings of that report.

14. With regard to the availability of track for train services and engineering work at weekends, Network Rail has stated its ambition to move towards a seven day a week railway, whereby as much potentially disruptive maintenance and renewals activity as possible is conducted in eight hour overnight blocks of time.

PAC conclusion (v): The current compensation scheme for loss of track access is unclear and may lead to higher levels of compensation being paid to Train Operating Companies than necessary. The Office of Rail Regulation should work with Network Rail and the rail industry to develop a simplified regime for compensating Train Operating Companies for track access lost to engineering work, whether for enhancement or renewal or repair, which better reflects the costs and losses actually borne.

15. The industry is developing a simplified compensation regime, which the Rail Regulator will consider prior to concluding on the changes that need to be made. It is envisaged that a simplified regime will be in place from April 2009.
PAC conclusion (vi): Prolonged access to the track for maintenance and renewal disrupts services for passengers. Network Rail should minimise disruption to passenger journeys from evening and weekend maintenance work by:

- a) adopting as standard practice its planned phased introduction of Sunday lunchtime hand back of track and reporting progress towards that goal;
- b) reducing, in conjunction with the Train Operating Companies and the Department, the number of delays caused by the late handover of track by trains operators for maintenance and engineering works; and
- c) consulting with passenger groups on the timing of engineering work and providing clear information well in advance of planned works at stations and via websites of the impact of engineering works on journey time, frequency of service and the availability of through services, so that passengers can make alternative travel arrangements if they so wish.

16. The Department and Network Rail agree that the volume of possessions associated with this project and the adverse impact this has had on rail business needs to be addressed. In renewing and upgrading the route, material and equipment is being used which will require less intrusive future maintenance. Furthermore, the SRA and the Department have specified that new infrastructure should include facilities for easier renewal and maintenance within the design.

17. Therefore, with completion of the present project, it is intended that the route will be open for much more of the week, with the core of maintenance possessions centered on Saturday evenings and early Sunday mornings. Because of the availability of alternative routes and the deployment of diesel units (drafted into the West Coast franchise for growth and for this purpose) otherwise spare at weekends over non-electrified sections, a much more comprehensive service will be provided.

18. Joint work by Network Rail and the train operators has enabled extensive publicity to be provided when major blockades were unavoidable. Recommended good practice in designing alternative road services and associated passenger handling arrangements were contained in a publication shared with train operators. *(Passenger Management during Major Engineering Works published by DfT September 2006).* Key recommendations were that publicity should highlight alternative routes and show that travel remained possible despite the blockades.

19. A dialogue between the Department and Passenger Focus has been established to ensure that there is a full understanding of users’ needs and that these are taken into account in timetable planning and operations.
PAC conclusion (vii): Some parts of the route are already at or near capacity and by 2015-20, the line may not have enough capacity to meet demand, while other routes are also overcrowded with passengers often having no seats. To help ease overcrowding on the most popular services the Department and the Rail Regulator should:

a) review passenger loading figures, and feedback from Passenger Focus, with Network Rail and Train Operating Companies to identify which trains are frequently overcrowded;

b) take more seriously the stress and inconvenience caused by persistent overcrowding, avoiding any suggestion that passengers should resign themselves to it; and

c) plan how capacity on these services can be increased, for example by making changes to train layout, frequency of service, or through investment in longer trains and platforms and signaling improvements to enable greater use of existing tracks.

20. The Department agrees with the need to cater for the growing demand for rail travel. The recently published White Paper (Delivering a Sustainable Railway – July 2007) specifies improvements in the way that existing capacity is to be used and how further increases in capacity are to be secured. For example, the new Cross Country franchise (recently awarded to Arriva) will deliver a 35 per cent increase in carrying capacity. In the case of the West Coast Main Line, the December 2008 timetables deliver a 30 per cent increase in long distance trains.

21. Work is also under way to secure increased capacity in the Pendolino fleet by lengthening the trains from nine to eleven cars and dealing with the Stafford ‘bottleneck’ – a project, which is committed to in the recent White Paper Delivering a Sustainable Railway. The timetables being introduced in December 2008 represent the maximum that can be provided without further improvements at this junction. An announcement is expected in the near future on both Pendolino lengthening and the design of the Stafford solution.

22. Overcrowding often occurs over relatively short distances of travel and dealing with crowding remains a priority for the Department, both on the West Coast Main line and elsewhere. The confirmation of the two measures referred to above will bring a potential further 40 per cent increase in West Coast capacity.

PAC conclusion (viii): Current fare pricing structures can be complex, and inaccessible, particularly to those who may not have internet access. The Department should:

a) use its franchise monitoring and letting arrangements to encourage train operators to make fare pricing structures more transparent; and

b) work with train operators and Passenger Focus to monitor fare arrangements and the advice given by train operators and their staff to passengers to enable passengers to benefit from the cheapest fare option.
23. The Department agrees that fares structures are over complex. The July 2007 Rail White Paper committed the Government to ensuring that the fares system is simplified. In future, there will be just four ticket types. The names and conditions relating to each type will be uniform throughout the network. This will make the system much easier to understand, making travel simpler and improving passengers’ confidence.

24. The White Paper also encourages the rail industry to support more straightforward arrangements with a ‘price promise’. This is designed to ensure that passengers are guided towards the lowest deal on offer and entitles them to a refund of the difference should they be charged more.

25. Although the web and mobile telephones are becoming increasingly popular for ticket purchase, it is accepted that not everyone wants or is able to use modern technology. Train operators will be required to maintain a strong presence at stations to provide assistance and reassurance.

26. Virgin Trains (the predominant operator on the West Coast Main Line) already reserve a proportion of their Saver and other low cost tickets for passengers who prefer to book by telephone or in person, rather than the internet.

PAC conclusion (ix): The Chairman of Network Rail was rewarded over £1 million in salary and bonuses in 2005-06. Whilst Network Rail inherited many of the problems generated by Railtrack’s over-optimistic West Coast upgrade programme, the continuing areas identified above need to be fully addressed if commensurate value is to be gained from Network Rail’s contribution to the programme.

27. The Department agrees that Network Rail did inherit a significant number of challenges and further believes that these are being successfully met by the management of Network Rail. This is evidenced, for example, by the costs removed from the final stages of the project.
Thirty First Report

Office of Government Commerce

Central Government’s use of consultants

1. The Government welcomes the Committee’s report and its recommendations on improving the use of consultants to ensure better value for money. As the Committee has recognised, consultants provide considerable benefit to government when used properly and have enabled departments to make improvements they would not have achieved otherwise. However, the Government accepts that there is significant room for improvement, and that better value for money can be achieved through better management information, improved management of consultants throughout their engagement and an improved level of commercial awareness within Government.

2. While decisions on the use of consultants and hence responsibility for implementing most of the Committee’s recommendations, ultimately rest with individual Government departments, OGC’s remit is to improve the efficiency of the Government’s procurement spend – within which consultancy is a very significant category – and ensure better value for money from procurement across central Government.

PAC Conclusion (i): Only half of the recommendations in the Committee’s 2002 Report, Better value for money from professional services, have been properly implemented. Departments should develop early action plans for implementing the recommendations from this Report, assigning responsibility for implementation to a senior official. OGC should use its new programme of procurement capability reviews to determine whether departments are getting a better grip on how they use consultants.

3. The Government agrees with this recommendation and accepts that the recommendations of the Committee’s 2002 report were not fully implemented. Following the publication of the Committee’s 2002 report, OGC worked with departments to agree individual action plans to address the recommendations, and monitored progress against these plans for three years. OGC also established a joint supplier/client forum within which opportunities for improving value for money from consultancy spend were discussed and actions identified.

4. To ensure the implementation of the recommendations in the current report, OGC will adopt a different approach based on OGC’s Collaborative Category Management process. The Consultancy Value Programme, through a Consultancy Collaborative Board, will drive progress in securing value for money from consultancy spend. This was established following a comprehensive review of consultancy use undertaken by OGC in October 2006 and addresses the conclusions from the NAO report (Central Government’s use of consultants, HC-128 Session 2006-2007). The programme has already initiated a number of projects aimed at improving value for money from consultancy and to address the NAO’s recommendations:

- development of a robust business case and approval process;
- improved management information collection, analysis and sharing;
- training for consultancy procurers and customers;
improved sharing of market intelligence and analysis;

• collaborative supplier performance review and management.

5. A Senior Stakeholder Group at Permanent Secretary level, jointly chaired by OGC and the Cabinet Office, has been created to oversee this consultancy programme, connecting it to the wider Government activity looking at longer-term resources and skills requirements across the Civil Service.

6. Many of the Committee’s recommendations refer to the application of good procurement practice. OGC is at an early stage of its Procurement Capability Review (PCR) Programme, which has been developed to assess how far departments are able to meet best practice in procurement. OGC will ensure that the PCR and the Consultancy Value Programme work effectively together to assist departments in addressing the Committee’s recommendations.

PAC conclusion (ii): Departments and OGC do not routinely know how much money is spent on consultants. Departments need to have comprehensive reliable data on consultancy expenditure, including the types of service provided and the suppliers used. This data should be used to assess whether the benefits obtained are justified by the costs, and whether the best prices are secured where a consultant has considerable on-going business. OGC should use the information to determine whether collectively government is making best use of its buying power to get competitive prices.

7. The Government agrees with this recommendation. Current data on consultancy spend varies in quality from department to department and is held across a number of different financial, procurement, and commercial systems. By the end of this financial year departments will be required to report their total consultancy spend to HM Treasury according to a commonly agreed definition.

8. OGC is also working with departments to establish mechanisms to increase the quality and sharing of data to inform procurement decisions and assess whether the best value for money is being obtained. The programme is also directly linked to OGC’s wider collaborative procurement work, which includes mapping the spend on common goods and services, including consultancy.

9. OGCbuying.solutions already collects price data on consultancy assignments through its framework agreements and prepares an annual report with benchmark information. This data, together with guidance on price negotiation, is being issued to all departments. OGC will continue to work with all departments to share and analyse market-pricing information in order to ensure that pricing remains competitive.

PAC conclusion (iii): Consultants are often used when in-house staff have the necessary skills and are less expensive. Departments should always routinely consider whether they have the skills in-house before turning to external consultants. If consultants are the only option departments need to define from the outset the added value they expect to receive.
10. The Government agrees with this recommendation. Plans for improving the business case process include a requirement to check the availability of internal capacity and capability. Departments should also consider the most appropriate external resource option, for example contractors or interims, and define the added value the use of consultants (or an alternative) will deliver prior to their engagement. OGC will support departments in the implementation of these plans and will require feedback on their progress at regular intervals.

**PAC conclusion (iv):** Departments do not routinely assess the value of the work they receive from consultants. Project specifications agreed with consultants should set out the intended benefits which should whenever practicable be defined in a way that is capable of measurement. Post-project evaluations, which capture the lessons learned and assess the performance of suppliers should be routinely used. Higher value assignments should be assessed as part of Gateway 5 Benefits Realisation.

11. The Government agrees with this recommendation. Guidance already highlights the need for specifications to be outcome-based and to include a means for measuring successful delivery. The need for better requirements specification is included within the Consultancy Value Programme.

12. OGC plans to drive customer and supplier performance improvement through pan-government assessment of performance, and joint review with suppliers. A standard post-assignment review process is being designed for use by all departments on completion of a consultancy assignment. This will include a review of whether the supplier and client delivered the outcomes as described in the business case.

13. OGC will routinely collate this performance information and use it in supplier forums where issues will be addressed by suppliers and their client departments to drive improvement into future consultancy assignments. A pilot has already been undertaken with two key consultancy suppliers.

14. Gate five of the OGC Gateway process already includes an assessment of customer and supplier performance and review of organisational learning opportunities. These steps would be applied to consultancy supply as part of this existing process.

**PAC conclusion (v):** The capability of departments to be intelligent customers is weakened by insufficient sharing of information on consultants’ performance. To minimise these risks departments need reliable and easily accessible market intelligence on the use of consultants and their performance. OGC, working with Departments, needs to develop communication channels such as on-line customer forums to make it easier for departments to share information and experience.

15. The Government agrees with this recommendation. The Consultancy Collaborative Board (CCB) provides an opportunity for departments to share future procurement activity and consultancy requirements, and identify opportunities for collaboration, re-use or wider access by other departments. The OGC extranet has been expanded so that departments can readily share assignment, procurement and management information.
16. The extranet site already provides information and intelligence on a number of major consultancy suppliers and the market in general. As part of the Consultancy Value Programme the scope and depth of this intelligence and analysis is being reviewed so that it better meets customer requirements and ensures that departmental information is shared across government in an effective and efficient way. Where available, performance data for specific suppliers will also be included in this analysis.

PAC conclusion (vi): 40 per cent of clients consider they have used consultants when it was not necessary. The reasons for employing consultants need to be clearly articulated and transparent in rigorous business cases, which should be subject to independent challenge such as peer or professional review to test their validity.

17. The Government agrees with this recommendation. A review of current business case and approval processes has highlighted the need for departmental business cases for consultancy procurement to follow the standard format:

- the Strategic case (the case for change);
- the Economic case (value for money);
- the Commercial case (commercial viability);
- the Financial case (affordability); and
- the Management case (successful delivery).

18. Outputs, benefits and success criteria should be clearly stated within the business case, and used as the means for assessing successful delivery. This is enhanced by a more robust approvals process, supported by a business case ‘checklist’, providing greater assurance to those approving business cases that the justification is sound and all alternatives to using consultants have been considered. OGC will work with departments on the implementation of these changes, and monitor progress.

PAC conclusion (vii): For the last three years the most frequently purchased consultancy was IT and project management skills. Departments need to identify where core skill gaps exist in relation to medium to long term programme requirements, determine the most cost effective division of work between internal and external resources and plan their recruitment and training accordingly.

19. The Government agrees with this recommendation. Departments already identify core skills gaps via their annual skills strategies. These set out the skills they need both now and in the future and plans for addressing any gaps, including learning and development priorities.

20. Building on these strategies and other evidence, for example the findings of Capability Reviews and interviews with senior stakeholders, Government Skills (the Sector Skills Council for Central Government) is currently developing a strategy (due for completion in early 2008). This will identify a small number of key actions, which would be more effectively driven from the centre. The Strategy is likely to cover
how to make rational ‘make or buy’ decisions about skills (including giving more explicit responsibility in this area to the network of Heads of Profession). This will help departments plan their resourcing and training more effectively.

21. Although IT remains the most frequently purchased consultancy service, demand has fallen from 47 per cent of all consultancy spend in 2004-05 to 31 per cent in 2005-06. In 2005 the creation of the Government IT Profession brought together all IT professionals working across the public sector in order to establish and develop a government-wide IT profession up to and including Board level and provide IT professionals with the opportunity to reach the highest levels of the public service. To achieve this it is already developing capability-building programmes and supporting professional development through a competency and skills framework and the IT Academy.

PAC conclusion (viii): Departments do not regularly plan for, or achieve, the transfer of skills from consultants to their staff to build internal capabilities. Departments should identify where there are opportunities for skills transfer.

22. The Government agrees with this recommendation. The requirement to consider the transfer of skills from consultancy assignments is included in the proposals for an improved business case for consultancy, and associated guidance will suggest how this can be carried out and measured. It should be noted, however, that skills transfer may not be appropriate in every case, for example where the consultancy service is particularly specialised with low likelihood of repeat need or the consultancy service is particularly complex requiring a high degree of prior training and/or understanding.

PAC conclusion (ix): Some consultant charges lack transparency, making it difficult to verify that all costs are justified. Consultancy contracts need to be clear about the basis on which departments will be charged for costs such as travel and subsistence, fees and other expenses, and how they will be reimbursed for rebates firms may obtain. Departments’ finance teams need to be more vigilant in checking the appropriateness of expenses which consultants charge.

23. The Government agrees with this recommendation. Revised guidance will be issued on a number of contractual areas, including payment terms by March 2008.

24. A training course has been developed to improve procurement and business managers’ understanding of the consultancy engagement process, including the issues that need to be agreed prior to contract especially on the scoping and management of the assignment. Over 100 customers and procurers of consultancy have been trained.

25. The Supplier Forum and OGC market and supplier relationship development activity will provide a vehicle through which government and the consultancy industry can better understand each others business drivers and operating models, and how customer or client alignment can be improved to ensure best value for money.
PAC conclusion (x): Only 1 per cent of consulting projects use incentivised contracts and much work is still paid for on a time and materials basis. Departments, where practicable, should base payment to suppliers on what they produce through fixed price or incentivised contracts. Key to using these payment types is having well-defined outputs and outcomes when engaging consultants.

26. The Government agrees with this recommendation. OGC will work with departments and suppliers to complete guidance on the appropriate use of incentivised payment mechanisms by March 2008. OGC will collect information from departments on their use of incentivised payment terms in order to monitor implementation of best practice and report progress to the Collaborative Board and Senior Stakeholder Group.

PAC conclusion (xi): Departments are appointing some consultants through single tender, which puts value for money at risk. Departments should reduce the amount of contracts awarded by single tender by routinely involving procurement staff in the buying process to provide commercial expertise and making use of framework agreements which provide for competition while generally reducing procurement costs and securing better prices.

27. The Government agrees with this recommendation. The proposals for improving the robustness of the business case for consultancy will include approval from procurement staff and any single tender action will have to be fully justified.

28. OGC is collecting information on current framework agreements for consultancy requirements and ensuring that these are visible to departments in order to optimise their use and reduce procurement costs by avoiding duplication.

PAC conclusion (xii): Central Government spends over £100 million with each of its top four suppliers, yet does not take full advantage of that spending power. In its new more strategic role OGC should work with public bodies to identify key information and then aggregate this information to provide a pan-government view. OGC should also co-ordinate cross-Government meetings to help Government act as a single customer to its key consultants and in particular use its buying power to secure the best deals for the taxpayer.

29. The Government agrees with this recommendation. Departmental consultancy procurement plans, particularly for framework agreements, are beginning to be shared.

30. A Supplier Forum process for the top spending consultancy suppliers in which key customers across government meet individual suppliers allows Government to speak with a single voice.

31. The Government will develop improved strategies for sourcing consultancy through a better understanding of the consultancy market. It will drive performance improvement and pricing advantage through objective measurement and its collective buying power.

32. OGC will encourage departments to use the NAO consultancy self-assessment tool to establish a baseline against which the implementation of programme outputs can be measured.
Thirty Second Report

Department for Environment, Food and Rural Affairs

The right of access to open countryside

1. The Countryside and Rights of Way Act 2000 (CROW) introduced a public right to walk across designated mountain, moor, heath, downland and registered common land in England. The Department for Environment, Food and Rural Affairs (the Department) had a Public Service Agreement target in 2001 to open up the new access land by the end of 2005, and tasked the Countryside Agency (the Agency) with achieving this target. The project was completed in October 2005. Natural England took over responsibility for the open access arrangements from the Agency on 1 October 2006.

**PAC conclusion (i):** The Agency met its Public Service Agreement target for all designated right to roam land to be made accessible to the public by 2005. The public now have the opportunity to enjoy some 865,000 hectares of land across England.

2. The Department accepts this conclusion. The public in fact now have the opportunity to enjoy over one million hectares of open access land across England, taking into account the land so far voluntarily dedicated for access under CROW section 16 by the Forestry Commission and other landowners.

**PAC conclusion (ii):** Until Natural England completes its first Annual Report on open access in summer 2007, there is little information available to determine how many people have exercised their right to roam. There have however been a number of difficulties in finding information and getting to many of these areas of land, which need to be tackled if people are not to be deterred.

3. The Department accepts this conclusion. Natural England published its first annual open access monitoring report on 1 October 2007.

4. Natural England has also developed a monitoring ‘toolkit’, including guidance and materials, to enable local authorities to undertake more detailed monitoring of access in their own area. It is using its funding under the Access Management Grant Scheme (AMGS) to encourage them to use this toolkit, to hasten its adoption as the standard approach across England to local monitoring of open access.

5. Natural England has in hand a range of work relevant to the PAC’s comments about improving the availability of access information and improving transport links to access land. Details are given under the appropriate sub-conclusions below.
PAC conclusion (ii)(a): The Agency has relied on its website to convey information on access land, but some people may not have ready access to the internet. Other sources of information are important and the Agency’s successor, Natural England, has committed to providing leaflets suggesting walks etc in Tourist Information Centres by June 2007. As staff in some of the Centres visited by the National Audit Office were unaware of the right to roam, however, the leaflets should be supported by guidance or training on how to deal with any queries from the public.

6. The Department substantially accepts this conclusion. Ordnance Survey Explorer and Outdoor Leisure Maps clearly depict the areas of open access land that are available under CROW and through other long-term arrangements. They are on sale in high street shops and in visitor centres, tourist information centres (TICs) and other local outlets, and portray this information in a definitive and consistent way for the whole country, area by area. Where public rights of way approach or cross the land in question, these are also clearly indicated, as are other lawful means for the public to reach areas of access land from elsewhere.

7. These maps are the well-established primary information source for people wishing to use CROW access land and comparable land for walking or other forms of enjoyment. In relation to CROW access land, they draw directly on the authoritative map data provided digitally to the Ordnance Survey by Natural England. They are supplemented by other, sometimes even more detailed information sources such as commercially-produced walkers’ maps and guides for particular areas, recommended routes published in magazines targeted at particular types of countryside user, and specific walks leaflets produced by local or national park authorities, other ‘free’ information providers or volunteers.

8. Natural England’s analysis is therefore that good, reliable, detailed information about access land and country walks is typically already available to people who seek it, whether they do so in TICs or elsewhere. Production of local walks information in Natural England’s view remains best undertaken by local information providers, drawing in part on the web-based information that it makes available to them.

9. There was in fact no commitment to Natural England “providing leaflets suggesting walks etc in Tourist Information Centres by June 2007”. Rather, the Chief Executive of Natural England was making the point in her evidence to the PAC that:

- Key explanatory materials about the open access arrangements had already been distributed to TICs, in response to the National Audit Office’s (NAO’s) conclusion that staff in some TICs were unaware of the new right to roam; and

- The Action Plan that had been developed in response to the NAO Report had indicated that by June 2007, the options for producing and promoting further explanatory materials for this purpose would be explored, the effectiveness of the materials reviewed, and good practice shared.

10. Natural England’s preliminary analysis prior to June 2007 was that no immediate improvement to the current explanatory materials was necessary – but it will update them as necessary prior to the 2008 tourist season. It will also investigate whether there are any relevant training events for TIC staff that might provide an opportunity to reinforce these messages.
11. It follows from this analysis that Natural England has not relied on its website to convey information on access land. Rather, the information about access land and local restrictions on its countryside access website is intended to complement the ‘hard copy’ information that is widely available to walkers and others countryside users about local opportunities to enjoy the countryside.

PAC conclusion (ii)(b): Users have found the Countryside access website confusing and difficult to use. Natural England should improve usability, drawing on the practices of leading government and commercial websites. For example, information could be joined up with that from other sources, and suggested walking routes and destinations could be provided to help people plan days out from a single website.

12. The Department accepts this conclusion. In response to the PAC’s comments, Natural England with advice from specialist consultants has already implemented extensive improvements to the layout, content and clarity of the access website and its search and zoom functionality.

13. As a separate and longer-term venture, Natural England is investigating the feasibility of providing more integrated web-based information to help people research the places and activities available to them in the countryside and help plan their visits. This work has the potential to bring together in a positive and helpful way a range of information on routes, destinations, and transport links. But Natural England needs to weigh the possible benefits of such a service against the likely cost of developing it. Willingness of public sector and/or commercial partner organisations to collaborate in the development and funding of any such venture would be fundamental to its viability. Natural England hopes to reach its initial decision by the end of 2007 on the case for proceeding to the next stage of developing such an approach.

PAC conclusion (ii)(c): There is no telephone helpline aimed primarily at those wishing to exercise their right to roam. The advertised helpline is in practice aimed at landowners. Natural England should consider providing a telephone helpline to provide people wanting to walk in a particular area with the relevant access information.

14. The Department accepts this conclusion. The NAO report highlighted the difficulty that the national telephone helpline number operated by Natural England’s Open Access Contact Centre (OACC) appeared on various public leaflets and information boards, leading the public to believe that it could provide them with customised information on country walks, when in fact it was never intended to do this. Natural England accepts that this is misleading and has taken steps to stop the number being shown in such contexts.

15. Having considered, as recommended above, whether it should provide a public helpline, Natural England has endorsed the Agency’s original analysis that a national telephone helpline would not be an effective means of providing local walks information. The key sources of such information are explained in the response to conclusion (ii)(a).

12 This reflects Natural England’s commitment in its Strategic Direction 2006-09 to: ‘seek joint venture partners to develop a dynamic web-based information product, promoting the full spectrum of opportunities and activities available for people to experience and enjoy the urban and rural natural environment.’
PAC conclusion (ii)(d): Only a fifth of access sites visited by the NAO were accessible by public transport. Where there are public transport links to access land, Natural England should include the details and timetables, or links to this information, on the Countryside access website. The Agency should also work with local authorities to identify possible solutions, for example whether weekend bus services can be diverted past open access land at peak recreational times.

16. The Department accepts this conclusion for detailed investigation. Natural England readily accepts that better public transport links to open access land, and better information about existing links, would be potentially beneficial to the public. The same is true of links to other types of recreational opportunity or tourist facility in the countryside. Natural England is currently investigating existing information and good practice in relation to public transport links with a view to assessing the practicality, potential benefits and environmental implications (for example in terms of air quality, tranquillity and erosion) of particular options for improvement. It expects to complete this investigation by spring 2008. This investigation complements the one referred to at (ii)(b) of the scope for more integrated web-based information for the public.

17. Through its partnership working with the Institute of Public Rights of Way Officers (IPROW), Natural England provides a range of advice to local authorities and others, including guidance on the integration of Rights of Way Improvement Plans with Local Transport Plans. This is available on the IPROW website13. Natural England’s current investigations will also consider other ways of working with local authorities for progress on these issues, and for improved provision for a diverse range of users.

18. Natural England also has work in progress to improve access links to its own National Nature Reserves (NNRs), as appropriate. Guidance is due by the end of 2007 for the managers of these sites on developing sustainable visitor travel plans.

PAC conclusion (ii)(e): Information on temporary restrictions to a particular area of access land can be difficult to find on the website. Pending improvements in the format of the website, Natural England should provide guidance to TICs on how to check for local restrictions in order to notify walkers accordingly. Landowners could be encouraged to put up suitable signage on site. Where access land is likely to face temporary restrictions at broadly the same time each year, signage should carry details of times when restrictions are likely to occur and a contact number to enable walkers to clarify any concerns.

19. The Department accepts this conclusion. In response to this conclusion, Natural England has taken steps to clarify the information shown on the countryside access website about the nature of restrictions. It is now clearer when a restriction is in force and whether it applies to all visitors, or only to visitors with dogs.

20. In relation to guidance to TICs, see the response to conclusion (ii)(a).

13 www.iprow.co.uk
21. Natural England has undertaken a thorough review of the assistance and guidance it provides in relation to signage, and consulted landowner and user group representatives and other key partners, including national park authorities and the National Trust, about the issue. It has produced a new suite of sign templates providing clearer information in a range of different scenarios – including templates for use by land managers and access authorities where temporary restrictions recur. Templates include a contact number to enable walkers to clarify any concerns.

22. Natural England proactively provides information on restrictions to access authorities, whose responsibility it is to oversee access management on the ground. It has also given access authorities detailed guidance on using signs on access land – with corresponding guidance for land managers forming part of its Land Managers’ Pack for the CROW arrangements\(^{14}\). Both explain the role of signs in providing local information about restrictions and exclusions. Land managers and access authorities can work with Natural England to produce customised signs for particular circumstances.

\[\text{PAC conclusion (ii)(f): Existing advice to dog walkers is confusing. Natural England should use the Countryside access website and leaflets to promote clearly the message that dogs are allowed on access land without leads unless there are signs on the ground to the contrary.}\]

23. The Department partially accepts this conclusion. Natural England accepts that dog walkers may struggle to understand the complex position governing the taking of dogs on open access land. This complexity is illustrated by some sample facts:

- the core rights over open access land include rights to walk with dogs;
- users of the rights must keep their dogs on short leads between March and July, and at any other time in the vicinity of livestock;
- this limitation does not apply if they are using public rights of way over the same land;
- at the local level, dogs are frequently excluded from working grouse moors, or temporarily excluded from land used in connection with lambing;
- other local restrictions often exclude dogs, or require them to be controlled in particular ways;
- some byelaws (and any local Dog Control Orders) include dog controls or exclusions that carry criminal sanctions if contravened;
- entering land with an unleashed dog may in certain circumstances constitute an offence under wildlife protection legislation.

24. This range of distinctions results directly from provisions in primary legislation. Signage on site remains at the discretion of the land manager or access authority, and provision of it is variable.

\(^{14}\) Both guidance publications may be viewed at: http://www.openaccess.gov.uk/wps/portal/lut/p/cmd/cs/ce/7_0_A/s7_0_FO/s_7_0_A7_0_FO
25. The net effect is that it would not be practicable – indeed, it might be considered irresponsible – for Natural England to issue generic advice to walkers to the effect that dogs may be let off leads on access land unless signs indicate otherwise.

26. Natural England is exploring the scope for joint research with other organisations into making dog-related signage more effective. It is also developing a policy statement on walkers with dogs, for publication in 2008. These initiatives should improve consistency in the advice given to partner organisations and the public on the subject.

PAC conclusion (iii): Encouraging people to walk across the countryside could increase the risk of adverse environmental impacts, such as erosion. As part of its annual review, Natural England should develop clear benchmarks to measure the existing environmental status and condition of an area in order to detect any subsequent deterioration, and develop an action plan, in discussion with key land managers, which could if necessary be invoked at short notice to prevent further damage.

27. The Department accepts this conclusion. Natural England endorses the need to monitor any significant environmental impacts arising from people exercising their open access rights. As the conclusion acknowledges and as referred to earlier, Natural England has implemented an extensive monitoring programme, and reports annually on the outcomes from this.

28. In relation to the PAC’s specific concern on this front, there have been no significant reports to date of erosion problems resulting from the CROW open access arrangements. Erosion is more typically associated with intensive linear forms of access than with open access to land. Natural England will continue to work closely with access authorities to capture evidence of any early signs of erosion through informal on-site monitoring. Land managers encountering erosion problems can notify the access authority directly, or can call the OACC – the default contact point about the CROW access arrangements.

29. If significant erosion were to become apparent on access land, the access authority would discuss the situation with the land manager and a suitable programme of positive access management could be implemented at short notice to mitigate the impacts.

30. Natural England has not had reports from English Heritage or local authority heritage staff about adverse impacts from access on historic features. Many key heritage sites are in fact exempt from the access arrangements under CROW section 15, and are instead subject to other, sometimes more limited access arrangements.

31. The CROW arrangements featured extensive forward planning measures to avoid any damage resulting to important habitats or wildlife populations. The management arrangements and restrictions put in place then are reviewed on a regular basis. Natural England’s monitoring programme includes proactive monitoring of key bird species – a good indicator of general environmental condition.
PAC conclusion (iv): Greater access to the countryside could increase the risk of inadvertent transmission of infectious animal diseases. The Department's existing contingency plan for animal disease outbreaks should take account of risks associated with greater access and include suitable plans for imposing emergency restrictions on access land. The contingency plans should include methods for communicating changes in the status of access land to the public, landowners and access authorities effectively and quickly.

32. The Department accepts this conclusion. The Contingency Plan for Exotic Animal Diseases contains the Department's current policy on restrictions on public rights of way and access to open country in the event of an animal disease outbreak. The policy is linked from paragraph 6.16 of the Framework Response Plan for Exotic Animal Diseases which is available via the Department's website15.

33. Powers exist in the Animal Health Act 1981 to make orders prohibiting public access in the event of an animal disease outbreak. These powers override the right of access provided by the CROW Act because, by virtue of section 2(3) of that Act, the right does not apply where entry is prohibited in or under any other public legislation. The Department's policy is based on the clear principle that there should be a presumption in favour of maintaining public access. Thus, any decision to close land over which there is a public right of way, or where there is public open space or a right of access to open country, should be taken only when it is clearly necessary to do so to control the spread of disease. Public access would be restricted automatically where an Infected Premises is declared. Current veterinary advice is that outside a protection zone, the risk of rights of way users and other visitors to the countryside spreading disease is low.

34. Paragraph 6.15 of the Framework Response Plan identifies local authorities as major operational partners in the response to an outbreak of animal disease. They are expected to fulfil a significant role in providing advice and education at a local level. Paragraph 6.17 sets out in detail the responsibilities of key local authority responders. In addition, the countryside access website run by Natural England would provide up to date information on land to which public access is prohibited for the benefit of walkers and other countryside visitors.

PAC conclusion (v): The Agency's budget for the AMGS had been cut by two thirds in 2006-07 to £400,000. The scheme funds the provision of signage on access land and any remedial works required to improve the safety of walkers. Natural England should prioritise where appropriate grant applications which help ensure public safety, and note in its Annual Report any increase in access restrictions due to unsafe areas awaiting funding for remedial works.

35. The Department partially accepts this conclusion. Natural England acknowledges the PAC's concern that public safety restrictions would result from the cut in funding for the AMGS. However, analysis of the restrictions put in place during 2006-07 indicates that in practice the reduction in funding did not affect the number of restrictions granted for public safety. Action had already been taken before the access rights came into effect to put in place any restrictions known to be necessary

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15 http://www.defra.gov.uk/animalh/diseases/control/contingency/exotic.htm
to avoid risks to public safety arising from things done on the land in the past (such as disused mineral workings). No such hazards requiring an access restriction were newly reported during the period May 2006 to July 2007. Of the nine public safety restrictions approved during the period in question, none arose from risks that could reasonably have been mitigated through remedial work with funding under AMGS.

36. Public safety remains a priority for AMGS funding in 2007-08 alongside funding for managing potential impacts of access on nature conservation interests, planning for and preventing fire, and monitoring. Expenditure for these purposes continues to contribute towards the availability, accessibility and management of large areas of access land by mitigating against potential impacts that might otherwise require greater use of restrictions. For 2007-08, Natural England has allocated £450,000 from its grant-in-aid to fund access authority spending through the AMGS.

PAC conclusion (vi): A failure to scope, plan and estimate costs of the project adequately led to the project costing almost twice the Agency’s December 2000 estimate of £28 million (Agency outturn of £52.6 million). The scale of overrun impacted adversely on the delivery of other Agency programmes. For future projects Natural England should put in place:

- scoping processes including risk and sensitivity analysis covering a range of outcomes and timescales;
- robust piloting within the project timetable to enable early identification and resolution of potential problems; and
- regular senior management monitoring of costs and forecast outturn and delivery against schedule, with the forward implications of delays and overruns on Natural England’s broader programmes clearly identified.

PAC conclusion (vii): The mapping contract was open ended and based on day rate costs, allowing the costs to rise to over three times the original contract value. In letting future contracts Natural England should use good practice disseminated by the Office of Government Commerce to procure the best value contract; in particular it should:

- avoid open-ended and day rate contracts where possible;
- have understanding of the work required before letting the contract, to avoid changing the scope at a later stage; and
- closely monitor the work undertaken by contractors and the costs of contracts to ensure that they continue to provide value for money.

37. The Department accepts these conclusions. The Agency recognised the problems with the mapping contract and, in 2003, employed the Office of Government Commerce (OGC) to help renegotiate and rectify its shortcomings. As a result:

- a project board was set up to allow senior management and the OGC to monitor costs, outturn and delivery and address specific issues as they arose;
- external project management support was purchased to support the open access project and work was carried out to predict delivery outcomes and set up risk registers.
38. This gave the Agency more control over the contract and prevented unnecessary escalation of costs. A dedicated contracts team was also set up to advise on and oversee the letting of contracts.

39. The OGC remained closely involved throughout the Agency’s process of tendering and letting the restrictions service contract in 2003. The Open Access project as a whole and the restrictions service contract in particular were subject to the OGC Gateway review process, which examines a project at critical stages in its lifecycle. Lessons Learned reports were published by Defra and the Agency to inform future work.

40. Natural England’s Projects Management Governance process ensures that all significant new projects are subjected to assessment and review before commencement, and at regular intervals during the delivery lifecycle. The principles and processes underpinning this governance are based on the OGC Gateway methodology. Risk and sensitivity analysis is addressed, and robust piloting takes place as appropriate. Procurement processes consistently seek the most appropriate pricing method, with payment linked to deliverables and a presumption against time- and material-based pricing.

\[\text{Lessons Learned Reviews – Implementation of the new right of access to open country and registered common land under the Countryside and Rights of Way (CROW) Act 2000:}\]
OGCbuying.solutions

Assessing the value for money of OGCbuying.solutions

1. Established in April 2001 as an Agency of the Office of Government Commerce (OGC), itself an office of the Treasury, OGCbuying.solutions’ primary purpose is to maximise the value for money that public sector bodies can achieve when buying products and services. It provides a portfolio of products (framework agreements, managed services and memoranda of understanding) which aim to provide public sector organisations with lower prices and reduce procurement process costs through avoiding the need to undertake time-consuming and expensive tendering processes. OGCbuying.solutions’ customer base extends across both central government and the wider public sector, including the devolved administrations. Its products cover a wide range of commodities, for example, consultancy services, information technology (IT) and office equipment and telecommunications services.

PAC conclusion (i): OGCbuying.solutions operates 180 framework agreements, but 40 per cent do not cover their letting and management costs. It should rationalise its framework agreements by identifying particular areas of market expertise where it can demonstrate best value.

2. OGCbuying.solutions accepts this conclusion. The Agency is reviewing its current frameworks to identify those that contribute most value to its public sector customers and this will be completed by December 2007. This review will influence future business plans to align the range of frameworks with the specific areas of expertise within the organisation, and to focus the Agency’s efforts on those products that deliver most value to its customers.

PAC conclusion (ii): The requirement for OGCbuying.solutions to raise revenue as a trading fund acts as a disincentive for it to promote activities such as the Government Procurement Card (GPC) and Memoranda of Understanding (MoU) which provide wider value for money to public procurement, but do not yield a direct return to the business. OGC and OGCbuying.solutions need to agree separate funding arrangements and incentives to encourage OGCbuying.solutions to promote these products, based on the principle that the immediate costs involved will be more than covered by the wider savings achieved across the public sector.

3. OGC and OGCbuying.solutions accept this conclusion. The Agency’s 2007-08 Business Plan, which was agreed with the Chief Executive of OGC, includes targets for GPC, MoUs and eProcurement.

4. OGCbuying.solutions will continue to account for the wider savings to the public sector from its activities. This is reflected in its primary target to achieve savings of £1 billion a year by 2011. The primacy of this target and the business changes required to achieve it will be embedded in the specific resource plans and incentives agreed each year between OGC and the Agency.
PAC conclusion (iii): OGCbuying.solutions acknowledges that it has insufficient high-level commercial expertise to negotiate consistently good deals with suppliers, which its customers want to use. OGCbuying.solutions needs to gauge the extent of this shortfall by reference to, for example, high performing procurement operations in the private sector. It should develop an action plan for training and recruitment so that it has the capabilities to convince its customers that the deals it negotiates with suppliers offer the best prices and quality of service.

5. OGCbuying.solutions accepts this conclusion. The Agency has undertaken a comprehensive skills audit, using a leading private sector exponent, against a best in class category management model. This was completed in April 2007 and identified a capability gap. To address this, the Agency has designed and implemented an extensive training programme to raise levels of commercial expertise and procurement skills amongst its entire staff. This will enable it to implement a category management approach to procurement with an embedded structure and process in place by January 2008. In addition the Agency is currently undertaking external recruitment for specific senior roles to complete the up skilling plan.

PAC conclusion (iv): OGCbuying.solutions operates in a commercial world, but incentives for staff do not match this environment. In order to attract high calibre individuals and to drive performance, incentives for senior staff, particularly those in commercial roles, should be linked to business performance as measured, for example, by volume commitments secured, better value deals negotiated and increased market penetration.

6. OGCbuying.solutions accepts this conclusion. In order to attract high calibre individuals and to drive performance, incentives for senior staff, particularly those in commercial roles, should be linked to business performance, for example through securing volume commitments, negotiating better value deals and increasing market penetration.

7. Better links need to be established between commercial targets, individual targets, and associated incentives of its senior staff. The organisation already operates a performance related bonus scheme for senior staff offering a bonus of at least 10 per cent of base salary to its top performers. In addition, it is currently reviewing its existing performance management system to make the link between business contribution and performance incentives more explicit. This is being piloted throughout 2007 for completion by April 2008. New senior procurement roles in the organisation carry full profit and loss accountability, providing a clear link between individual contribution and business performance.

PAC conclusion (v): 63 per cent of central government organisations and 73 per cent in the wider public sector consider that OGCbuying.solutions do not consult their organisations enough when letting new framework agreements and managed services. OGCbuying.solutions needs to have regular meetings with its key customers, including executive agencies, non-departmental public bodies and wider public sector organisations, particularly before letting new framework agreements. It should also use these consultations to get feedback on the performance of OGCbuying.solutions suppliers.
8. OGCbuying.solutions fully accepts this conclusion. The Agency has already set up a customer steering group to guide its decisions in establishing new frameworks and contracts. It has regular high-level meetings with all its major customers and in addition, it is developing an enhanced series of customer value indicators, which will be in place for 2008. This is building on the Agency’s current ministerial target of achieving a minimum of 90 per cent customer satisfaction and for 2006-07, 92 per cent was achieved.

PAC conclusion (vi): Despite three development stages, customers still find OGCbuying.solutions website difficult to use. OGCbuying.solutions should identify from successful websites in both the public and private sectors how it can improve its website and how it can better identify what their customers want. OGCbuying.solutions should also make it easier for potential customers to use other forms of contact, for example, by providing them with names and addresses of staff most able to deal with their issues.

9. OGCbuying.solutions accepts this conclusion. The Agency is in the process of implementing its third stage of its website improvement plan following the NAO Assessing the value for money of OGCbuying.solutions study, which was in response to customer feedback. Through benchmarking against successful websites in both the public and private sectors, the Agency will look at further ways to improve its website and make it more user-friendly. In particular, it will seek customer feedback on the information they want and will develop a range of contact strategies including e-mail, telephone and face-to-face contact to meet those needs.

PAC conclusion (vii): OGCbuying.solutions’ suppliers are not given enough information to understand their performance and how to improve it. OGCbuying.solutions needs to improve its supplier performance monitoring system so that it gathers comprehensive customer feedback on supplier performance and relays this to suppliers to enable them to improve performance and better meet customer requirements. It could, for example, introduce supplier league tables, which are used by the NHS Purchasing and Supply Agency (NHS PASA) to compare supplier performance across the same framework agreement.

10. OGCbuying.solutions accepts this conclusion. Through implementing a category management approach to procurement, the Agency will ensure a much closer working relationship with customers and suppliers. This more proactive approach will significantly improve the flow of information from customers to suppliers. To support this aim a Supplier Relationship Assessment Model (SRAM) has been developed with input from customers and suppliers.

11. This new approach has been piloted over the last eight months with 12 customer organisations and 17 key suppliers. The feedback from participants has been extremely positive. This tool is now being further refined for use with major software houses and the Government Chief Information Officers’ Council.
PAC conclusion (viii): OGCbuying.solutions has met its value for money target in each of the last three years, but has the potential to increase its annual value for money savings by at least £500 million. These savings should be achievable within three years, but OGC needs to set OGCbuying.solutions much more challenging targets, based on the recommendations above to make sure this happens. OGCbuying.solutions should also aim to ensure that the prices for all its major framework agreements fall within the lowest 25 per cent of public sector prices, a more demanding test of value for money than the “average prices” benchmark currently used.

12. OGCbuying.solutions accepts this conclusion. The Agency has been set a target to increase its level of savings from £500 million a year in 2006-07 to £1 billion a year by 2010-11. To achieve this, the Agency has set out a three year strategy to increase its savings and has adopted an interim target of £650 million of savings for 2007-08.

PAC conclusion (ix): Public sector bodies spent £415 million on unnecessary procurement process costs in 2005, and prices across central government organisations for four standard products varied by between 73 per cent and 139 per cent. OGC and OGCbuying.solutions need to provide public sector organisations with accurate and comprehensive information on the costs of letting and managing contracts and clear price benchmarking data so that, under the principle of “comply or explain” OGC has reliable grounds to challenge departments where they decide to depart from “best deals”.

13. The Government accepts this conclusion. An important part of the implementation of Transforming Government Procurement will be to drive out greater value for money in the procurement of commodity goods and services. The Acting Chief Executive of OGC wrote to Permanent Secretaries on 1 June 2007, to mandate the use of 12 deals for the procurement of selected commodities as part of the process of implementing Transforming Government Procurement. OGCbuying.solutions is the sponsor for seven of these deals, notably ones on the Government Procurement Card and IT goods and associated services. OGC will be reporting to Permanent Secretaries on the take-up of these deals across government and will challenge departments where these deals are not utilised to the full.

14. Following the NAO study, the Agency is benchmarking its prices against the lowest 25 per cent of deals in the public sector. Additionally, OGCbuying.solutions and OGC will provide public sector organisations with accurate and comprehensive information on the costs of letting and managing contracts and clear price benchmarking data so that, under the principle of “comply or explain”, OGC has reliable grounds to challenge departments where they decide to depart from “best deals”.
PAC conclusion (x): Across Central Government and the NHS, there are four main procurement organisations (OGCbuying.solutions, the NHS Purchasing and Supply Agency (NHS PASA), the Defence Logistics Organisation and the Defence Procurement agency). The resulting duplication of effort means that for example, that both OGCbuying.solutions and NHS PASA procure electricity. To support its “single approach to sourcing”, OGC should develop a concordat so that, where a “lead” organisation, whether a dedicated procurement organisation, government department or other public body, is identified for each commodity or product, these four procurement organisations commit to using and promoting the contracts put in place by that organisation.

15. The Government accepts this conclusion. A principal focus of OGC will be to drive forward collaborative procurement across government. To this end, the OGC has set up a Strategic Stakeholder Forum, which brings together the Commercial Directors in the government departments that spend most on the procurement of commodity goods and services, together with the Centres of Excellence responsible for procurement in local government. This body is taking ownership of the government’s sourcing strategies for commodities, employing the industry wide accepted concept of category management. Four major pilots of collaborative category management have been established, covering the procurement of energy, fleet, office solutions and travel.

PAC conclusion (xi): Central government organisations have made little use of eProcurement despite, for example, potential price savings using eAuctions in the region of 20-25 per cent, compared with historic prices. OGC and OGCbuying.solutions should publicise and highlight these savings to demonstrate to procurement professionals and, more importantly, budget holders and Finance/Commercial Directors the value that is not currently being captured.

16. The Government accepts this conclusion. OGC is currently developing a Procurement Policy and Standards Framework which will bring together all the mandatory policies and standards governing public procurement, along with more detailed reference material setting out how to implement those policies. This reference material will include Best Practice guidance on the use of e-auctions.

17. OGC’s programme of Procurement Capability Reviews will ensure that departments improve their performance across all aspects of procurement, including e-procurement.

18. OGC and OGCbuying.solutions will publicise and highlight these savings to demonstrate to procurement professionals and, more importantly, budget holders and Finance or Commercial Directors the value that is not currently being captured.

19. To highlight the value that can be obtained through eProcurement processes, the Agency offers a range of eProcurement products, including the Zanzibar market place, a range of eProcurement tools and a framework supporting eAuctions. These are all promoted and the savings obtained calculated and highlighted. The Zanzibar acceleration project is intended to increase dramatically the take up of the Zanzibar market place from £6 million a year to £100 million a year over the next 18 months. The Agency has reviewed the use of eProcurement in parts of the public sector and intends to publish the benefits arising from the use of its own eProcurement tools.
Recruitment and Retention in the Armed Forces

1. Recruitment and retention in the Armed Forces is a complex issue. Each year, the Ministry of Defence has to recruit, motivate and retain sufficient military personnel to enable it to meet the Government’s strategic objectives. Within the overall manning levels of each of the Services there are a number of areas that are under stress for a variety of reasons – these are referred to as pinch points. The National Audit Office (NAO) examined 11 pinch point groups to establish what influences the decision of Service personnel to stay and what makes them leave. The report concluded that no single issue causes people to leave. Each individual’s decision to leave varies depending on their age, rank and personal circumstances; this further complicates the Department’s ability to plan manpower levels. The report also highlighted the cost effectiveness of using retention measures versus an increase in recruitment.

PAC conclusion (i): There are shortfalls of personnel in all three Services. In April 2007 the shortfall was 5,850 and the Armed Forces as a whole were of 3.2 per cent under strength.

2. The Department accepts the conclusion of the Committee. The current shortfall is higher than we would wish. In part, this is a result of current restructuring work where strengths are falling before corresponding decreases in manning requirements. The Department recognises the importance of taking the necessary steps to address the shortfall, and has action in place.

3. All three Services are carrying out a range of activities to increase recruitment. The Royal Navy (RN) is examining more flexible approaches to the employment of its manpower and developing an Integrated Recruitment and Retention Strategy to foster higher levels of retention. In future Naval recruitment staff will work more closely with regional commanders to raise awareness of the Royal Navy and its career opportunities. The Army recruiting organisation has initiated the One Army Recruiting (OAR) change programme, which will provide a more efficient and effective recruiting process across both the Regular and Territorial Army. The Royal Air Force is already seeing some success from the recent marketing campaign, which has resulted in an increase in both officer and airmen recruits.

PAC conclusion (ii): The increasing frequency of deployments on overseas operations and time away from home are factors causing people to leave the Armed Forces.

4. The Department partly accepts the Committee’s conclusion. There are many reasons why people leave the Services each year and these are dependent on age, rank and personal circumstances. It is true that one of the reasons given in the NAO survey for leaving was ‘time away from home’ (around 35 per cent of those surveyed cited this as a reason) and frequency of deployments (again approximately

17 NAO report dated 3 Nov. Detailed Survey Results from a survey of former and serving personnel from a selection of pinch point trades – around 4,695 of current personnel and 761 of former personnel.
35 per cent). However this needs to be balanced against one of the main satisfaction factors of job security. Over the last 10 years voluntary outflow rates taken across the Services have fluctuated only marginally year on year. However, the Department continues to monitor the situation carefully.

5. The Department’s recruitment and retention levels compare favourably with the public and private sector and other parts of the public sector. The Chartered Institute of Personnel Development Report on Recruitment and Retention Turnover 2006 gave turnover for the Production Industry at 8.2 per cent compared with the MOD’s 5.2 per cent. It suggests that the Armed Forces are good at keeping their people, which is particularly important as we have limited opportunity to recruit laterally, unlike other employers. Through the Continuous Attitude Surveys (CAS), the Department monitors Service personnel’s views on a raft of retention issues.

6. The buoyancy of the job market will inevitably exert a degree of ‘pull’ on people’s decision to leave the Services and individuals with particular skills, such as qualified pilots and communications engineers, will always be in demand. However, the Professional Aviator and other financial retention initiatives (FRIs) for RAF aircrew are good examples of targeted retention policies.

7. A number of measures are also being implemented to manage better the time between deployments, such as the Royal Navy’s Rebalancing Lives initiative, which was introduced in 2002. The Army is seeking, where appropriate, to contractorise Regular Army Assistance to Training (RAAT) tasks, to reduce support to training tasks and minimise equipment maintenance without having a detrimental effect on Army outputs. Meanwhile the RAF has increased the Military Provost Guard Service to reduce the guarding task for RAF regular personnel, increase the employment of short term contract manpower to cover pressure points, reduce the number of un-established commitments and place new focus on conditions of service and work life balance.

PAC conclusion (iii): There are indicators of overstretch in specific areas, such as severe shortfalls in personnel in some specialist trades, such as nurses, linguists and Leading Hands, and the routine breaking of harmony guidelines.

8. The Department accepts that there are shortfalls in some specialist trades and that they are stretched. A Manning Pinch Point Steering Group meets quarterly to review manning figures and to initiate action to alleviate pressure on pinch point trades. Measures implemented range from reviewing current establishments, mobilising Reserves, seeking assistance from the other two Services, rank ranging appointments and extending engagements to considering a financial retention incentive.

9. Before a Financial Retention Incentive can be considered, a thorough manning review is required. This examines all the issues surrounding the population, their causes and potential financial and non-financial solutions. FRIs will be recommended by AFPRB as part of a comprehensive financial and non-financial package upon which the MOD is required to provide annual progress updates.
PAC conclusion (iv): Financial incentives have met with some success in retaining people in the short term, but several key factors for people leaving, such as workload, inability to plan ahead outside work and the impact on family life, have not been addressed sufficiently.

10. The Department accepts the conclusions of the Committee, and welcomes their conclusion. However, it should be acknowledged that while our Forces are heavily committed there is going to be pressure on certain areas. The Department has expanded its research programme through the development of Valuing and Investing in Service Personnel (VISP) and the Armed Forces Continuous Attitude Survey (AFCAS) in order to understand better the reasons for people leaving and to apply appropriate measures to encourage them to stay. A wide range of measures is in place to improve retention including: career management, improvement to conditions of service and work/life balance, extensions to normal engagement lengths, commitment bonuses and targeted Financial Retention Incentives.

PAC conclusion (v): The Department lacks information on the costs of its recruitment and retention measures and has performed limited investment appraisal on its range of financial incentives.

11. The Department accepts the conclusions of the Committee. The Department, in conjunction with the 3 Services, has revised the policy guidance for all future FRI submissions. In future, each case will contain details of key performance indicators, comprehensive details of the issue and details of the post project evaluation to be completed. In addition, these will include cost benefit analyses to quantify the benefits achieved in each case. The new Joint Personnel Administration system will provide a better source of management information.

PAC conclusion (vi): The Department does not have a long-term strategy to ensure a steady supply of highly qualified specialist personnel especially where there are shortages.

12. The Department does not accept the conclusion of the PAC. The Service Personnel Plan, which was introduced in 2006, provides a structure for the prioritisation and delivery of Service personnel policy over the next 15 years. It reflects the challenges and opportunities that the operational environment, demographic changes and the changing expectations of personnel and their families present to the MOD. Under the auspices of the Service Personnel Plan, work is underway to ensure the effective delivery of financial and non-financial conditions of service to achieve the recruitment, retention and motivation of sufficient, capable individuals to meet manning requirements. In addition work is underway to develop a retention positive and coherent Armed Forces Terms and Conditions package, which initially will focus on proposals for more flexible working arrangements.

PAC conclusion (vii): Short term cuts in recruitment have had long term impacts on manning levels which are almost impossible to recover from and appear to have more money to mitigate in the long run.
13. The Department partly accepts the conclusions of the Committee. The Department recognises the need to learn from lessons from the past, including the decision to slow Royal Navy recruiting in the mid-1990s in response to ‘Options for Change’. The RAF has applied these lessons to its recent reductions, using careful management of normal outflow and redundancy to meet the reduced target while still maintaining a steady flow of new recruits. Around £3 million of additional marketing funding was expended to raise the profile of RAF careers and remind potential recruits that despite the RAF reducing in size, many rewarding career opportunities remain.

14. Despite the restructuring process, recruiting was good in 2006-07 with the Service intake up by 1,210 (6.7 per cent) on their achievement in the previous year. Over recruiting in certain areas is used where possible, but rescheduling training and using temporary facilities limits the extent to which this can balance out shortfalls.

PAC conclusion (viii): The Department sets annual targets for recruitment but they do not take account of the need to fill in some of the gaps resulting from previous recruiting shortfalls.

15. The Department does not accept the conclusion of the Committee. The Department routinely adjusts its annual recruitment targets to take account of the previous year’s performance and other forecasts. Annex 34.1 illustrates this point.

16. A number of initiatives have been introduced to deal with earlier shortfalls. The Royal Navy, for example, have developed a scheme to speed up promotion for General Service Ratings who joined in the mid-90s. Other measures being considered include, lateral recruitment, Recruiting Bounty Scheme Golden Hellos for new recruits and Transfer Bonuses for Service personnel from other trades. The In-service Training Total (ITT) targets are calculated annually to allow for past performance and are balanced against our training schools capacity in any one-year.

PAC conclusion (ix): Nine out of ten of the Army’s top ten officers were educated at independent schools, whilst three quarters of Army scholarships in 2006-07 went to students from independent schools.

17. The Department accepts the conclusions of the Committee. However, a more balanced insight can be gained from a breakdown of officers from this year’s intake of the Advanced Command and Staff Course. See Annex 34.2.

18. This course is designed to provide selected officers with a broad understanding of the full range of operational and management issues across Defence as preparation for potential promotion to the senior ranks. It is a highly competitive course and only the top 10 per cent of OF3 & 4s (Major or Lt Col equivalents) of each Service are selected; it is designed to capture the very best in each service who have the potential to achieve the highest ranks. The majority of entrants (around 56 per cent) to the Royal Military Academy Sandhurst are now from the State Sector.
Annex 34.1 – Recruitment Targets (Data is provisional and subject to review)

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Annex 34.2 – Recruitment Targets

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Thirty Sixth Report

Ministry of Defence

Reserve Forces

1. The Reserve Forces have become an integral part of the United Kingdom's defence capability. Reserve Forces comprise approximately 36,000 Volunteer Reserves, the largest element being the Territorial Army, and some 52,000 Regular Reserves (former Regular service personnel, who retain a liability to be mobilised). The Ministry of Defence (the Department) has used Reserves at unprecedented levels in the last ten years with the Reserve Forces making an increasingly important contribution to Defence. It has also successfully changed the culture of the Volunteer Reserve Forces to one where Reservists now expect and want to serve on operations.

PAC conclusion (i): All of the Volunteer Reserve Forces face significant shortfalls in manpower from some 16 per cent in the Territorial Army to some 36 per cent in the Royal Auxiliary Air Force.

2. The Department accepts the Committee's conclusion. Since these figures were published, the manning position has improved considerably. Major efforts, by all three Services, supported by appropriate resources, are underway to address the manning shortfalls and many of the Committee's recommendations, such as improving the training and support available for Reservists, have been successfully implemented.

3. The Royal Navy Reserves (RNR) is now on course to meet its projected manning levels, the Royal Marine Reserves (RMR) position has now started to improve and is now increasing in strength, and Royal Auxiliary Air Force (RAuxAF) recruiting has improved since the position last year. For the Territorial Army (TA), who made up a large majority of the Reserve Forces, 2006 was the best manning year since 1999, and the Department continues to closely monitor TA manning levels. A new programme to incentivise ex-Regulars to join the Volunteer Reserves was announced in August 2007.

PAC conclusion (ii): People have been joining the Territorial Army despite failing basic fitness tests.

4. The Department accepts the Committee's conclusion. While most recruits who join the TA meet our basic fitness requirements, if individuals do not, and their potential is recognised, they are given a training programme and encouraged to try again when they have improved their level of fitness. Many join the Reserves because of the opportunities offered there to develop their fitness but, conversely, research indicates that fitness is a barrier to others. There can be a perception that people believe they are “not fit enough” to join the Reserves. The Department believes that rather than losing potential recruits, it must strike the right balance between fitness on entry and potential.

5. In line with the conclusions of the Report, to look creatively as ways to increase the options available for those wising to join. The Armyfit website, which offers free tailored on-line fitness programmes, was launched in February 2007, and has received nearly a million unique visitors. Of these, over 4,000 have gone on to complete an online application form to join the Army – Regular or TA.
6. However, great care is taken to ensure that all Reservists who are mobilised for service on operations meet a prescribed level of fitness commensurate with their role in theatre, and the Department takes precautions to ensure Reservists and Regulars alike are fit to operate in demanding environments such as those of Afghanistan and Iraq. Where individuals fail their pre-deployment tests, they are given time to undertake further training to improve their fitness levels to ensure they are prepared properly to deploy. Individuals may be stopped from deploying where they are unable to meet the required fitness standards in the time available.

PAC conclusion (iii): The Department does not know if, on operations, Reservists are more likely than Regulars to experience fitness problems which require evacuation back to the United Kingdom.

7. The Department accepts the conclusion of the Committee. Since the report’s publication, the situation has improved considerably. The RMR achieve the same levels of fitness as their Regular comrades before deploying on Operations. TA personnel are required to take and pass Military Annual Training Test Level 2, and on deployment are required to meet Level 1 – the same standard as Regulars.

8. The Department does necessarily deploy some members of the TA on operations, who cannot do this, having been accepted ‘at risk’ by the receiving formation. This can only occur where the individual Reservist has been judged and assessed by a Training Review Board, which includes representation from the Receiving Unit. This Board mitigates the risk, and ensures that the Commander of the receiving Unit is aware of it. No one, who fails this Board, is deployed. In most instances, this occurs when the individual has essential skill sets, such as a surgeon whose role is judged to be less physically demanding than that of a frontline soldier and the Department is therefore able to accept a lower level of fitness in order to ensure their vital skills are available.

PAC conclusion (iv): On routine training and on pre-deployment training, Reservists are not being given the opportunity to train alongside Regulars, nor with the equipment they will use on operations.

9. The Department agrees with the Committee’s conclusion. Since the report was developed, the Department has introduced a number of steps to implement the NAO’s recommendation encouraging greater synergy between regulars and reservists deploying on operations. The majority of those deploying on operations are now given the opportunity to train alongside their Regular colleagues. Every effort is made to ensure that mobilised Reservists get the same opportunities as Regulars, but by the nature of some specialisations and the mobilisation process itself, there may still be times when some individuals are unable to train with the Unit that they will serve with.

10. Where practicable, integrated training takes place alongside Regulars. For example, 40 Commando RM recently deployed on Operation HERRICK (Afghanistan) with nearly 80 Reservists, mostly RMR, who are being mobilised for 12 months in order that they are fully trained and integrated into the Unit. They were mobilised in April, and having completed their training, deployed to Afghanistan in October.

11. Reservists are issued exactly the same personal equipment as the Regulars on mobilisation.
12. The Department accepts the conclusion of the Committee. Following the NAO report's publication, the RNR have implemented the Reserves Integration Project, which addresses the terms and conditions of service needed to provide a flexible career path between the Regulars and the Reserves. Fundamental to this is the alignment of branches and skill sets.

13. The Royal Navy is working to ensure that all RNR Recruits will go to sea within 18 months of joining, and RNR’s provide extensive support to Exercises at sea, such as the recent NOBLE MARINER, when many specialist billets in the Embarked Maritime Headquarters were filled by RNR.

14. On Operations, apart from individual deployments, the General Service Seaman (Reserve) branch has an enduring commitment to Force Protection for the Gulf Royal Fleet Auxiliaries for the next two years. This requires around 30 Reservists to be deployed at any time.

15. The Department accepts the conclusion of the Committee. In line with its recommendation, the Department is developing a method of capturing the civilian skills of Reservist based on the Office for National Statistics’ Standard Occupational Classification, and it is the Department’s ambition to incorporate this facility onto Joint Personnel Administration (JPA is the new Tri-Service defence personnel administration system). Separately, the RNR already operates a civilian skills database.

16. Where operationally necessary, a Commander may make full use of a Reservist’s civilian qualifications and skills (and as the Committee heard this was the case in the early stages of Operation TELIC in Iraq). It must, however, be understood that many Reservists join up to undertake duties and skills that would normally not be available to them in their civilian life. Current policy, taken from “Future Use of the UK’s Reserves”, published by DRFC on 7 February 2005, is that “We will not mobilise a Reservist to take advantage of his or her civilian skills if he or she joined to serve in a different role, except with the express agreement of the Reservist and his or her employer.” The policy ensures that unless there is a clear operational necessity for a particular skill or trade, a Reservist will not be mobilised solely on the basis of their civilian skills.

17. This recognition is vital if the Department is to maintain relationships with both the Reservist and their employer. The Department is aware of the vital support given by employers to the functioning of the Reserves, and it would be unwise to jeopardise this by laying itself open to accusations of getting skilled personnel ‘on the cheap’ by appearing to take trained staff from an employer.

18. Reservist personnel have not been receiving prioritised medical treatment for either physical injury sustained on operations or for mental health problems, which develop post-mobilisation.
18. The Department partially accepts the conclusions of the Committee. While mobilised, all Reservists are entitled to the same access to medical treatment as Regulars; that includes access for physical injury and / or illness and mental illness. At the time of their demobilisation, Reservists have the opportunity to declare medical problems and undergo medical examination.

19. The Reserves Mobilisation and Training Centre at Chilwell, where most reservists are demobilised, has access to rapid MRI scans through the Tri-Service Regional Rehabilitation Unit at RAF Cranwell to obtain definitive diagnosis for musculo-skeletal problems. Access is provided within 10 days of request. Medical Officers at Chilwell then have rehabilitation services on site to treat musculo-skeletal conditions and have accelerated access to the Ministry of Defence Hospital Unit Host Trusts in the same way as regular soldiers for all specialties. However, many Reservists choose to return home for referral. Under these circumstances, they will be treated along NHS timelines based on clinical need. Where medical issues are identified prior to demobilisation, the period of mobilisation can be extended to continue to treat the soldier until he is well enough to return to civilian life. Once demobilised reservists medical support is provided by the NHS.

20. For Reservists with mental health problems, it is long established that once they are demobilised, medical care becomes the responsibility of their own local NHS primary care trust and the majority of Veterans’ physical and mental health needs are met by these provisions. However, the MOD recognises that it has an expertise to offer in certain specific circumstances, and in November 2006, it launched a new initiative – the Reserves Mental Health Programme (RMHP). The RMHP is open to any current or former member of the UK Volunteer and Regular Reserves, who has been demobilised since 1 January 2003 following an overseas operational deployment as a reservist, and who believes that the deployment may have adversely affected their mental health; take-up for this programme has been low thus far.

**PAC conclusion (viii): The welfare support most used by Reservists and their families is provided by their Reserve unit, but not all units have dedicated welfare resources.**

21. The Department accepts the Committee’s conclusion. Since the Report was published, much has been done to improve the support available for the families of mobilised Reservists along the lines recommended by the Committee, and the Departments aspiration is that support available to Reservists and their families, when a Reservist is mobilised, be no different to that offered to Regular personnel.

22. As examples of the improvements made, Reserve Units can now mobilise personnel specifically for welfare duties when personnel from that Unit are mobilised – depending on the circumstances of the Unit involved. Once around 20-30 Personnel are mobilised, the Unit will be automatically authorised to mobilise others to support them, and their families at home. Also, the Single Point of Contact scheme is being extended to cover the families of mobilised Reserves, as well as Regulars, on Operations.

**PAC conclusion (ix): The Department has made some major decisions about the future of the Reserve Forces, yet does not know what they cost.**
23. The Department accepts the conclusion of the Committee and has fully adopted its recommendations. Work is well advanced on a project aimed at improving the cost information the Department has available on the Reserves by initiating a detailed study of the costs and outputs of Volunteer Reserves. A report is due by the end of 2007 – the Department hopes this will aid future balance of investment decisions relating to the Reserves.

PAC conclusion (x): The Department monitors and collects information on areas of diversity such as race and gender, but not on the socio-economic or educational background of its Reserve personnel whether on recruitment or promotion.

24. The Department accepts the conclusion of the Committee. The intention is to record such information in future, but this will require substantial amendment to the Joint Personnel Administration system, and will therefore take some time to implement.
Thirty Seventh Report

The Child Support Agency

Implementation of the Child Support Reforms

1. The Child Support Agency was set up in 1993 because the system of collecting maintenance through the courts had lost the confidence of parents. The new system was designed to provide better support to children and families by making sure parental responsibilities were properly enforced. Despite these good intentions and the best efforts of its staff, the Child Support Agency struggled to administer the complex rules in the child maintenance scheme and to handle the difficult and emotional circumstances that often surround parents when child maintenance becomes an issue. Consequently, its performance fell a long way short of expectations.

2. This report focuses on the Child Support Reforms introduced in 2003 which were intended to simplify how maintenance is calculated using a fixed percentage of income and fewer pieces of information to calculate maintenance. More enforcement powers were also introduced to try and ensure non-resident parents could not deliberately avoid their responsibilities, and new provisions allowed the Child Support Agency to presume parentage in a wider range of circumstances. The reforms required the development of a completely new computer system that never functioned as required. The significant problems in the implementation of these reforms have been well documented by both the National Audit Office and the Public Accounts Committee.

3. In February 2006, the Government announced a three year Operational Improvement Plan to improve the Agency’s performance in getting money to children, while work to redesign future policy and delivery arrangements was undertaken. The first year of the plan, 2006-07, concentrated on improving customer service and building capacity and capability within the organisation. The second year will focus on resolving remaining IT difficulties and increasing compliance and enforcement. In the final year the Agency aims to reap the benefits of the restructuring, consolidating the improvements and aiming to collect more than £1bn in maintenance for children.

4. The Government set out its plans for the future of child maintenance in a White Paper, published on 13 December 2006, and the subsequent Child Maintenance and Other Payments Bill is now progressing through Parliament. Subject to gaining Royal Assent, the Bill will allow the replacement of the Child Support Agency with a new Non-Departmental Public Body: The Child Maintenance and Enforcement Commission. Until the commission is established in 2008, the Child Support Agency remains committed to improving the service it delivers, providing a firm foundation for the new organisation.

PAC conclusion (i): Implementing the reforms has cost the taxpayer some £539 million since 2000, with plans for a further £320 million to improve service levels over the next three years; but the money has failed to deliver the promised – and much needed – improvements in efficiency and quality of service. It took thirteen years for the Department to finally conclude that the Agency was not fit for purpose, after bringing in a new Chief Executive from the private sector in April 2005. The Child Maintenance and Enforcement Commission, which is to replace the Agency by 2008, will need to represent a break from the past, based on a vision for a simpler and more enforceable system incorporating good practice from other countries.
5. The Department accepts the conclusions of the Committee regarding the costs of the reforms and the need to introduce a simpler and more enforceable system of child maintenance. However, the Department believes that investment in the Agency’s three year Operational Improvement Plan is already showing improvements in both the quality of service and the amount of money getting to children.

6. The Operational Improvement Plan, announced in February 2006, was funded in the main from releasing existing resource agreed as part of the 2004 spending review, supplemented by an additional £120 million new investment from within the Department. The Plan is already delivering significant improvements in the Agency’s performance and has stretching targets for further service improvements up to March 2009, while work to redesign and implement future policy and operational delivery is undertaken.

7. In the first year of the Plan the Agency focussed on improving operational capacity and capability, while making significant improvements to customer service. The Agency invested heavily in training, redeployed significant numbers of people to customer service from support functions, recruited additional people and outsourced some activity. As a result of this the Agency achieved and exceeded client service targets for the year and made significant progress towards the targets for the end of the three year plan in 2009. Annex 1 shows the progress made and the targets for years two and three of the plan. In particular the Annex shows that in the first year of the Plan:

- uncleared new scheme applications have fallen by 29 per cent from 221,200 to 155,900;
- the proportion of new scheme applications cleared within 12 weeks has risen from 53 per cent to 61 per cent, and those cleared within 26 weeks from 67 per cent to 78 per cent;
- the average call answering time has fallen from 59 seconds to 26 seconds;
- the percentage of lost calls has fallen from eight per cent to three per cent.

8. While these improvements in service levels are important and welcome, the real test for the Agency is the difference made for children by collecting or arranging maintenance. Having established a platform of improved service, the focus for the next year of the Plan, the year to March 2008, is therefore enforcement. Annex 2 shows the Agency has been successful in increasing the numbers of families and children receiving maintenance over the last two years. However this has been largely as a result of increasing the assessed caseload through reducing the numbers of uncleared applications. The proportion of non-resident parents who, once assessed to pay, do so has increased only moderately and this, together with outstanding arrears, will be the area on which the Agency is focusing on in the current year.

9. The investment in the Operational Improvement Plan is vital to secure a stable foundation for the introduction of the Child Maintenance and Enforcement Commission (C-MEC), which Ministers believe will provide a clean break from the past issues featured in this report. The Child Maintenance and Other Payments Bill sets out radical and far-reaching proposals for the wholesale reform of the child maintenance system:
C-MEC will be a new organisation operating under a new governance structure at arm’s length from government. This structure is significantly different to the current executive agency;

C-MEC will have a single overarching objective – to maximise the number of effective child maintenance arrangements in place. Effective arrangements can be a voluntary maintenance arrangement or a statutory maintenance arrangement. As such the compulsory link between the statutory maintenance service and the benefits system will be removed and two subsidiary objectives will support the main objective. The first requires C-MEC to encourage and support the making of appropriate voluntary maintenance arrangements. The second requires the Commission to support the making of and compliance with statutory maintenance arrangements; and

C-MEC will have ongoing responsibility for delivery of all aspects of the new child maintenance system. This will include responsibility to provide information and support to enable parents to secure effective maintenance arrangements; and to provide an effective and efficient statutory maintenance service with tougher enforcement for use where parents are not able to come to their own arrangements.

10. Preparatory work for the Bill included benchmarking the Agency’s performance against international best practice. Although there are differences between the UK’s child support system and those in other jurisdictions, the proposals in the Child Maintenance and Other Payments Bill draw upon international best practice in child support. For example, income data held by HM Revenue and Customs will be used to make the maintenance calculation. Enforcement powers similar to those proposed in the Child Maintenance and Other Payments Bill are also already being used in other countries including the United States, Australia and New Zealand. For example, administrative deductions from bank accounts and some other financial holdings are made in New Zealand, which will be a powerful tool for increasing compliance among the self-employed, where Deduction from Earnings Orders cannot be used.

PAC conclusion (ii): The Agency still performs less effectively than its counterparts in Australia and New Zealand, with higher average costs per case and lower rates of compliance. The Australian Child Support Agency has greater access than the UK Agency to individual tax information that enables it to determine income and expenditure directly, without having to rely on the individuals concerned to provide this information. Taxation is also used to collect arrears from non-resident parents. The Department, together with the Treasury and HM Revenue and Customs, should explore the scope for adopting these approaches to achieve quicker assessments and higher levels of compliance.

11. The Department accepts the conclusions of the Committee. The Child Maintenance and Other Payments Bill will enable tax information held by HM Revenue and Customs to be used to determine income directly without having to rely on non-resident parents to provide earnings information. However, there are many differences between the UK child maintenance scheme and its counterparts in other countries and this makes it very difficult to replicate the techniques used by the respective agencies. In addition to scheme rules, there are differences in the social, demographic and legal environments that operate in the respective countries.
12. The Agency is now also making more use of information held by HM Revenue and Customs and credit reference agencies to trace non-resident parents. In particularly difficult cases, the Agency is now referring them to specialist private sector tracing agencies.

13. The important lesson that has been learnt from both Australia and New Zealand is that processes should be administrative wherever possible to reduce the scope for delay and avoidance. The Child Maintenance and Other Payments Bill introduces a number of administrative enforcement measures, such as deductions from bank accounts, removing the need to apply to the courts for liability orders and the forced surrender of passports.

PAC conclusion (iii): More than one in three non-resident parents fail to pay any of the money they owe, amounting to around £3.5 billion in uncollected maintenance. The Department has announced that it will not be seeking legislative powers to write-off uncollectable debt and the Agency is now better equipped to identify debtors. To improve maintenance payment, it should obtain information on income and forwarding addresses from employers, make greater targeted use of debt collectors and promote public awareness of the legal consequences of non-payment.

14. The Department accepts the conclusions of the Committee on the amount of debt, which has accrued over the 14 years of the Agency’s operation. This money is owed by non-resident parents as a result of their failure to meet their responsibilities to their children. However the Agency is making progress in increasing the amount of money it collects for children. Whilst it is the case that, in the quarter ending June 2007, in more than one in three cases the non-resident parent was not currently making a payment of maintenance, that is not to say that the same number have never paid any maintenance. For example, in June 2007, around 90 per cent of new scheme cases in which a positive liability to pay maintenance existed had made one or more payments, or had a maintenance direct arrangement in place, at some point during the lifetime of the case.

15. In the year to June 2007, the Agency increased the amount of maintenance by £63 million – a seven per cent increase – compared to the previous 12-month period a year earlier. The Agency has a target to collect £970 million of maintenance this year, including £120 million arrears.

16. The Agency has also introduced more flexible payment methods for non-resident parents, which now include payment by credit and debit cards. This scheme is showing encouraging signs for the collection of arrears, with over £7 million collected to June 2007 since the scheme’s launch in September 2006.

17. The Agency is, in addition, increasing the use and effectiveness of deduction from earnings orders – using this method of payment earlier and more frequently for those who either default on other payment arrangements or indicate that they are unlikely to pay, and offering deduction from earnings orders as a voluntary method of payment.
18. Private sector debt collection agencies have been employed by the Agency to accelerate the rate of debt recovery and collect more arrears. By the end of June 2007 some 52,000 cases had been transferred to debt collection agencies and at least £3.5 million in maintenance had been collected by them. A letter sent by the Agency to inform clients that their debt is being transferred to the debt collection agencies had also resulted in an additional £900,000 of regular maintenance and £1.74 million of debt being collected at the end of June 2007.

19. Promoting public awareness of the Child Support Agency's enforcement powers is the key objective of the Child Maintenance Enforcement Campaign. The campaign aims to alert parents who do not pay child maintenance that the Agency is determined to enforce compliance. Evaluation of pilot schemes in Newcastle and Sheffield has shown that awareness levels and the propensity of non-resident parents to comply have increased as a result of the advertising. The campaign is now rolling out in Nottingham, Manchester and Birmingham and will commence in Cardiff, Glasgow and Liverpool from the end of September 2007.

20. The Child Maintenance and Other Payments Bill will strengthen and streamline the range of enforcement and debt management powers that will be at the disposal of the Child Maintenance and Enforcement Commission. These will be used both to encourage ongoing compliance to prevent the new debt building-up, and enable more of the accumulated debt to be recovered. Enforcement powers in the Bill include:

- introduction of administrative liability orders;
- collection of maintenance directly from accounts held by financial institutions;
- enforcing the surrender of a non-resident parent’s passport or imposing a curfew on them if they fail to pay maintenance; and
- pilot withholding from wages as the first means of collecting maintenance.

21. The new debt powers will be:

- negotiating debt settlement: where debt is due to the parent with care negotiated settlements will only be used with parent with care consent, and where the Commission considers the offer to be reasonable;
- offsetting child maintenance liabilities: the parent with care will need to agree to the payment in kind and legislation will set out which payments would be considered appropriate for off-setting;
- recovering arrears from the estate of the deceased non-resident parent;
- writing off debt in very limited circumstances: in many cases, we will be acting in accordance with the wishes of the parent with care – for example where the parent with care and non-resident parent are reconciled or in other circumstances where the parent with care has asked us not to recover debt; and
- selling debt: this will ensure that some money can be collected faster than by using other enforcement methods which may not succeed – where a debt is owed to a parent with care it will not be sold without their consent.
PAC conclusion (iv): The Agency's poor track record in enforcing compliance sends out a message that it is easy to avoid detection by the Agency or serious penalty. At the time of the C&AG’s report, only 19,000 out of the 247,000 cases of complete and partial non-compliance were being dealt with by the Agency's Enforcement Directorate. The Agency was unable to identify cases where enforcement action had previously been taken. The Agency needs to challenge the existing culture of non-compliance, identifying and focusing on higher risk cases, and prosecuting repeat offenders.

22. The Department accepts the conclusions of the Committee and agrees that in the past the Agency's efforts in enforcing compliance have not been effective. The Agency is now in the second year of its Operational Improvement Plan, which includes a much stronger focus on improving rates of compliance and collection.

23. The Agency is now making better use of all the methods of enforcement it has available and, as noted in paragraph 15 above, has collected and arranged an additional £63 million of maintenance in the year 2007 compared to the previous year. The number of cases in receipt of maintenance has also increased from 385,300 in March 2005 to 486,000 cases at the end of June 2007, benefiting around 660,000 children.

24. The Agency has also increased the number of its people involved in enforcement work and improved the tools and processes to allow them to undertake enforcement work more effectively. The introduction of risk profiling at the new application stage ensures that the most appropriate methods of collection and enforcement are employed on a case-by-case basis.

25. This has enabled the Agency to significantly increase the amount of enforcement action it has taken since the introduction of the Operational Improvement Plan. The total number of actions taken, including the use of liability orders, County Court Judgements, and bailiff action, has doubled over the last two years, from 17,025 in the 12 months to April 2005 to 35,200 in the 12 months to April 2007.

26. It should also be noted that not all enforcement action is carried out by the Agency's Enforcement Directorate. In addition to those cases, which have been referred to Debt Collection Agencies, the Agency has also increased the numbers of cases where maintenance is being enforced through a deduction from earnings order by 21,400 cases to 162,700 cases, in the two years to March 2007.

27. The Agency has also begun to challenge a culture of non-compliance on the part of some non-resident parents by launching a targeted regional Child Maintenance Enforcement Campaign, using a variety of media including; poster, print and local radio to raise awareness of the Agency’s increased focus on enforcement, highlighting the action it can and will take against non-resident parents who fail to pay maintenance.
PAC conclusion (v): There is a backlog of 239,000 uncleared cases and 36,000 new cases have become stuck in the system because of IT problems. While the number of uncleared applications has fallen, it can take as long as 38 weeks to deal with a case, during which time parents with care responsibilities will be receiving no money from non-resident parents. The Agency's Operational Improvement Plan is designed to tackle the backlog of applications, which has reduced from a third of a million in June 2006 to 239,000 in December 2006. The Agency should establish a range of indicators against which progress can be measured on a regular basis, such as the target to clear 80% of new cases within 12 weeks.

28. The Department accepts the conclusions of the Committee. However, much has changed since June 2006 not least in the Agency's management information systems and significant progress has been made in reducing the number of uncleared applications. By June of this year, the total number of outstanding cases had fallen to 178,000, a significant reduction from the third of a million cases noted by the Committee.

29. The Agency is continuing to clear more cases per month than it receives and the Operational Improvement Plan commits to eliminating this longstanding backlog of cases by March 2009. There will however, always be a number of cases where the non-resident parent will continue to evade the Agency’s efforts to assess their maintenance liability and therefore a smaller but significant number of cases will remain outstanding despite a considerable amount of work by the Agency.

30. The Agency has taken a number of steps to improve its case clearance performance since the launch of the Operational Improvement Plan, including the provision of improved support, guidance and management information to its operational staff and robust performance management to continuously improve case clearance performance.

31. The Secretary of State also set targets for the operational year, 2006-07, which provided key milestones towards meeting the Operational Improvement Plan's March 2009 commitments.

32. These targets included:
   - clearing 55 per cent of new applications within 12 weeks of receipt; and
   - clearing 80 per cent of new applications within 26 weeks by March 2007.

33. The Agency exceeded both of these targets; of the applications received in December 2006 61 per cent were cleared within 12 weeks, and 83 per cent were cleared within 26 weeks. This performance continues to improve, and the latest figures show, that of the cases received in March 2007, 72 per cent were cleared within 12 weeks.

34. The Operational Improvement Plan also established a number of key indicators to monitor the performance of its case clearances throughout the period of the plan so that by March 2008 the time taken to clear an application should be no more than 18 weeks in 80 per cent of cases and by March 2009 no more than 12 weeks in 80 per cent of cases.
35. The latest performance figures are encouraging; with 81 per cent of January 2007 new applications being cleared within 18 weeks, exceeding the March 2008 indicator. The Agency’s Quarterly Summary of Statistics clearly details the progress being made against the Agency’s objectives and its current performance across a range of services and activities.

**PAC conclusion (vi):** Parents with care responsibilities may be losing out on up to £520 in Child Maintenance Premium a year. As a result of a backlog of cases, a significant number of parents in receipt of benefits are not receiving up to an additional £10 a week towards the cost of bringing up their children. The Agency should identify cases where the parent with care would benefit most from receiving the premium and give priority to these cases in tackling the existing backlog.

36. The Department notes the conclusions of the Committee. As has been highlighted earlier in this response, the Agency has made significant progress since the Committee last looked at this area. The Agency has reduced both the number of uncleared new scheme applications for all clients as well as the time taken to assess new applications for child maintenance. In fact, the number of uncleared applications has been reduced by almost 37 per cent, the majority of applications cleared have been from parents in receipt of benefits, with the rate of reduction for this client group being over twice that of private applications.

37. The number of cases receiving the Child Maintenance Premium has therefore increased and the total amount now paid by the Agency is just under £50m per annum. In addition, as part of the reforms of the child maintenance system, by the end of 2008 all parents with care claiming benefit will benefit from the £10 per week benefit disregard where maintenance is being paid – by extending this to cases on the original child maintenance scheme.

**PAC conclusion (vii):** The IT system introduced as part of the reforms has never fully supported the Agency’s objective of processing maintenance applications accurately and quickly, and is unlikely to operate as intended until at least 2007–08. From the outset, the IT systems required to support the reforms carried a high level of risk because of their size, complexity and the timescale of the IT development. Three years after the new system was built, 500 defects still existed. The Agency needs not only to fix the IT problems, but also to rebuild staff confidence, which has been damaged by previous failed attempts to provide a workable system.

38. The Department notes the comments of the Committee. A great deal of work has been carried out to improve the stability of the new computer system and operational performance has improved to the point where contracted service levels are now consistently being met. Future IT releases are planned throughout 2007 and 2008 to resolve defects, improve the functionality and usability of the CS2 system and help to optimise performance of the service. The enhanced systems will establish a more stable IT platform on which the new Commission will be able to build.

39. The Agency has also developed a new training programme, which will better support its people to make the best use of the improving IT system. This programme will ensure that training can be delivered where and when it is required. The Agency is planning several major IT releases over the remainder of the Operational Improvement Plan and the appropriate training will be available to staff at all steps in the process.
PAC conclusion (viii): Having outsourced most of its IT capability to Electronic Data Systems (EDS), the Department did not maintain the capability to be an intelligent customer. It needs to strengthen its independent in-house IT capacity to challenge the validity of assurances given by IT suppliers and keep up to date with both technical and commercial developments in the IT industry by recruiting a cadre of high calibre IT professionals.

40. The Department notes the conclusions of the Committee. The Agency and the Department have strengthened their teams with experienced IT and commercial professionals recruited from the market. Governance has been improved to engage those staff in robust challenge of IT development and supplier performance. In addition the realignment of our contract with EDS established industry standard levels of service and provides greater leverage to secure it.

PAC conclusion (ix): During the reform period, a number of poor operational decisions went unchecked or unchallenged, not least going live with an IT system that had 14 critical defects. Until January 2004 the Agency lacked proper governance structures to support effective planning and assurance processes. The new Child Maintenance and Enforcement Commission, expected to be in place by 2008, needs a project team with expertise in delivering complex programmes, and subject to Office of Government Commerce Gateway Reviews.

41. The Department notes the conclusions of the Committee. The Agency reviewed the Child Support Reform Project at that time and concluded it could move to the next stage because of evidence that problems could and were being addressed. That decision was subsequently endorsed by an Office of Government Commerce Gateway review.

42. Since March 2003, the Department has introduced more robust governance procedures alongside rigorous review of investment. These changes and the significant increase in the numbers of Information Technology and commercial professionals recruited to the Agency and the wider Department are evidence of the lessons learned from the difficulties experienced during the original reforms.

43. The Department’s Redesign Programme Team, tasked with introducing the Child Maintenance and Enforcement Commission follows the same processes as the Department and is steered by a senior, cross-discipline team. The programme has undergone Corporate and Office of Government Commerce Gateway Reviews and will continue to have Office of Government Commerce input. The robustness of the governance and assurance process was commented on positively by the Office of Government Commerce in its initial review.

PAC conclusion (x): The IT system was procured under a private finance initiative (PFI) contract, but EDS as the contractor was unable to meet the contract terms. Delays to delivery and technical faults led to a lengthy commercial dispute. The Government has since decided that PFI should not be used for IT contracts. For their part, contractors who assume responsibility for sensitive public services should not lose sight of their wider obligation to the community in the single-minded pursuit of their commercial interests.
44. The Department notes the conclusions of the Committee and has already moved away from PFI contracts for its IT-enabled projects. EDS has strengthened the skills and capability of its staff engaged on Departmental business and on the CSA's programme, so as to provide the quality of service the Department demands and meet industry leading competency levels. Senior officials and executives from the Department and EDS now regularly review the relationship and monitor progress of key activities.

45. The principles and approach behind the re-shaping of the Department's arrangements with EDS have been shared with colleagues in other Government Departments as part of the Government's Supply Management Initiative. This is helping Departments to produce better value for the taxpayer and better services for the Government's customers by the way they work with their suppliers.

46. The Department accepts the Committee's conclusion about the level of public confidence in the Agency and has already commented on the improvements in customer service brought about by the Operational Improvement Plan. This improvement has also been reflected by a 13 per cent drop in the numbers of complaints in the first year of the Plan. That said it is in the nature of the sensitive work undertaken by the Agency will prompt a relatively high level of complaints. The Agency also anticipates that the renewed focus on enforcement action may result in a shift in the type of complaint being received.

47. In May 2007, as part of the Operational Improvement Plan, the Agency introduced a new internal complaints handling process. Its design takes into account feedback from the Independent Case Examiner and the Parliamentary and Health Service Ombudsman. The new complaint handling process aims to transform and streamline the current process and ensure that complaints are resolved at the earliest possible opportunity.

48. The new process will focus resource on resolution of the complaint to the client's satisfaction at the earliest possible stage with a named caseworker being responsible for both the corrective casework and the drafting of the response. The Agency anticipates that this new focused approach will mean a much higher proportion of complaints will be resolved first time. The MP Hotline will continue to deal with queries that require a faster response and where a formal letter or full case investigation is not required.

49. A new client standards charter was also published in April 2006. The charter, which is sent to new and potential applicants, outlines the minimum standards of service, which clients should expect from the Agency. In recent months, the Agency has also revised its new scheme leaflets to make them clearer and more informative, and have issued a specific leaflet on the complaints process. Each of the leaflets has now been accredited with the Plain English Campaign's Crystal Mark for clarity and
readability. The Agency is improving its automated letters with more improvements going live in late 2007. The Agency has also completed a major overhaul of its website, which now signposts clients to information more effectively.

50. The proposals in the Child Maintenance and Other Payments Bill will reform the whole child maintenance system to better meet the needs of parents and children who depend on it by allowing parents to choose the most effective type of maintenance arrangement for them.

51. Key to this will be the removal of the link between the statutory maintenance service and the benefits system, and the provision of a high quality information and support service. Where parents are not able to come to their own arrangements the Child Maintenance and Enforcement Commission will provide a robust statutory maintenance service with a faster, stronger and more streamlined process for assessing, collecting and enforcing maintenance.

PAC conclusion (xii): Parents have limited opportunities for face-to-face discussions with officials as the majority of the Agency’s communications are carried out over the telephone or in writing. A face-to-face service has been used successfully in the past, and it has also worked well in Australia. The service was scaled down on efficiency grounds but nonetheless needs to be advertised to those who need it most if its effectiveness is to be maximized.

52. The Department notes the conclusions of the Committee and would like to assure it that the Child Support Agency does offer a face-to-face service where necessary. Personal visits can be arranged when there is no other means to progress a client’s case or enquiry. Client service visiting officers are also available to conduct interviews to assist clients with disabilities or communication difficulties and to help progress cases where complex issues need to be resolved in person.

53. For the future, the new Information and Support Service will be a critical element of the current redesign programme, in particular in ensuring that increased child maintenance lifts more children out of poverty. The Department will be providing a national service from late 2008 onwards that will be available to all separated and separating parents. It will help parents to understand their choices for child maintenance and support them in establishing maintenance arrangements. Key aspects will be a national contact centre backed up with web-based support and a face-to-face service where appropriate. The service will provide high quality information products, including a guide for parents and a standard maintenance agreement form, and will signpost parents to relevant services on wider separation issues.

54. Staff in Jobcentre Plus and HM Revenue and Customs will pro-actively direct low-income families towards this information service to ensure that as many parents as possible are able to make an informed choice about what type of maintenance arrangement would be most effective for them. The Department recognises the importance of evaluating this service to ensure that it can be delivered in the most effective and supportive manner. A prototype to test the service is scheduled to start in early 2008. The Department expects the Commission to make final decisions on the shape of the service making use of the expertise of the private and third sectors in addition to learning from sister organisations in different countries where appropriate.
PAC conclusion (xiii): The department spent £91 million on external advice on the design and implementation of the Reforms between 2001-05, which the departmental financial management system could not break down by supplier. It has now implemented a new system, which can interrogate expenditure by supplier. In addition, the Department needs to follow the recommendations outlined in the Committee’s report on the Use of Consultants. In particular its contracts with consultants should include well-defined outputs and the intended benefits of the work.

55. The Department accepts the conclusions of the Committee. In February 2006, a new Department wide accounting system was introduced which has further improved procurement and financial control and now provides consistent reporting facilities that will, over time, improve management information and accountability for consultancy and interim expenditure.

56. The Department now has a new, and more competitive, framework for obtaining consultancy with improved contract and supplier management systems. It has brought together all of its commercial work into a specialist procurement team that acts as a single gateway to monitor all requests for new consultancy, ensure professional support for its procurement, and to track and report on related expenditure. The Department now ensures that regular reviews to assess performance are undertaken and that poor performers are not unintentionally re-employed onto other contracts. In addition all requests for the use of consultants are validated by either the Commercial Director or the Permanent Secretary.
### Annex 37.1 – Client Service: Five-Year Performance Trends

**NOTE:** Information sourced from Child Support Agency Quarterly Summary of Statistics

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<tr>
<td><strong>Application processing</strong></td>
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<tr>
<td>Percentage of new scheme applications cleared within:</td>
<td></td>
<td></td>
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<tr>
<td>- 12 weeks (Dec intake)</td>
<td>30%</td>
<td>53%</td>
<td>61%</td>
<td>65%</td>
<td>80%</td>
<td>72% (Mar 07)</td>
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<tr>
<td>- 18 weeks (Oct intake)</td>
<td>36%</td>
<td>61%</td>
<td>63%</td>
<td>80%</td>
<td>85%</td>
<td>81% (Jan 07)</td>
</tr>
<tr>
<td>- 26 weeks (Sep intake)</td>
<td>46%</td>
<td>67%</td>
<td>78%</td>
<td>85%</td>
<td>90%</td>
<td>83% (Dec 06)</td>
</tr>
<tr>
<td><strong>Uncleared new scheme applications</strong></td>
<td>225,900</td>
<td>221,200</td>
<td>155,900</td>
<td>140,000</td>
<td>90,000</td>
<td>138,000</td>
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<tr>
<td><strong>Telephony</strong></td>
<td></td>
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<tr>
<td>Average answer time from queue over the year</td>
<td>1 min 40 seconds</td>
<td>59 seconds</td>
<td>26 seconds</td>
<td>Less than 30 seconds</td>
<td>Less than 30 seconds</td>
<td>21 seconds</td>
</tr>
<tr>
<td>Percentage of lost calls in year</td>
<td>16%</td>
<td>9%</td>
<td>3%</td>
<td>Less than 5%</td>
<td>Less than 5%</td>
<td>2%</td>
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### Annex 37.2 – Maintenance Outcomes – Five Year Performance Trends

**NOTE:** Information sourced from Child Support Agency Quarterly Summary of Statistics

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<tr>
<td><strong>Number of children benefiting</strong></td>
<td>536,800</td>
<td>596,800</td>
<td>641,600</td>
<td>720,000</td>
<td>790,000</td>
<td>660,000</td>
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<tr>
<td><strong>Cases in receipt of maintenance</strong></td>
<td>385,300</td>
<td>433,200</td>
<td>470,800</td>
<td>520,000</td>
<td>579,000</td>
<td>486,000</td>
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<tr>
<td><strong>Maintenance Outcomes</strong></td>
<td></td>
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<tr>
<td>% of cases with a current liability receiving maintenance</td>
<td>59%</td>
<td>61%</td>
<td>62%</td>
<td>66%</td>
<td>69%</td>
<td>62%</td>
</tr>
<tr>
<td><strong>Maintenance collected</strong></td>
<td>£793m</td>
<td>£830m</td>
<td>£891m</td>
<td>£970m</td>
<td>£1080m</td>
<td>£906m</td>
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Thirty Eighth Report

Department for Children, Schools and Families

Sure Start Children's Centres

1. Sure Start Children's Centres are multi-purpose centres that bring together childcare, early education, health and family support services. They are designed for use by families, parents and carers of children under five and may be based in schools, health centres, community centres or in their own building. Public, private and voluntary organisations work together in children's centres to provide a wide range of services from childcare to health visiting, employment advice, parenting advice and toy libraries, for all young families, but with a particular emphasis on improving the life chances of the most disadvantaged children.

2. The then Department for Education and Skills (DfES) spent £2.1 billion on Sure Start local programmes and children's centres and related programmes up to 2006. It funded some centres directly until March 2006, but from April 2006 local authorities took over planning and managing the children's centre programme in their areas, and the DfES allocated £1.8 billion to local authorities for children's centres from 2006 to 2008. There were around 1,000 centres in September 2006, and local authorities are responsible for raising this to 3,500 centres by 2010. In October 2006 the DfES contracted with the Together for Children consortium to provide support and challenge for local authorities as they set up their centres, and by September 2007 there were over 1400 centres up and running.

3. On 28 June 2007 as a result of the machinery of government changes, responsibility for the programme moved from the Department for Education and Skills (DfES) to the Department for Children, Schools and Families (DCSF) – the Department.

PAC conclusion (i): Although most Phase 1 centres were based on existing Sure Start or other programmes, only three-quarters of the target number in the sample examined by the National Audit Office were in operation by March 2006. The Phase 2 target is especially challenging because most centres are starting from scratch, and local authorities have continuing responsibility for the centres established under Phase 1. The Department should ask each local authority involved in Phase 1, 2 or both to assess and report on its capability to meet its target for establishing new centres, while also improving their management and delivery of services in existing centres. Where a local authority has gaps in capability that may jeopardise its management of the children's centre programme, the Department should consider mitigating actions, such as re-profiling the area's programme to give the authority time to develop capability and consolidate existing centres before new centres are created.

4. The Department accepts that the targets set for the delivery of the first two phases of the national rollout of children's centres have been challenging and that some local authorities are taking longer to build up their capability to deliver. This rate of progress is needed however so families are able to benefit from integrated and family-focused services at the earliest opportunity. All 136 local authorities succeeded in hitting the first target, to put in place children's centres in very disadvantaged areas.
to reach 650,000 children under five, and most local authorities are now well on the way to delivering on the second, to establish 2,500 children’s centres reaching nearly two million children by 2008.

5. The Department shares the Committee’s concerns about the capacity within local authorities to meet the high demands being made on them in the current phase and has taken action to address this. It appointed a consortium, Together for Children, to support and advise authorities and to help monitor their progress. By December 2006 the consortium, jointly with each authority, had assessed their capability to deliver against the targets, established levels of risk, and agreed a package of support to improve their capacity and capability to deliver their targets. This support is tailored to meet the individual authority’s needs and challenges and is regularly reviewed.

6. As a result of these reviews, the Department has agreed that some local authorities can delay the completion of some of their centres beyond March 2008. This will allow these centres to be completed on a more realistic timescale, particularly those being developed on school sites where building work will take place in the 2008 summer holidays, or those being developed as part of a wider project, which has a later timetable. However, we expect nearly all of these centres to be designated by September 2008.

7. In addition to their important role in actively supporting local authorities to develop new centres, Together for Children is also monitoring progress and providing practical advice to local authorities as they build up the services being delivered through their earliest, phase one, centres.

PAC conclusion (ii): The rapid increase in children’s centres creates a risk that the focus on improving services for disadvantaged families will be lost. While the earliest centres were based in deprived areas, the guarantee of a centre for every community means that resources will have to be spread more thinly. Local authorities should distribute resources so that disadvantaged families continue to be a priority.

8. The Department advised local authorities at the start of August of their children’s centres revenue allocations for 2008-2011. The Government is committed to delivering a children’s centre for every community and has increased funding by £459 million to support this across the three year Comprehensive Spending Review period. The Department agrees that the most disadvantaged children must continue to be the priority for children’s centres and that the greatest level of resource must be directed to services that meet their needs. Sure Start Children’s Centres are a key delivery mechanism for the Government’s Every Child Matters programme, which is improving outcomes for all children and narrowing the gap between the outcomes for the poorest children and the rest.

9. In 2006 the DfES issued Sure Start Children’s Centres Planning and Performance Management Guidance and Sure Start Children’s Centres Practice Guidance18 for local authorities and children’s centres. The former document made it clear that the greatest resource must continue to support services for the most disadvantaged families and where these families are few in number, amongst a generally more affluent population, authorities must ensure they are able to access the same intensive levels of support offered to families living in the most disadvantaged areas.

18 See publications on www.surestart.gov.uk
10. The latter document offers practical advice, based on research evidence and experience, on how to work with families at greatest risk of social exclusion and emphasises the critical importance of engaging effectively with these families. This guidance needs to be reinforced by committed funding and the Government has increased allocations to local authorities from 2008 to allow them to fund additional outreach workers for the most disadvantaged communities.

11. Further guidance for local authorities on planning and delivering their phase three centres by 2010 will be issued in the autumn. This will contain clear advice on the level of resource needed to provide services in a ‘high focus, high need’ centre serving a very disadvantaged community as distinct from the level of resource likely to be needed in a ‘universal’ centre. Illustrative staffing models will demonstrate clearly the differing approaches needed in communities with different levels of need. Running costs for centres in more affluent areas will be lower, reflecting the less complex need and lower demand, and will not represent a threat to the adequate resourcing of centres serving the most disadvantaged communities.

PAC conclusion (iii): Only a third of the 134 staff working in children’s centres whom the National Audit Office interviewed felt well qualified to perform their roles. There is a risk that the number of people being trained under the Department’s early years professional scheme will not meet the demand for planned new centres over the next 2 to 3 years, especially given the requirements of the range of other organisations in the early years sector in which newly trained staff can also choose to work. The Department should ask local authorities to evidence their commitments to the development of existing staff and, through the Learning and Skills Council, it should assess the requirement for new training places forpotential childcare workers.

12. The Department agrees that the quality and skills of the children’s centres workforce is key to improved outcomes for young children. The workforce within Sure Start Children’s Centres comes from a wide range of professional backgrounds and ensuring they are able to work effectively as multi-agency teams is a major challenge for all concerned. As part of the rollout of Every Child Matters, the Department is developing training on integrated working to help the children’s workforce as a whole adjust to this new method of delivery. This will equip children’s centres’ staff to carry out their roles with more confidence.

13. In addition the Sure Start Children’s Centres Practice Guidance\textsuperscript{19} highlights the importance of continuous staff development and support both through the centre’s management and their professional management line. Leaders must be skilled in establishing a common vision for all staff that crosses professional boundaries and focuses on the families’ and children’s needs. The Department, through the National College for School Leadership, encourages and funds centre leaders to ensure they have these skills by undertaking the National Professional Qualification for Integrated Centre Leadership. Including this year’s intake, 1200 participants have taken this up. The Department is also supporting the establishment of the National Academy for Parenting Practitioners, which will provide training for centre staff delivering evidence based parenting programmes.

\textsuperscript{19} See publications on www.surestart.gov.uk
14. From our annual survey of early years and childcare providers, including children’s centres, we know that qualification levels amongst staff are rising and there are fewer recruitment difficulties for providers. For example, the recently published 2006 Survey of Early Years and Childcare Providers shows that over 80 per cent of staff in children’s centres holds at least a level 3 qualification. We are committed to securing graduate professional leadership of early years provision. For children’s centres, this commitment is being met through our requirement of designation that at least a half-time qualified teacher is involved in planning and delivering the early years provision. Our expectation is that each centre should employ at least a full-time qualified teacher within 18 months of designation.

15. The Department agrees with the need for planning to meet the wider training needs of the children’s workforce, including workers in children’s centres and childcare settings. As part of their Children and Young People’s Plans, local authorities are expected to produce local workforce strategies setting out how they will develop their workforce to meet the needs of children and young people in their area.

16. The Children’s Workforce Development Council, as the sector skills body for the children’s workforce, including early years workers, will publish its Sector Skills Agreement (SSA) by December 2007. This will set out the skills needed by the workforce and how these skills will be developed. SSAs are agreements between employers, their Sector Skills Council, partner organisations and the Government.

PAC conclusion (iv): Disadvantaged families often rely on services provided by a range of different providers, and these can be more accessible and effective if available through a single children’s centre. Getting people from different organisations to collaborate effectively is a major challenge for centre managers and they need practical advice. Good collaborative practices include using early contacts by health staff to help identify families who need most support, and outreach to break down barriers for hard to reach groups. The Department should facilitate dissemination of such practices, for example through a web-based tool for sharing experiences.

17. The Department agrees that integrated delivery of a range of services for families increases accessibility for parents and will be more effective in improving child outcomes. The Department’s Every Child Matters programme envisaged a step change in early years service provision with health, education and social care closely integrated in multi-disciplinary teams. Sure Start Children’s Centres are built on an approach of sharing learning from working effectively in multi-agency teams and from knowing what works for professionals engaging with families who have traditionally shunned statutory services.

18. In 2005 the DfES, with input from the Department of Health, the Department of Work and Pensions and a range of voluntary sector organisations, compiled the Sure Start Children’s Centres Practice Guidance incorporating evidence based practice, evaluation and research findings and real case studies from existing centres to help other staff grappling with new ways of working and reaching out to some of the most disadvantaged, and socially or physically isolated families. The guidance was updated with new material and additional sections, for example working with homeless families and families of prisoners, in November 2006. In August the Department, in conjunction with the Department of Health, issued ‘Linking up’ a publication, which covers delivering health services through Sure Start Children’s Centres.

20 See publications on www.surestart.gov.uk
19. In October 2006 the Together for Children consortium launched their website, which contains case studies supplied by centres themselves. This has proved to be a very well used means of sharing information between centres.

PAC conclusion (v): Most children’s centres are not doing enough to reach the most disadvantaged families. Only one third of the centres visited by the National Audit Office had proactively sought out hard to reach families. Parents felt centres were less good at meeting the needs of groups such as fathers and some minority ethnic communities, while some did not use centres because of preconceptions about who the types of people they were intended to serve. Centres should adopt the kinds of strategies outlined in the National Audit Office’s report to identify disadvantaged families and communities, develop effective outreach with community and voluntary organisations, and provide a welcoming environment in the centre and services to support their children’s development that users will value and want to use. Centres should seek help from national and local voluntary groups that have expertise in reaching disadvantaged families and gaining their trust.

20. The NAO report acknowledged that, although it is still early days, centres are raising the quality of services and making them more relevant to the needs of lone parents, teenage parents and larger ethnic minority populations. Nonetheless, the Department accepts that more needs to be done through children’s centres to engage with and meet the needs of the most disadvantaged families. Effective outreach services are key to establishing the vital relationships of trust with those parents and carers who do not, of their own volition, come forward to access much needed services for their children.

21. Guidance issued by the DfES, in November 2006, provides a performance management framework for use by local authorities and centres with key performance indicators, including one relating to engaging with family groups at greatest risk of social exclusion, and a self-assessment form for centres to tailor to reflect their local circumstances. Together for Children also released a toolkit in December 2006 via their website to help local authorities and their children’s centres establish better information about the vulnerable groups in their areas and plan and monitor progress in working with them.

22. The Government has allocated additional funding from 2008-09 to support increased resources for outreach to the most disadvantaged parents. This should enable local authorities to fund two outreach workers in every children’s centre that provides services predominantly to the most disadvantaged families. Current guidance encourages local authorities and centres to make the best use of existing voluntary and community organisations, many of which are already rooted in communities, to deliver services to families. A survey in 2006 showed that 82 per cent of centres had contracts for services with organisations in the voluntary sector.

21 www.childrens-centres.org
23. The Department agrees that there is a need for more training and support for Centre Managers in financial management, business management and managing diverse relationships. The National Professional Qualification in Integrated Centre Leadership, which we encourage all centre managers to undertake, is designed to equip managers with the leadership skills needed to operate effectively in a multi-agency context. Including this year’s intake, 1200 managers have now been on the course.

24. The Department is currently working with the National College for School Leadership to review the course content and from September 2008 the reshaped programme will include a stronger focus on financial management. The Department will also produce training material for staff in centres to underpin good financial management standards, and will encourage local authorities to ensure staff receives this training. Local authorities’ Business Support Officers are best placed to support managers on business aspects – for example, ensuring the integrated early learning and day care provision is put on a sound business footing that will make it sustainable. Local authorities are encouraging centres to take a collaborative approach to service provision, sharing resources across boundaries, where this achieves better value for money.

25. The Department agrees with the Committee that centres should be supported to produce timely financial plans well before the start of each financial year and has taken action to enable this. The Department notified local authorities in August of their children’s centres revenue allocations for each of the three financial years from 2008-2011. This early notification together with the business planning toolkit launched by Together for Children on their website in July should support centres in taking a longer view over the next three financial years.
PAC conclusion (vii): Neither children's centres nor local authorities have good information on what individual children's centre services should cost, leading to a risk that funds are not being deployed cost-effectively or to areas of greatest need. Neither the Department's evaluation of Sure Start nor the local monitoring done to date gives enough evidence on whether the £2.1 billion spent from April 1997 to March 2006 has been cost-effective. Indeed, the Accounting Officer could not provide this expenditure figure at the Committee's hearing. We expect Accounting Officer's to have such basic information readily available when they appear before us. As more funding becomes available for new children's centres, the scope to reallocate funds will increase, but the cost data to underpin effective re-allocation does not yet exist. Local authorities should assess the unit costs of the main children's centre services. They should develop indicative benchmarks, along the lines of those illustrated in the National Audit Office's report, to inform the budget setting for their centres and to provide a baseline for identifying and investigating services where costs are relatively high.

26. The Department agrees that local authorities urgently need to understand what children’s centres services are costing them, and the benefits they are gaining from them, so they can ensure, as more and more services come on stream, that they are getting value for money. Local authorities are accountable to the Department for the success of their children’s centres and for ensuring the General Sure Start Grant (from 2008 the Sure Start, Early Years and Childcare Grant) is used effectively to deliver improved outcomes for children. Some local authorities, for example Ealing London Borough Council, are already using a shared web-based system to benchmark costs in their centres.

27. The Department is preparing guidance for local authorities to support the planning and delivery of the third phase of the national rollout. This guidance, which will be issued in the autumn, will contain clear advice on the levels of resource that should be committed to ‘universal’ centres as distinct from the ‘high focus, high need’ centres offering the most intensive services to the most disadvantaged communities as well as illustrative standards of financial management for centres. In addition the Department will be trialling a benchmarking tool, similar to that currently available for schools, which will enable centres to compare their expenditure with peers to help them assess value for money in services.

PAC conclusion (viii): Lack of clarity over the cost-effectiveness of the children’s centre programme could increase further in future unless expenditure, outputs and outcomes are properly monitored. Under Local Area Agreements, local authorities will have more freedom to move resources between services. This flexibility could lead to better value for money, but only if the agreement specifies clearly what is to be achieved and it is possible to demonstrate achievement. The Department and local authorities should develop a form of monitoring of Local Area Agreements that makes clear the services to be delivered, the outcomes to be achieved and how cost-effectiveness will be assessed, drawing on the model for measurement in the National Audit Office report as appropriate. The Department could also use longitudinal data from the National Evaluation of Sure Start to assess whether the programme has been benefiting some groups more than others.
28. *Strong and Prosperous Communities: the Local Government White Paper*, Cm 693922, published on 26 October 2006 outlined a new performance framework for local government, with new, statutory, Local Area Agreements (LAAs) at the heart of the new framework. Performance reporting in the new framework will be through a new National Indicator Set of around 200 outcomes focused indicators, which will be announced as part of the Comprehensive Spending Review 2007. From the National Indicator Set each local area will agree up to 35 improvement targets – plus existing statutory targets, including those relating to early years – with central Government. These will be the only targets that central Government agrees with local authorities and their partners.

29. The new Comprehensive Area Assessment (CAA) inspection regime will focus on four key elements including performance against the national indicator set, a scored Use of Resources judgment for every local public sector body, a scored Direction of Travel judgment for every local authority, and an area risk assessment, carried out by all public service inspectorates, that will consider the prospects for delivery of outcomes in each local area. From 2008-09 performance management of the children’s centres programme will sit within this context.

30. The Local Government White Paper also outlined a new funding regime for local government. Funding will be paid to local authorities on an increasingly un-hypothecated basis, either through Formula Grant or the new Area Based Grant (successor to the LAA grant). There will be fewer ring-fenced grants within this framework, although some will exist, notably the new Sure Start, Early Years and Childcare Grant (the successor to the General Sure Start Grant).

31. The increased focus on outcomes focused performance management through the National Indicator Set, coupled with inspection activity through CAA and further guidance on children’s centres financial management and continued reporting on spend will enable the Department to effectively assess the cost effectiveness of the programme within the new performance framework. In addition to this the National Evaluation of Sure Start will provide the Department with longitudinal evidence of the impact of the early Sure Start Local Programmes on their communities.

PAC conclusion (ix): Uncertainty about future funding has increased the difficulty of managing some centres. Centres need to know their funding allocations in good time to plan services, but when the National Audit Office visited them in spring 2006, a third did not know their budgets for the forthcoming year. The Department's guidance on the next phase of children's centre roll out should encourage local authorities and centres to have early discussions about budgets, to allow allocations to be planned well in advance of the new financial year.

32. The Department agrees with the Committee that centres should have confirmation of the resources available to them well before the start of each financial year, and wherever possible should have indicative allocations for future years as well. The Department notified local authorities in August of their children’s centres revenue allocations for each of the three financial years 2008-2011. Further guidance on planning and delivering centres in the third phase (2008-2010) will be issued in the autumn together with a covering letter asking Chief Executives to ensure early talks are conducted with centres to encourage better forward planning.

22 See publications at www.communities.gov.uk
33. The Department of Health agrees that Primary Care Trusts (PCTs) and local authorities need to have clear agreements about which health services will be delivered through children’s centres. The Sure Start Children’s Centres Planning and Performance Management Guidance and the Sure Start Children’s Centres Practice Guidance stress the importance of early discussion between local authorities and PCTs on the planning and delivery of children’s centres. The development of children’s trusts and Children and Young People’s Plans help support this joint commissioning.

34. Increasingly we would expect to see the Child Health Promotion Programme, the core universal service that promotes the health and well being of children, delivered from children’s centres. The Department of Health has highlighted the importance of providing health services in community locations, such as children’s centres, where they will be more accessible to the local population. A recent information booklet has been issued to all Primary Care Trusts (PCTs) setting out the benefits of delivering health services through children’s centres. The Together for Children consortium has been working closely with Strategic Health Authorities, PCTs and local authorities to encourage joint planning and working on children’s centres.

35. However, there will be some situations where it will be easier to reach out to excluded families by locating health services in other community locations. The Sure Start Children’s Centres Planning and Performance Management Guidance and the Sure Start Children’s Centres Practice Guidance have emphasised that where co-location is not possible, it is important that close links are maintained between children centre staff and health professionals.

PAC conclusion (x): Partnerships with Primary Care Trusts have been slow to develop. Involving health closely in children’s centres has a double benefit by providing a service most families need, and bringing more families into a centre, but pressures at Primary Care Trusts have contributed to difficulties in achieving more commitment from the health sector. All Trusts should establish agreements with local authorities to provide child and family health services through children’s centres.

PAC conclusion (xi): Families with children with disabilities need better information on what services they can expect to be provided in children’s centres and help with referral to services that the centre cannot provide itself. For some disabled children, children’s centres can play an important part, for example by providing early help for children with speech and language difficulties, which can potentially reduce the need for more expensive support as a child gets older. Centres should communicate clearly which of these services they can provide directly. Children with severe disabilities will require specialist support beyond what can be delivered in centres, and centres should help families to review the available options and access the most appropriate services.

23 See publications at www.surestart.gov.uk
24 See publications at www.surestart.gov.uk
36. The NAO report acknowledged that as a result of the children's centres approach, services for families with disabled children were becoming more relevant and family-focused. The Department agrees with the Committee that children's centres have an important role to fulfil in supporting families with children or parents with disabilities. The role is a dual one: staff delivering early years services are best placed to undertake early preventative work with children and families which can help to avoid problems later. For example, early detection of language delay and appropriate action may in some cases avoid the need for specialist therapy later on.

37. Centres should also direct parents through to the more specialist services when they are needed and help to smooth the process for the parent and child by acting as advocate or simply in a supporting role based on their close acquaintance with the family. Current children's centres guidance issued by the Department for Education and Skills emphasises the need for centres to raise awareness of the services they have to offer by better advertising (local radio, newsletters and leaflets) so that all households with young children in the area know what services are on offer and that the centre is for them.

38. Earlier this year, the Department for Education and Skills announced a partnership programme to roll-out 'Early Talk' through 200 Sure Start Children's Centres. The programme will train children's centre workers alongside a speech and language therapist to provide good language models for children, identify problems early on, and support parents in creating a more communication friendly environment at home. The programme is being funded by BT, with the Department contributing £40,000 for the evaluation. The rollout will start in October, with small clusters of children's centres across ten local authorities.

39. 'Early Support' is the Government's recommended way of delivering integrated multi-agency services to young disabled children and their families, providing an approach for delivery across early education, health and care that is crucially family-centred. It began as a pilot programme in 2002, led by the voluntary sector with a specific focus on working with parents in the design and delivery of services. It has received very positive feedback from parents, practitioners and managers, and the Aiming high for disabled children: better support for families report recommended that the approach be mainstreamed from 2008-09.

40. 'Early Support' provides training for staff in early years settings and local service planners and commissioners, resources for parents to help them work with professionals, information materials on disabilities for practitioners and parents, and a tool to help local authorities and their partners develop more effective multi-agency services. Sure Start Children's Centres are uniquely positioned to act as hubs of integrated service delivery in line with the Early Support principles, and many already act in that way. The Early Support team, based in RNID, supported by a network of consultants, are working to ensure that as many centres as possible adopt the Early Support approach as part of the mainstreaming process.

41. Another key recommendation of the report Aiming high for disabled children: better support for families is the establishment of a 'core offer' which sets standards for how disabled children and their families should access and influence local services. We expect local authorities and their partners to set out to parents in a “Parents' Charter” the minimum level of support that parents can expect from children’s services that will make up the local core offer and to ensure it is published and made accessible to the local community. The core offer will encompass the following elements: better

25 See www.hm-treasury.gov.uk
information, increased transparency, improved participation, common assessment and ensuring feedback. It will also underpin and support standards such as the National Service Framework Standard 8 for disabled children.  

42. In addition, the Secretaries of State for Children, Schools and Families and Health have asked John Bercow MP to lead a review of services for children with speech, language and communication difficulties. This will consider the range and composition of universal and specialist services to best identify and meet the diversity of needs and secure value for money; planning and performance management arrangements and effective co-operation between government departments and responsible local agents to promote early intervention and improve services; and examples of good practice in commissioning and delivering services, responsive to the needs of children, young people and families. In providing an interim report in March and a final report by summer 2008, the review will consult widely with key stakeholders including children and young people, their parents, health and education services, voluntary organisations and the workforce.
30th Ninth Report
Department for Culture, Media and Sport

Preparations for the London 2012 Olympic and Paralympic Games – Risk assessment and management

1. On 6 July 2005, the International Olympic Committee (IOC) chose London as the host city for the 2012 Olympic and Paralympic Games. The Olympics will begin on 27 July 2012, with the Paralympics following from 29 August 2012. The organisations involved have a fixed deadline. The IOC has reported, following its inspection in June 2007, that good progress has been made since London was chosen to host the Games and the work is on track, operationally and financially. This includes the critical project to place underground the power lines crossing the Olympic Park site. The Olympic Delivery Authority (ODA) has also made good progress in its procurement activity, including appointing a Delivery Partner to support managing the delivery of the Olympic venues and infrastructure.

2. The ODA will provide the facilities, and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) will stage the Games. They are overseen by the Olympic Board and by the Government Olympic Executive (GOE) – a new team within the Department for Culture, Media and Sport (The Department). GOE reports to the Minister for the Olympics.

3. Following the Committee's hearing, a number of significant developments have taken place. On 15 March 2007, the Government outlined a revised funding package of £9.325 billion, including an allowance of £2.7 billion for programme contingency. The bulk of the additional funding will be provided by Government, but £675 million will need to be met from additional lottery funds. The Government will be seeking an affirmative resolution in both Houses to transfer funds from the National Lottery Distribution Fund. On 27 June 2007, the Government published a revised Memorandum of Understanding between the Government and the Mayor of London setting out the new funding and the arrangements for sharing the profits from the disposal of land after the Games, with a view to refunding to the Lottery up to £675 million.

4. Various measures have been introduced to strengthen oversight and assurance. These include the appointment of a dedicated Minister for the Olympics reporting directly to the Prime Minister, and the appointment of John Armitt as the new Chair of the ODA, bringing to the organisation his formidable experience in engineering and construction. A Ministerial Funders Group has been established to control and oversee the use of the programme contingency. The Department has appointed an expert, with international experience of delivering major construction projects, to lead the GOE into the next phase of work. The functions previously carried out by the Olympic Programme Support Unit (OPSU), have been integrated into the GOE.
PAC conclusion (i): The test of whether the plethora of bodies involved are working effectively will be whether individual projects and the programme as a whole progress on time. The Department is responsible for providing cross-government coordination, and should develop an agreed plan of what needs to be decided, when and by whom. The Department should periodically seek the views of the Olympic Delivery Authority and LOCOG, the lead organisations delivering the Games, on whether government is taking the decisions required at a pace which will allow them to maintain the necessary progress.

5. In addition to its continuous and ongoing relationship with stakeholders the Department is taking a number of steps to improve the effectiveness of cross-government co-ordination of the Olympic Games. The Department is working with the ODA, in consultation with other Government Departments, the Mayor, and other funding bodies, to develop further an agreed comprehensive programme baseline document. This sets out clearly and in detail the project plan, timing, costs and risks associated with each ODA construction project, identifying what needs to be decided, when and by whom. The Department is also working with other key stakeholders through the Olympic Board to review and approve LOCOG’s Games Foundation Plan, a global strategic plan, which is formally required by the IOC and which sets out the strategy for preparing for and staging the Games.

6. The Department facilitates rapid project approvals by the Olympic Projects Review Group (OPRG), on which the HM Treasury, other Government Departments, and the Mayor are all represented. The Department is currently integrating into the GOE, the Olympic Board Secretariat and Programme Oversight functions of the Olympic Programme Support Unit. This will help to simplify performance management arrangements and risk management and to improve efficiency. The Department has also instituted monthly meetings between the DCMS Permanent Secretary, the Director General of GOE and the ODA Chief Executives and LOCOG, which provide an opportunity to discuss progress and remove any blockages to decision making.

7. The Department is introducing integrated control, with other Government Departments, of access to contingency funds, and working with the Prime Minister’s Delivery Unit (PMDU) to develop a clearer, more detailed plan for the delivery of the soft legacy. This will be articulated in a Legacy Action Plan, to be published at the end of the year, that will set out exactly how the Department will fulfil our five legacy promises – who will do what, by when, and how we will monitor and account for our activity.

PAC conclusion (ii): Continuity of key people on major projects is key to success. The Department, the Olympic Delivery Authority and LOCOG should identify which positions are key to the successful delivery of the Games, specify the skills requirements for those positions, and develop strategies for retaining individuals, knowledge and skills for the duration of the Olympic project.

8. The Department agrees that continuity of key personnel is desirable, but believes that this needs to be balanced with the need to ensure that as the project progresses from one stage to another and the nature of the task changes the staff numbers, skills and structures are appropriate to the changing demands. The Government and the delivery bodies (ie ODA and LOCOG) are keeping staffing needs and structures under review so that changes can be made where and when they are necessary.
9. In July 2007, the ODA, supported by Ernst and Young, concluded a strategic review of its organisation design. This review was sponsored by the ODA’s Chief Executive, who chairs a steering group of directors to oversee the key decisions on organisational design. The second phase of this project, which is focused on detailed organisation design and organisational fit with the ODA’s Delivery Partner CLM, is underway, and is due to conclude in December 2007. ODA has also completed a review of succession planning at director and function head level with a view to ensuring that any changes required are dealt with smoothly.

10. As the project moves fully into the construction phase, a civil engineer with extensive construction and commercial expertise has been appointed to head the GOE. The civil engineer is supported by an experienced team, with expertise in construction procurement, project assurance and delivery. In addition, GOE is taking steps to strengthen its intelligent client function, focused on strategic oversight and assurance of the Olympic Programme.

11. LOCOG are factoring critical staff positions into their recruitment and retention policy. The overall strategy is described in the Games Foundation Plan, and the current policy is set out in detail in LOCOG’s Annual Business plan for 2007-08.

PAC conclusion (iii): Any slippage in the delivery programme would bring the risk of having to pay more, or reduce quality, to be ready on time. The immovable deadline could weaken the delivery organisations’ negotiating positions on contracts. Any delays could mean that additional resources have to be brought in to get projects back on schedule, and result in the specifications having to be changed to allow projects to be completed on time or to contain costs. The Olympic Delivery Authority will need to establish incentive arrangements with their contractors, which specifically address the enhanced risk of cost overruns and quality shortfalls.

12. The Department agrees with the Committee’s conclusion. An incentive structure is central to the procurement strategy that has been developed by the ODA and their Delivery Partner. The basis of the contractual arrangements is the NEC3 form, which is endorsed by the Office of Government Commerce (OGC) for public sector construction procurement and which provides the appropriate framework for incentives based on cost, time and quality.

13. The ODA’s incentive structure means that on cost, a contractor will bear a share of any overspends, but also share under spends; on timing, a contractor will face delay damages, but benefit from completion bonuses; and on quality, improvements will be allowable costs during the work but any adjustments to quality needed after completion will be borne by the contractor.

14. At the end of June 2007 the ODA achieved its first major project milestone – completion of the main power line tunnels – on time and to budget and at the end of July the London Development Agency (LDA) handed over the Olympic Park site to the ODA, on schedule.

15. From the outset of the programme, rapid and effective decision-making has been paramount. Whilst the Department is satisfied that the existing machinery of decision-making has not led to delays or confusion, we are ever mindful of the immovable time limit and the need to focus on strategic as well as project specific risks. To address this, various means have been established to ensure careful monitoring of the critical path milestones.
16. This is led through the clear oversight and decision making of the Olympic Board, chaired jointly by the Minister for the Olympics and by the Mayor of London. It comprises membership from the Chair of LOCOG and the Chair of the British Olympic Association (BOA) and is attended by the ODA. An Olympic Projects Review Group, chaired by DCMS and with representation from other Government Departments, the GLA, LOCOG and HM Treasury, can give rapid recommendations to the Minister and the Mayor as to whether projects with a value in excess of £20 million represent value for money.

17. The Department holds regular progress reviews with the ODA and with LOCOG, to ensure that each is identifying the strategic risks and maintaining appropriate mechanisms for their management. Regular OGC Gateway Reviews of all ODA projects provide an independent snapshot view of whether projects are running on time. In addition the Department has established a “funders’ forum” to ensure that any short-term cash flow issues are dealt with quickly and efficiently between departments at official level.

PAC conclusion (iv): The costs of the Games were seriously underestimated at the time of the bid and the private sector funding seriously overestimated. Subsequent to our hearing, the Secretary of State announced a budget for the Games, which totaled over £9 billion, an increase of some £6 billion on the position at the time of the bid. At the time of the bid:

1) whole categories of cost were omitted, including tax, contingency margin and security;

2) the Department expected to raise £738 million of private sector funding, which would have covered a quarter of Olympic costs, but now there is little prospect of significant private sector funding being achieved.

The Committee intend to return to the budget for the Games on the basis of a further report by the Comptroller and Auditor General.

18. The Government does not accept that the cost increases arise from a deliberate omission of categories of cost. Inevitably, there were some costs that were uncertain or could not be known at the time of the bid, for example, the cost of land remediation, which could be established only after detailed site surveys; the cost of underpinning the private funding of the Olympic Village; the mode and cost of the delivery operation; the tax status of the delivery body; the impact of changed security requirements; and the impact of subsequent changes in construction inflation.

19. The Secretary of State for Culture, Media and Sport had highlighted in May 2003 that there would be a need for a full review to take stock of the cost estimates were the bid successful, and that is why, after the bid was won, she initiated a detailed and thorough review of costs.

20. Contingency margin was included at the time of the bid, ranging from 10 per cent to 23.5 per cent depending on the project, and was justified on the basis of the costs set out in the PWC report and the further work undertaken at the time to refine the bid requirements. The additional requirement for programme contingency (an extra £2.747 billion, included within the £9.325 billion) results from the in-depth review of costs and risks that was possible only with the establishment of the interim ODA, and from April 2006, the ODA itself.
21. The VAT liability could be determined only after the bid was won and the nature of the delivery body was clear. In March 2007 the Government determined that the ODA should pay tax in the normal way and that the Government would meet the costs (£1.1 billion, including the tax included in the £2.747 billion programme contingency). The impact on the Exchequer is neutral as the receipt will return to the Exchequer.

22. The increased security costs (an extra £0.6 billion for wider policing and security) followed the re-appraisal of security needs in the light of the lessons learned from the 7 July 2005 bombings. Security costs will be subject to security needs prevailing at the time of the Games. A contingency of £238 million for wider policing and security is included within the £2.747 million contingency.

23. The higher management costs (an extra £0.5 million) arise from the need for a larger delivery body than the small Urban Development Corporation envisaged at bid, the need to procure a Delivery Partner (ie a ready-assembled delivery team with the high level of skills and expertise required to manage the delivery process on site within the timescales of the programme); and the need to actively manage the complex logistics of moving workers and materials on and off the Olympic Park site, rather than leaving the task to a multiplicity of individual on-site contractors.

24. The reduced expectation of direct private sector funding (some £500 million less) is based on the advice of Partnerships UK in June 2005. However, indirect private sector funding for the Olympic Village is expected to increase to £1.5 billion and the investment will kick-start a further £6 billion private investment in residential, retail and office development and associated infrastructure at Stratford City. The Memorandum of Understanding, agreed between the Government and the Mayor of London on 27 June 2007, will enable a share of the profits from land sales after the Games, potentially £675 million, to be returned to the Lottery distributors.

25. In summary, categories of cost were not deliberately omitted, but increases are the result of better information that was only available to us after we won the bid, as well as changes of approach to delivery and to the management of risk.

26. The Government welcomes the Committee’s intention to return to the budget for the Games on the basis of a further report by the Comptroller and Auditor General published on 20 July 2007. The Government also welcomes the conclusion in that report that the budget, announced by the Secretary of State in March 2007, represents a significant step forward in putting the Games on a sound financial footing and that the budget process followed since London was chosen to host the Games has been thorough, and the judgements and assumptions made by the Department and the ODA have been informed by detailed analysis and expert advice.

PAC conclusion (v): As the ultimate guarantor of funding for the Games the Government is financially exposed. In addition to the budget announced by the Secretary of State, LOCOG has a budget of £2 billion for staging the Games and is intended to be self-financing. In seeking to prevent further calls on public money the Department needs to satisfy itself that LOCOG’s costs are under control and its revenues on track, and should develop a plan for doing so.

27. The Department accepts the Committee’s conclusion. The Government believes that the Joint Venture Agreement establishes a sound framework of accountability. The Olympic Board, chaired jointly by the Minister for the Olympics and the Mayor of London, has been established to ensure the delivery of commitments given in the...
Host City Contract, the Guarantees and generally in relation to the staging of the Games, and to ensure that a sustainable legacy is achieved following the staging of the Games.

28. LOCOG’s Games Foundation Plan and any material variation thereto, and LOCOG’s Business Plan are subject to the approval of the Olympic Board. Before the beginning of each fiscal year LOCOG must prepare an Annual Business Plan for that year, which is first presented to the Department and the other Stakeholders for review in draft against the Games Foundation Plan before it is adopted by LOCOG’s Board of Directors.

29. LOCOG’s Board of Directors (including a non-executive director nominated by the Department) meets every two months to review the monthly management accounts against the Annual Business Plan in order to satisfy themselves that LOCOG’s expenses are tracking at or below budget and that revenues are on track as per revenue forecasts. The Board is required to consider at each meeting whether a material deviation from the Annual Business Plan has occurred or is likely to occur, and if so must report this promptly to the Olympic Board and provide an Action Plan for the Olympic Board’s approval. The Department, along with the other key stakeholders, is entitled to receive a periodic financial reporting package containing the materials provided to each meeting of the Board of Directors of LOCOG. The Department is currently in the process of nominating a highly experienced business figure to the Board. The nominee will also sit on LOCOG’s Audit Committee.

30. The Audit Committee of the Board, chaired by an independent non-executive director, meets at least every two months to oversee, assess and review LOCOG’s financial reporting processes, internal financial controls and risk management systems. It ensures that these functions are being undertaken effectively, and in the course of its meetings closely reviews the financial reports before they are presented to the Board. It is envisaged that the Department’s new non-Executive Director will attend the meetings of the Audit Committee.

31. LOCOG’s current and lifetime operating budgets are subject to intensive and ongoing review by the IOC. These budgets were presented to the IOC’s Co-ordination Committee during its most recent visit in June 2007. The IOC is satisfied that LOCOG is operationally and financially on track.

32. The Department, in agreement with LOCOG, has put additional measures in place including regular high-level stock-taking meetings with LOCOG’s CEO, in some cases jointly with the ODA CEO and meetings with LOCOG’s management to discuss key aspects of LOCOG’s programme strategy and risk assessment processes and to ensure that DCMS has a good understanding of progress against key performance indicators and of the current and lifetime operating budgets.

33. The Department has improved its procedures for reviewing and monitoring the information received from LOCOG via the two-monthly financial reporting packages referred to above and otherwise. The monitoring shows that LOCOG’s costs and revenues are on track at this early stage and that LOCOG is making timely progress towards raising the circa £2 billion required to pay for hosting and staging the Games. LOCOG has already confirmed its first three Tier-One sponsors – Lloyds TSB, EDF Energy, and Adidas.
PAC conclusion (vi): The Olympic Delivery Authority has put in place a procurement policy for the £3 billion worth of goods, services and works it expects to procure for the Games. This policy sets out best practice, and any departures deemed necessary to deliver the Games should be made clear and explicit at the time. The Department should hold LOCOG accountable for developing clear policies in advance of starting its procurement programme in earnest in 2009.

34. LOCOG is obliged under the Joint Venture Agreement (JVA) to use a competitive tender process for all significant contracts and to operate a procurement policy having regard to environmental, social and ethical considerations. LOCOG recently appointed a Head of Procurement who is currently examining LOCOG’s needs with a view to developing the strategy and policies required to ensure cost-effective and efficient procurement. This is happening sufficiently in advance to ensure that all issues are properly taken into account, including open competitive tendering where appropriate, enabling companies throughout the United Kingdom and beyond to identify opportunities, and promoting ethical and sustainable procurement.

35. The Department will continue to monitor progress through the Olympic Board, through its regular meetings with LOCOG management, and through the Departmental appointee on LOCOG’s Board of Directors, as LOCOG’s procurement process moves forward.

PAC conclusion (vii): There is a lack of clarity about how venues will be used after the Games, with the risk that designs fail to reconcile the needs of the Games in 2012 with those of subsequent users. Legacy plans for using the five new venues that will remain after 2012 should now be finalised, with ownership and responsibility for conversion and running costs resolved for each venue. The plans for delivering the wider benefits from the Games, which were to have been in place by the end of 2006, should also be completed, with the expected outputs and outcomes made clear.

36. Legacy has been integral to the Departments planning for the Games from the outset. The 2004 Candidate File set out the basis for the legacy plans for each Olympic venue being retained after the Games. During their visit in June 2007, the Chairman of the IOC Co-ordination Commission commented: “We were delighted to have confirmation that the legacy aspect of the Games was what it was promised at the time of the bid. This legacy is very important and we really consider London will be a model for future host cities of the Games as far as legacy is concerned.”

37. The further development of the legacy is a major focus of the work this year and next and will continue through the life of the programme. Legacy plans are being developed in conjunction with stakeholders, the LDA and sports bodies. An Olympic Park Legacy Group (OPLG) has been established to help take this forward. The ODA is responsible for developing the Candidate File commitments into fully deliverable plans, for consulting stakeholders and achieving their agreement to those plans and, ultimately, securing the approval of the Olympic Board. The ODA’s plans for transformation of venues are included in the updated programme baseline document that is being prepared.
38. The venue business plans will feed into work that has begun on developing an overarching business plan for the Olympic Park after the Games. This Park legacy business planning work has been commissioned by the ODA in conjunction with the London Development Agency (LDA) and other key Olympic stakeholders, and is developing the vision for the Park legacy as well as the mechanism by which the legacy park needs to be managed in the long-term, and in the context of the emerging Legacy Masterplan Framework (LMF). The Park legacy business plan will seek to maximize commercial opportunities for funding and wider involvement, and will seek creative ideas for enhancing the economic, social, cultural and environmental “offer” provided by the Legacy Park.

39. The venue business plans will feed into work that has begun on developing an overarching business plan for the Olympic Park after the Games. This Park legacy business planning work has been commissioned by the ODA in conjunction with the LDA and other key Olympic stakeholders, and is developing the vision for the Park legacy as well as the mechanism by which the legacy park needs to be managed in the long-term, and in the context of the emerging LMF. The legacy business plan will seek to maximize commercial opportunities for funding and wider involvement, and will seek creative ideas for enhancing the economic, social, cultural and environmental offer provided by the Legacy Park.

40. The aim is to set in train a long-term Park legacy governance structure during 2008, in order to ensure that the legacy of the Park is approached in an integrated and inclusive way, and on a continuous basis. In the meantime the LDA has been designated by the Olympic Board as the interim legacy client for the Olympic Park, and is strengthening its team to ensure that synergies between the venues are fully integrated with the Park legacy business planning and with the LDA’s production of the LMF.

41. The LMF, which is due in 2009, will be an integrated spatial master plan, which will address the key physical, economic, social and environmental elements for the successful delivery of sustainable legacy communities in and around the Olympic Park. The preparation of the LMF will be overseen by the Olympic Park Regeneration Steering Group (OPRSQ), chaired by the Mayor, and with membership including the Minister for the Olympics, a Minister from the Department for Communities and Local Government (CLG) and the Mayors and Leaders of the five host boroughs.

42. The Department is satisfied that the plans for the key venues that will remain after the Games are being developed in line with the commitments given in the Candidate File and that venue designs will take into account those legacy requirements. Those commitments are summarised as follows:

- **Olympic Stadium**: To be reconfigured to a 25,000 seat stadium, with athletics at its core, after the Games.

- **Aquatics Centre**: In legacy, two 50-metre pools, a 25-metre diving pool and a fitness centre will be provided, to accommodate users at the elite, development, local club and community levels. There will be permanent capacity for 3,500 spectators.

- **Velo Park**: A multi-discipline cycling centre that includes a 3,000-seat velodrome, a road track, competition and recreational BMX tracks and a mountain biking course for use by all cyclists at all skill levels.

- **Indoor Sports Centre**: Conversion of one of the sports arenas to become a training and competition venue and a regional home for a range of indoor sports, with flexible seating for up to 10,000 spectators.
- **Eton Manor**: Provision of significant competition and training facilities (training in Games mode; Tennis and Archery competitions in Paralympics mode; Hockey, Tennis or Five-a-side in legacy mode) 5,000 permanent seats retained around the main pitch for staging major national and international events.

43. Turning to the wider benefits, the Government has been working on plans throughout 2006, and in June 2007, the Government published: *Our Promise for 2012*, which set out the five key legacy outcomes that the Government intends to deliver:

- making the UK a world-leading sporting nation;
- transforming the heart of East London;
- inspiring a generation of young people to take part in voluntary, cultural and physical activity;
- making the Olympic Park a blueprint for sustainable development; and
- demonstrating that the UK is a creative, inclusive and welcoming place to live in, to visit and for business..

44. Details of how the Government will deliver each of these commitments, including the defined outputs that will contribute to the realisation of each of these promises, will be provided in a Legacy Action Plan. The Department aims to publish this before the end of 2007. It will clarify expected outputs and outcomes and will be updated and reported on annually.

PAC conclusion (viii): Strong progress monitoring and risk management arrangements are essential, but are not yet in place. For the programme as a whole, incorporating 42 sub-objectives assigned to 17 lead organisations, the Department should develop a framework of timely progress and risk reporting, which ultimately feeds through to the Olympic Board and provides early warning of potential difficulties. This framework should be supported by arrangements in each individual organisation, and work to complete these should be a priority.

45. The Department agrees with the Committee's conclusion. As the programme moves into the next phase, the Department has taken steps to strengthen the strategic oversight and assurance role within the GOE, integrating into it the functions carried out by the Olympic Programme Support Unit. This will ensure that the Department provides the Olympic Board with an informed and timely analysis of the strategic risks to the delivery of the Olympic programme.

46. The effective identification, management and mitigation of risk is central to the success of the programme; and, recognising the high level of risk, the Government has put in place a number of measures designed to minimise and mitigate risk and to safeguard public investment. These measures draw on experience from other major projects, following best practice. Risk is identified in formal risk registers, which are reviewed quarterly across the programme, and the strategic risks are reviewed by the Olympic Board Steering Group and the Olympic Board on a monthly basis. The Department has established regular high-level meetings with ODA and LOCOG to review progress (see paragraphs 6 and 30).
47. Project risks are identified in the ODA's programme baseline report. This is supported by a rigorous approvals process backed up by regular progress monitoring and reporting to Ministers, on cost, quality and timeliness. Financial risks are monitored on an on-going basis and the Comptroller and Auditor General's latest report on the budget for the Games shows, for example, how the cash-flow risks are being managed in 2007-08. This is supported by the provision of an appropriate programme contingency, access to which is controlled by a Ministerial Funders Group.

PAC conclusion (ix): Funding the Games means that there will be about £1.7 billion less money available for the other good causes supported by the National Lottery. As well as the £1.1 billion that is to be transferred directly from the other good causes, the new designated Olympic lottery games are also having a diversionary effect with an estimated £575 million coming from players who switch from other lottery games. The Department should give the Lottery distributing bodies frank assessments of when and by how much their income will fall, and they in turn will need to make plans setting out how they will minimise the impact on the good causes.

48. The Lottery distributing bodies have been given full assessments of when and by how much their income will fall. In May 2007 the Government began a consultation with the Lottery distributors on the mechanism and timing of the proposed transfer of the additional £675 million announced on 15 March 2007 and the £410 million included in the original lottery contribution to the public sector funding package for the Games. The consultation document sets out the exact sums that are proposed to be transferred from each distributor's National Lottery Distribution Fund (NLDF) balance to the Olympic Lottery Distribution Fund (OLDF), with a detailed breakdown of the amount and timing of each of the planned 15 instalments of the proposed transfer. The document suggests that the funds are transferred on a quarterly basis, with the first transfer taking place on or after 1 February 2009 and the final one on or after 1 August 2012.

49. In doing this, the Department aims to give the Lottery distributors the maximum time possible to allow for forward planning and to moderate the impact on the non-Olympic good causes they support. Grant commitments already made by the Lottery distributors need not be affected, and the Big Lottery Fund will maintain its commitment to provide 60-70 per cent of its funding to the voluntary sector at the levels it had planned prior to the announcement on 15 March. The distributors will be free to decide how to adjust their future programmes.

50. Lottery funding will be drawn down in accordance with need. The Department will continue to provide distributors with prudent income projections four times per year to enable them to plan effectively for this. The Lottery distributors will use the projections, as they already do, to decide the rate at which they make fresh Lottery grant commitments.

51. Land values in the Olympic Park are expected to increase considerably. It is only fair, given the Lottery's contribution to the 2012 Games that the Lottery good causes should share in the profits from land sales after the Games. The Department has therefore agreed arrangements for profit sharing with the Mayor of London, reflected in the revised Memorandum of Understanding with the Mayor and published on 27 June 2007.
Fortieth Report

The Department of Health

Dr Foster Intelligence: A joint venture between the Information Centre and Dr Foster LLP

1. The availability of accessible, well-presented data and information is central to the reform agenda for the NHS and social care. In April 2005 the Department of Health (DH) set up the Information Centre, drawing together components of the Department’s statistics unit and the former NHS Information Authority. The aim was to improve the collection, analysis and use of health and social care information to support the reform agenda. At the time, DH recognised the Information Centre lacked some of the necessary marketing and commercial skills and experience and believed the quickest way to improve the use of information was through a partnership with the private sector. In February 2006, a joint venture between the Information Centre and Dr Foster LLP was established.

PAC conclusion (i): By failing to advertise the deal or hold a competition, the Department and Information Centre let it appear that the joint venture offered an advantage to one company at the expense of others. The Department and Information Centre did not follow Treasury Guidance on joint ventures, nor did they comply with public sector procurement guidelines. The Department should remind its non-departmental bodies and Commercial Directorate that best practice is to advertise such opportunities appropriately, and to offer health informatics work to open competition. The Information Centre should commission the Office for Public Sector Information to check whether there is reasonable parity of access to data by health informatics companies.

2. The Department fully agrees that public business, including health informatics work, should be conducted in an open and transparent manner and, in most instances, open competitive processes are likely to lead to the best outcome. It is committed to following this principle in its own practice and in its advice to its arms-length bodies.

3. The Department is clear that it followed legal and professional advice throughout the establishment of the joint venture. The Treasury guidance sets out that each potential joint venture is different and various options should be explored before making a decision. The Department considered this carefully, carried out appropriate due diligence on the market, and ensured that its targeted approach was justified and consistent with the guidance. The nature of the joint venture, as an investment in a new entity, meant that procurement rules were not relevant.

4. The Information Centre is committed to open and fair access to data and will be happy to liaise with the Office for Public Sector Information about current processes. The Information Centre fully agrees with the importance of ensuring parity of access to data. Dr Foster Intelligence does not have special rights to access data nor any monopoly of supply. Dr Foster Intelligence is subject to the usual rules around competition, statutory and legal requirements and is required to compete openly and fairly for work.
PAC conclusion (ii): Without an open competition, the Information Centre cannot demonstrate that it paid the best price for its 50 per cent share of the joint venture, as there are no tenders or other benchmarks for comparison. The Department and its subsidiary bodies should always consider a competitive bidding process as the best way of demonstrating value for money. In the absence of potential competitors, the Department and its subsidiary bodies should seek appropriate benchmarks. To improve transparency and accountability, the Information Centre should obtain an independent valuation of their investment in the joint venture as at March 2007 and periodically update it.

5. The Department received professional advice both on the value of Dr Foster Ltd’s business and in subsequent negotiations with Dr Foster Ltd’s shareholders to provide an appropriate benchmark for the joint venture. The Information Centre has recently obtained an external independent valuation of Dr Foster Intelligence from PricewaterhouseCoopers to provide supporting evidence for the value of the investment it proposed to carry in the Balance Sheet for the 2005-06 accounts. This confirms that the initial investment of £12 million for 50 per cent of the business was a fair value for the investment. The joint venture is on target to make a profit in 2007.

6. The Department agrees that in most cases a tender process is likely to provide the most transparent evidence of value for money and is committed to this approach.

PAC conclusion (iii): In developing the joint venture deal, the Department’s Commercial Directorate did not follow established good practice in public sector procurement. The application of business skills and experience to the management of NHS procurement can bring a number of benefits, but the Directorate needs to be aware of the need for transparency and full accountability in the use of public funds.

7. The Commercial Directorate is committed to the need for transparency and full accountability in the use of public funds. The transaction with Dr Foster Ltd was not a procurement, but the Department’s Commercial Directorate conducted substantial due diligence around the transaction to ensure the Department obtained value for money.

PAC conclusion (iv): The cost of professional advice on the joint venture (Dr Foster Intelligence) increased from an initial estimate and contract for £284,000 to between £1.75 and £2.5 million on a £12 million investment. The increase in costs reflected the need for additional advice and due diligence required to demonstrate that Dr Foster Ltd met the requirements of the Information Centre. The Department should remind its Commercial Directorate and subsidiary bodies of the need for good financial discipline in contracting for advice. In particular where costs increase above the agreed contract price, or there is significant expansion of work priced at hourly rates, contracts should be re-evaluated and if necessary re-tendered.

8. The Department fully agrees with the importance of minimising the cost of external professional advice and obtaining value for money.
9. The Department believes that in comparison with the projected size of the business for the joint venture (a forecast turnover of £26 million in 2007) the fees for professional advice were not disproportionate and reflected the complexity of the transaction and the need for a robust due diligence process. The initial estimate of £284,000 was in respect of a preliminary feasibility/options review. The fees of £2.5 million covered due diligence on the market, negotiation and support on the transaction itself and work for the Information Centre on developing its business plan. Advisers were selected through a competitive tendering process and fees for each stage of the work agreed in advance.

PAC conclusion (v): The Department and Information Centre could have reduced the need to rely so heavily on professional advice by making use of wider government experience on forming public private partnerships. For example, the Department of Trade and Industry provide advice on state aid, and its Shareholder Executive on forming joint ventures or investing in companies. The Department should make its subsidiary bodies aware of the availability and the advantages of seeking such advice when forming relevant public private partnerships.

10. The Department fully agrees it is important to achieve the right balance between use of external advice and use of its own resources and those across Government. It believes that in this case it would not have been able to carry out the appropriate level of due diligence relying solely on central Government expertise and resources. Nevertheless, the Department will reinforce awareness across its Directorates and subsidiary bodies of the range of Government resources available.

PAC conclusion (vi): It is unclear what benefits the Information Centre will receive from the joint venture. The Information Centre did not specify what services it should receive from the joint venture, nor was there any baseline valuation or key performance indicators established at the outset against which to measure benefits. Whilst some indicators have since been introduced, these do not explicitly link to the Information Centre’s objectives or show the benefit of the public sector intervention to an already successful company. The Information Centre should strengthen their indicators of value of the joint venture to meeting the Information Centre’s objectives, and clarify what benefits they expect.

11. The Information Centre’s Board has focused throughout on the following objectives for the joint venture:

- to help the Information Centre deliver on key aspects of its strategy – including greater customer focus and improved accessibility, coverage and use of information in the health and social care sector to support better commissioning, choice, quality and efficiency;
- to take advantage of the most up-to-date techniques for presenting and marketing information in ways which engaged and met the needs of managers, clinicians, patients and the public;
- to exploit Dr Foster’s existing range of products, skill-set and contacts together with their understanding of the information market and their ability to develop commercial products; and
to deliver against market drivers and to make more rapid progress than either the IC or Dr Foster could achieve separately or through less formal collaboration.

12. The Information Centre agrees it will be important to continue to improve measurement of operational and internal performance information on the joint venture, and will take this forward through the development of future business plans. The business plan for the joint venture requires approval by the shareholders each year.

13. The benefits of the first year of the joint venture have been published in the report *Intelligence: Measuring safety and quality* (Dr Foster Intelligence, January 2007). In particular:

- Dr Foster Intelligence has developed a number of web-based tools to enable NHS organisations to analyse their performance more readily and help improve safety, quality and efficiency. Examples include Real Time Monitoring (RTM), the Management Information Centre (MIC) and the Patient Experience Tracker (PET);

- Dr Foster Intelligence is increasingly working with clinical specialities to support the development of relevant performance measures, for example on clinical outcomes;

- Dr Foster Intelligence has launched a number of thought leadership initiatives including the Intelligent Board, a series of reports designed to improve the way NHS boards receive and digest information;

- 10 per cent of GPs have piloted Dr Foster Intelligence tools since the creation of the joint venture;

- two-thirds of acute Trusts and one-third of PCTs are now using Dr Foster Intelligence tools.

14. The value of the joint venture has been demonstrated by the recent independent valuation by PriceWaterhouseCoopers.

![PAC conclusion (vii): In the first year the joint venture made a loss of £2.8 million compared with the expectation that it would make a small profit. The Information Centre should use its position on the board of the joint venture to assess the underlying and reported financial performance of Dr Foster Intelligence, so as to challenge any potential understatement or suppression of profit during the term of the joint venture, which would diminish the Department's return on its investment.]

15. The Information Centre accepts the conclusion of the PAC. The first year of the joint venture was always expected to be a period of build up and investment in staff and infrastructure and the original business case provided for several financial scenarios ranging from a loss to small profit. The joint venture is on target to make a profit in 2007.

16. The representatives of the Information Centre on the Board of Dr Foster Intelligence participate fully in discussion of financial performance and the management accounts are scrutinised by the Board on a monthly basis. The joint venture accounts are independently audited each year.
Forty Third Report
Department for Business, Enterprise and Regulatory Reform

The Restructuring of British Energy

1. British Energy (the Company) is the largest electricity generator in the UK with an annual turnover of £2.6 billion in 2005-06. Its eight nuclear power stations generate approximately 20 per cent of the electricity used in England and Wales, and half of that use in Scotland. The 1996 privatisation raised £2.1 billion for the Government, and British Energy took responsibility for all its nuclear liabilities including the disposal of spent nuclear fuels and the decommissioning of power stations.

2. In September 2002, the Company approached the former Department of Trade and Industry (the Department) for assistance as it could not meet its liabilities. The Department does not normally intervene when private companies get into financial difficulty, but in this case it decided to do so to preserve electricity supplies and ensure nuclear safety.

PAC conclusion (i): As a result of the restructuring of British Energy, the taxpayer has been left to underwrite a large and uncertain liability, recently valued at £5.3 billion. The Company assumed full responsibility for its nuclear power stations, including the associated nuclear liabilities, on privatisation in 1996. In reality, the Government's international obligations always meant that responsibility would fall on the taxpayer if the company was unable to meet them.

3. The Government notes the Committee's conclusion. As a result of the restructuring, the Department for Business, Enterprise & Regulatory Reform (BERR, formerly the Department of Trade & Industry) has underwritten the Nuclear Liabilities Fund (NLF), a segregated fund and 100 per cent subsidiary of the Department, to meet the liabilities associated with the decommissioning of British Energy's (BE) nuclear stations and certain un-contracted liabilities. Once the NLF has discharged all liabilities for which it is responsible, any surplus remaining in the Fund would be payable to the Government.

4. As part of the restructuring, the Government also took on responsibility for BE's historic nuclear liabilities for the period up to the restructuring. The discounted cost of these liabilities was estimated in the Department's 2006-07 accounts as being £2.4 billion.

5. With regard to the NLF, the Department has estimated in its 2006-07 accounts that the assets available to the NLF to meet its liabilities are £6.4 billion. Using valuations provided by BE which have been audited and are being reviewed by the Nuclear Decommissioning Authority (NDA), the Government has estimated the cost of the decommissioning and un-contracted liabilities as £4.3 billion, leaving a contingent asset of £2.1 billion to the NLF.

6. On 1 June 2007 the NLF, under direction of the Secretary of State for Trade and Industry, converted and sold 450 million shares in BE, raising £2.3 billion. The rationale for the sale was to diversify the assets of the NLF, which were previously about 87 per cent dependent on BE's performance – as a result of the sale this figure has reduced to around 50 per cent. In addition, the increase in the share price
between the year-end and the date of sale has resulted in the NLF contingent asset increasing to £2.6bn.

**PAC conclusion (ii):** The most recent estimate of the liabilities underwritten by the taxpayer resulted in a 29 per cent increase on the previous figure, a figure that may well rise further. The previous revaluation of the liabilities was as long ago as 1996, which is unsatisfactory. Estimates of nuclear liabilities need to keep abreast of the developing knowledge of the decommissioning process and its likely costs. Under the restructuring agreement, the Company is required to produce estimates at not more than 5-year intervals. The Department should require the Company to do so and ensure its compliance.

7. The Department accepts the Committee’s recommendation on ensuring BE periodically revises its estimates of its liabilities, which is in agreement with current practice. BE last produced estimates of its liabilities as part of the Quinquennial Review, which was completed in Spring 2006. These estimates were reviewed by the NDA last summer and, with one exception and subject to certain caveats, approved by them. The exception (related to Sizewell B) was approved by NDA earlier this year. All these estimates are being updated and will be submitted at the end of March 2008 for a further NDA review.

**PAC conclusion (iii):** Uncertainty about the size of the liabilities is partly due to different discount rates which the Department and the Treasury use to convert the liability figures to present day values depending on the purpose of the calculation. There is too much confusion and difficulty for the user in trying to interpret the figures in a meaningful way. The Treasury should produce a single statement setting out which discount rate is to be used for which purposes in estimating future costs and benefits, and Departments should be able to reconcile results produced by different rates.

8. The Government notes the Committee’s conclusion. Different discount rates are used for different purposes in considering long-term liabilities:

- for appraisals of proposals when making a choice on whether and / or how to proceed with an investment, central government organisations should use the *Green Book* on investment appraisal and evaluation. This sets discount rates to be used in valuing costs and benefits in different circumstances and for different periods of time. In this instance the relevant guidance can be found in Chapter 5 (*Appraising the options*) and Annex 6 (*Discount rate*);

- for reporting of liabilities in Department accounts, it is Government policy to use modified UK generally accepted accounting practice (GAAP). Financial Reporting Standard 12 sets out how to recognise provisions and contingent liabilities. These should be calculated as the present value of the amounts required to settle the foreseen obligations, using a discount rate which reflects the long-term borrowing (gilt) rate – this discount rate is currently set at 2.2 per cent.

9. Therefore for the purposes of reporting BE’s liabilities in the Department’s accounts the latter applies.
10. These two evaluation methods can generate different answers largely because different discount rates are used for different purposes. Typically the present value of liabilities in the economic (Green Book) appraisal is lower because it uses a higher discount rate. This is appropriate because the market rate used for accounting purposes does not reflect time preference of society as a whole and is distorted by tax, supply and demand factors.

**PAC conclusion (iv):** The Company's creditors would have got very little on liquidation, but on restructuring they received bonds worth £425 million plus 97.5 per cent of the issued shares in the restructured Company, assets which were worth £3.9 billion by February 2006. They have however assumed no responsibility for the nuclear liabilities. For electricity consumers and taxpayers, the balance of risk and reward is less favourable, although the Nuclear Liabilities Fund should benefit if the Company does well.

11. The Government notes the Committee's conclusion. Although the Government did set out the limit of its support during the restructuring period, the restructuring plan itself was the Company's and so it was for BE to negotiate with its stakeholders the terms of the restructuring. If the Company had fallen into administration, all of its nuclear liabilities would have passed to Government, but through the restructuring Government has assumed responsibility for them in return for a significant financial interest in BE.

12. The Government's interest in BE by way of the cash sweep gives it a contractual entitlement to a proportion of the Company's free cash flow each year, before the distribution of any dividends to shareholders. Receipts to the NLF by BE have increased as the Company's financial performance has improved – the cash sweep payment for 2005-06 was £105 million, whereas the payment for 2006-07 was £171 million. In addition to this, the NLF has benefited from the value realised (£2.3 billion) from the sale earlier this year of part of its interest in BE because of the increase in the Company's share price since its restructuring.

13. All financial stakeholders made a significant contribution as part of the restructuring and whilst they are benefiting from the upside now, that was by no means certain during the restructuring and is by no means certain in the future.

**PAC conclusion (v):** In approaching the restructuring the Department concentrated on the viability of the Company if electricity prices were low but gave insufficient attention to the effect if prices were high. In the event, electricity prices rose by over 80 per cent in the year following restructuring. The Department's financial modelling should always test outcomes under a sufficiently wide range of scenarios.

14. The Government notes the Committee's conclusion and agrees that financial modelling should test outcomes under a wide set of scenarios. However, at the time of the restructuring, it was critical to ensure that the Company would be financially viable under reasonable worst-case scenarios, such as if electricity prices were low, and therefore this is where the Department concentrated on. As the report highlights, at that time base load power prices were in the range £15 to £21 per megawatt-hour and were expected to stay in that range. The increase in electricity prices, post-restructuring, helped to increase BE's financial stability, and in turn benefited all parties, including the Government through the NLF.
15. If there had been an expectation at the time that electricity prices would have increased to the extent that they did, then it is questionable as to whether the Department would have been successful in negotiating such a significant percentage interest in BE through the cash sweep holding.

PAC conclusion (vi): The Nuclear Installations Inspectorate had concerns about its ability to regulate the Company if it fell into administration. The Department has known about this problem for four years but has yet to resolve it. The Department is now considering establishing a special administration regime for such companies and should take prompt action to resolve this issue.

16. The Government notes the Committee’s recommendation and the Department has worked with the Health and Safety Executive and the Nuclear Installations Inspectorate to consider the need for a Special Administration Regime (SAR).

17. The Government wishes to ensure that, in the event of a nuclear operator going into administration, any funds set aside for decommissioning and waste management are protected. BE currently puts aside funds for the decommissioning and cleanup of its sites into the NLF, which is an off-balance sheet fund. The Government believes this offers adequate protection to the funds. The Department is of course also considering how operators can put away funds for the decommissioning and clean up of any new build sites.

18. The Government has also considered the risk that an administrator may not be legally obliged to manage sites in accordance with regulatory requirements. The Department has concluded that the risk of an administrator being in a position to act against the wishes of regulators is negligible. BERR will continue to review periodically whether a SAR is needed.

PAC conclusion (vii): The Department spent £29 million on advisers but of the four main firms it employed only one was appointed by competition. The Department should have arrangements in place to appoint external advisers competitively, if necessary by appointing adviser panels who can then be drawn upon at short notice and should also benchmark the costs of its advisers against those of other large users. The Department should always review the quality of the advice and the value for money it receives from consultants, who in the case of British Energy did not test the restructuring plans against a sufficiently wide range of electricity prices.

19. The Government accepts the Committee’s recommendation on the competitive appointment of external advisers, and the Shareholder Executive and BERR as a whole recognise the need to run competitive tenders wherever possible, and to review regularly the advice they receive from consultants, both in terms of the quality of that advice and its value for money. For the specific circumstances of BE’s restructuring, specialist advisers were needed at short notice on a very confidential basis, and the advisers that were used had all been working for the Department on related issues following competitive tenders.
20. More recently, in the run up to the successful sale of part of the Government’s interest in BE earlier this year, the Shareholder Executive ran competitive tenders both for the appointment of book-runners to advise on and manage the transaction, and the appointment of an independent financial adviser to the Shareholder Executive and the NLF.

21. The Department has considered the Committee’s recommendation of appointing adviser panels who could be drawn upon at short notice. The Department’s preferred option for the procurement of goods and services is to follow the Office of Government Commerce’s (OGC) collaborative procurement initiative of using existing frameworks wherever possible. There is no requirement to set up our own panels if the services are already available under the OGC’s Catalist framework, such as is the case for legal services.

22. As the OGC regularly benchmarks its framework agreements the Department can be confident it derives value for money from using them. No framework agreement exists for investment banking services, and the Department believes the appointment of such advisers should continue to be done on a case-by-case basis as it would be difficult to put a meaningful standing arrangement in place. This is because the nature of the work varies considerably from case to case and the fees that the investment banks would charge would depend on the nature of any transaction.

23. As mentioned in paragraph 14, the Department is satisfied that its consultants did test the restructuring plans against a sufficiently wide range of electricity prices, since the focus was on reasonable worst cases.

PAC conclusion (viii): Without direct responsibility for meeting its liabilities, the Company may now lack the incentive to reduce the liabilities falling to the Nuclear Liabilities Fund. The Department, working with the Nuclear Decommissioning Authority, should put in place adequate arrangements to confirm that the Company carries out its operations efficiently, reducing the eventual liabilities to be met by the Nuclear Liabilities Fund wherever possible.

24. The Government accepts this recommendation and has already taken steps to put in place arrangements to confirm the efficient management by the Company of its liabilities. The Shareholder Executive has in place a monitoring framework to manage effectively the Government’s exposure to BE, which includes access to information on BE’s performance and regular meetings with the Company. The Shareholder Executive also regularly meets with colleagues both in BERR itself and the NDA to consider policy and other developments that may affect BE. These arrangements have been passed by the Department’s internal audit team

25. The NDA has been directed by the Department to have oversight of BE’s planning for, and discharge of, its nuclear liabilities so as to ensure value for money for the NLF and the taxpayer. The NDA is ensuring the Company’s compliance, for example through the scrutiny of all applications from BE for expenditure on clean-up. The Nuclear Liabilities Funding Agreement (NLFA), entered into at the time of the restructuring, introduced extensive arrangements to encourage BE to continue to manage the financing of its liabilities responsibly.

26. In practice BE works closely with NDA to ensure consistency between its plans and costings and those of the public sector. The NDA also ensures that cost savings at NDA’s sites are, where practicable, applied to the discharge of BE’s liabilities.
Forty Fourth Report

The Home Office

Tackling Anti-Social Behaviour

1. In 2003 the Home Office (the Department) formed the Anti-Social Behaviour Unit with an annual budget of £25 million to design and implement the Government’s policy on anti-social behaviour. In September 2005 the Government announced the creation of the cross government Respect Task Force to take forward the anti-social behaviour agenda and in January 2006 the Government published the Respect Action Plan.

2. Machinery of Government changes that took place this June mean that the Respect Task Force is now part of the Department for Children, Schools and Families (DCSF), and will continue to work on parenting and family intervention within that context. The Home Office, which retains policy responsibility for anti-social behaviour, will continue to work with the Task Force on issues of joint concern.

3. The Committee also questioned the Home Office about its disclosure that a backlog of 27,500 notifications of convictions of British citizens abroad had been passed to the Association of Chief Police Officers for checking and entering on the Police National Computer in March 2006 after being allowed to build up over several years.

PAC conclusion (i): There are currently at least 10 different interventions available to anti-social behaviour coordinators which have been introduced piecemeal over the last ten years all with different procedures to put them in place. The Home Office is planning to increase their number further – it should take stock of measures already on the statute book, consider whether all are necessary, and how to make them easier to understand and use at local level.

PAC conclusion (ii): The lack of published data on the effectiveness of different measures to combat anti-social behaviour in different situations or with different groups of people has led to variation in the extent to which local areas use the interventions available to them. To enhance the effectiveness of measures to tackle anti-social behaviour the Home Office should:

- develop and implement nationally an evaluation system to assess the comparative effectiveness of the individual measures and powers, and the extent to which socioeconomic, geographic, ethnic, and age factors influence the outcomes achieved;
- use the data collected to provide local anti-social behaviour teams with evidence based recommendations on what works best in which circumstances; and
- specify a standard data set to be collected by local anti-social behaviour coordinators, so that all areas collect information on the use of measures against the same set of criteria, and in particular separating out data for young children from those nearing adulthood (where the different causal factors may apply), and collecting data on warning letters issued, so as to aid data comparisons and benchmarking.
4. The Department has developed a range of different interventions to deal with different levels and types of anti-social behaviour. These are a response both to what local people tell the Home Office, and the experience of anti-social behaviour co-ordinators in tackling anti-social behaviour. There is evidence of what works locally which is put into context by our active network of practitioners using information that the Audit Commission and the Respect Task Force make available to local areas. This includes local public perceptions of anti-social behaviour and information on local use of tools and powers. This information allows local areas to benchmark their performance against others.

5. The Department has also conducted a number of studies into the use of particular types of measures, including use of Anti-Social Behaviour Orders (ASBO). However, the Department accept the conclusions of the Committee. The Department will shortly commission a study to explore practitioners’ approaches to using different interventions and to provide practical information about what works best in which circumstances.

PAC conclusion (iii): Some 20 per cent of anti-social behaviour cases reviewed by the National Audit Office received 55 per cent of all interventions in the period covered by the case review, and people within this group with criminal convictions had an average of 50 each. Rigorous enforcement of breaches of Anti-Social Behaviour Orders (ASBOs) is essential to tackle this group together with targeted interventions aimed at the underlying causes of anti-social behaviour underpinned by a requirement for individuals to take up support. Where Orders continue to be breached cases should be prosecuted swiftly and consideration should be given to referring cases to the Crown Court for sentencing where a custodial sentence can be considered.

6. The Department accepts the conclusion of the Committee. It is clear that community confidence in local agencies’ ability to combat anti-social behaviour depends in part on seeing that any continued mis-behaviour is tackled, not tolerated. The Department has always made this clear in its guidance to practitioners and will continue to reinforce this message in its forthcoming series of regional workshops.

7. Prosecution is a matter for the Crown Prosecution Service, which, reviews and prosecutes alleged breaches of ASBO investigated by the police in accordance with the Code for Crown Prosecutors. Guidance has been issued for prosecutors specifically dealing with the approach to be taken towards breach of ASBOs. Matters may be committed to the Crown Court for sentencing pursuant to sections 3-7 of the Powers of Criminal Courts (Sentencing) Act 2000.

8. Sentencing is a matter for the judiciary. The Sentencing Advisory Panel has been asked by the Sentencing Guidelines Council to produce advice on sentencing for breach of an ASBO. A consultation paper has recently been issued. CPS will be making submissions to the Panel. The MOJ and DCSF now have joint responsibility for youth justice policy.
PAC conclusion (v): The Home Office has encouraged local areas to tackle Anti-Social Behaviour by the enforcement of measures such as Anti-Social Behaviour Orders along with support for individuals, but in recent years, the emphasis has been mainly on enforcement. To enhance the effectiveness of the response to anti-social behaviour, both elements are necessary and the Home Office and the Respect Task Force should:

- work with Crime and Disorder Reduction Partnerships to make referrals to family intervention projects and other early intervention schemes a priority in cases involving children and young people whose chaotic home life puts them at risk of engaging in anti-social behaviour;

- collate information from local areas on gaps in local area service provision, such as access to drug treatment or mental health services, to inform and action Social Exclusion Action Plan proposals, due to be published in summer 2007;

- periodically provide local anti-social behaviour co-ordinators and other community groups with details of diversionary schemes and award schemes of proven effectiveness used by other local areas to reward compliance and good behaviour, with a view to building a unified national self-help, advice and support network of local leaders who have already delivered successful community schemes;

- help overcome witnesses’ and victims’ fear of intimidation and retaliation by making up-to-date telephone support helpline numbers available through antisocial behaviour co-ordinators and police forces, and build a national support network involving local communities, the voluntary sector and “Taking a stand” award winners;

- collect and analyse data to establish whether local areas have adopted a robust and consistent approach to enforcing breaches of civil orders, including Anti-Social Behaviour Orders and Parenting Orders, and whether there are blockages preventing local areas from dealing with breaches of Orders quickly.

9. The Department accepts the conclusion of the Committee. Machinery of Government changes, that took place this June, mean that the Respect Task Force is now part of the Department for Children, Schools and Families, and will continue to work on parenting and family intervention within that context. The Department will continue to work with the Task Force on issues of joint concern, including family and parental support, youth crime, anti-social behaviour, and preventive and diversionary activities for young people.

10. The Department accepts the need for further work to support victims and witnesses of anti-social behaviour, building on the successes of the earlier TOGETHER campaign and the on-going Taking A Stand Awards. The Department will therefore, towards the end of the year, be publishing guidance on supporting victims and witnesses of anti-social behaviour, which will include advice on providing help lines in support of a 24-hour service, and a national support network.

11. Early Intervention to reduce the consequences of anti-social behaviour is a key part of the work of the Respect Task Force (RTF). 53 Family Intervention Projects have been set up in England to turn around the behaviour of families involved in anti-social behaviour and reduce their impact on the local community. Respect Parenting
Practitioners have been funded in 77 areas and they will deliver structured and evidence based parenting programmes to parents of families exhibiting anti-social behaviour, or at risk of anti-social behaviour.

12. Parenting Early Intervention Pathfinders are working in 18 areas to target 8-13 year olds at risk of anti-social behaviour and deliver the same type of structure and evidence based parenting programmes to their parents. The RTF makes regular visits to these local areas sharing good practice and driving services forward, particularly around multi agency working and referrals. This includes encouraging referrals to mainstream parenting support services within children’s centres and extended schools.

13. The Task Force has commissioned an independent national evaluation of Family Intervention Projects. This will give an insight into some of the dynamics of the local provision of services including gaps in service provision.

14. There is currently data on Youth Offending Team parenting orders and Education related orders collected by the Youth Justice Board and DCSF respectively. The new powers given to Local Authorities and Registered Social Landlords commenced on 29 June 2007. The RTF have plans in place to measure the orders and their enforcement through the quarterly tools and powers survey. The proposed Home Office study of effectiveness of tools and powers to tackle anti-social behaviour will also look at the effectiveness of parenting contracts and orders.

PAC conclusion (vi): The Home Office had not arranged for the Police National Computer to be updated for notifications of convictions for crimes committed abroad by UK citizens, allowing a backlog of some 27,500 cases to build up until updating actions commenced in 2006...The Department has now reported that the backlog has been eliminated and that details of all relevant offenders have now been entered on to the Police National Computer. This process identified 2,198 individuals who had been involved in the most serious types of offences or had committed crimes of a sexual nature. The UK Central Authority for the Exchange of Criminal Records needs to maintain the momentum of their efforts to trace offenders, and the Home Office should report regularly on progress in locating them and referring them to the relevant police forces.

15. The Department accepts the conclusions of the Committee. Improved systems have been established to deal with notifications of UK citizens convicted in the EU and transmitting details relating to EU citizens convicted in the UK to their home countries. As set out in the Department’s Written Ministerial Statement of 22 May, these systems are being concentrated in the UK Central Authority for the Exchange of Criminal Records.
PAC conclusion (vii): The provision of inaccurate data on perceptions of anti-social behaviour is the latest of several recent examples by the Home Office of its poor quality information systems and data. These weaknesses have included those which led the Comptroller and Auditor General to disclaim an opinion on the Home Office's Resource Accounts for 2004–05, and the provision in 2005 and 2006 of inaccurate data on foreign national prisoners. Without reliable management information the Department can neither manage its business properly nor account for its stewardship, and it should develop a detailed Action Plan to improve the quality and accuracy of its management information and numerical data and arrange for progress to be audited.

16. The Department accepts this recommendation and have already recognized many of the points made. The Department included measures to improve the quality and accuracy of its numerical management information as part of the Reform Action Plan that was published by the previous Home Secretary in July 2006. The Department acknowledged at the time the failures to provide accurate information to drive public reporting and decision-making and have developed a detailed action plan to put this right.

17. The programme has put in place clear accountabilities for numerical management information and addressed how the Department collects, analyses, shares and uses it in developing policy, delivering front-line services and in communications. Recently, for example, the Home Office has been working with the Ministry of Justice to improve the quality of the ASBO statistics, and with the Department for Communities and Local Government to enhance the data available at local authority level. Data on Foreign National Prisoners is also being addressed.

18. The programme is on track. By April 2007, the Department had reviewed and developed business cases for priority data workstreams where improvements to data quality are required. Work has now started on these improvements and the Department has committed overall to measurable improvements in numerical management information being made by April 2008. The Department has also engaged with both the Office for National Statistics (ONS) and the National Audit Office (NAO) in developing the programme.

19. The Department has also made progress in improving its accounting processes. The 2005-06 Accounts were qualified, but the NAO recognised the improvement, saying that: “…the Home Office has worked to address many of the fundamental problems in the 2004-05 accounts and has been able to provide a much improved set of accounts for 2005-06. This situation represents a significant step forward for the Home Office.” Progress has been sustained: 2006-07 Accounts, which received an unqualified opinion from the Comptroller and Auditor General (C&AG), were signed off by the Permanent Secretary two months earlier than in the previous year.

20. The Treasury Minute on the Sixtieth Report from the Committee of Public Accounts 2005-2006: ‘Home Office Resource Accounts 2004-05 and follow up on returning failed asylum applicants’, sets out the action being taken by the Department to address recommendations, which were made by the Committee, in July 2006.
Forty Fifth Report

HM Revenue and Customs

Standard Report on the Accounts of HM Revenue and Customs: VAT Missing Trader Fraud

1. Missing trader intra-community (MTIC) fraud is an organised criminal attack on the VAT system that poses a serious challenge not only to the UK, but also tax administrations across the EU. Since the introduction of the MTIC strategy in 2000, HM Revenue and Customs (HMRC) has introduced a range of legislative and operational measures to combat the fraud, to which the fraudsters’ response has been to evolve and adapt their practices. However, recent measures, such as the deployment of extra staff and the in depth verification of suspect repayment returns, has led to a significant decrease in fraud related trading activity.

2. In addition, the UK has recently introduced a change to accounting procedures, “the reverse charge”, removing the ability of fraudsters to steal VAT on business-to-business transactions involving mobile phones and computer chips, the products previously most commonly used in MTIC fraud. The Government is also actively participating in European discussions on possible improvements or alternatives to the current regime.

PAC Conclusion (i): VAT missing trader fraud has cost the Exchequer at least £1 billion each year since 1999-2000, peaking at estimated losses of between £2-3 billion in 2005-06. The Department has been dealing with missing trader fraud for over six years but has failed to stem losses. Progress on implementing the Committee’s previous recommendations for tackling VAT fraud has been limited.

3. Levels of attempted fraud fell considerably after the introduction of the Joint & Several Liability measures in the 2003 Finance Act. As the Committee has acknowledged, attempted fraud then rose dramatically in 2005-06, following an adverse ruling from the European Courts of Justice27, which removed one of the arguments that HMRC had been using to deny suspect VAT repayments.

4. In response, the Government acted quickly to strengthen its strategy, applying to the European Commission in December 2005 for derogation to introduce the reverse charge and redeploying over 700 extra compliance staff in order to verify a greater proportion of suspect VAT repayment claims from April 2006 onwards. The table below shows statistics published by the ONS, using HMRC estimates of the impact of the fraud on the overseas trade data, which suggest that MTIC related trading activity has fallen by over 90 per cent since the summer of 2006.

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27 Bond House et al, joined cases C-354/03, C-355/03 and C-484/03
Estimates of missing trade associated with MTIC fraud in the UK

<table>
<thead>
<tr>
<th>Quarter ending</th>
<th>Value of MTIC-related trade (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2004</td>
<td>0.6</td>
</tr>
<tr>
<td>December 2004</td>
<td>0.7</td>
</tr>
<tr>
<td>March 2005</td>
<td>1.0</td>
</tr>
<tr>
<td>June 2005</td>
<td>2.3</td>
</tr>
<tr>
<td>September 2005</td>
<td>3.5</td>
</tr>
<tr>
<td>December 2005</td>
<td>4.4</td>
</tr>
<tr>
<td>March 2006</td>
<td>11.9</td>
</tr>
<tr>
<td>June 2006</td>
<td>14.7</td>
</tr>
<tr>
<td>September 2006</td>
<td>2.2</td>
</tr>
<tr>
<td>December 2006</td>
<td>0.5</td>
</tr>
<tr>
<td>March 2007</td>
<td>0.3</td>
</tr>
<tr>
<td>June 2007</td>
<td>0.3</td>
</tr>
</tbody>
</table>

5. HMRC is not complacent and is continually assessing the impact of the MTIC strategy and adapting its tactics accordingly. A number of the recommendations in the Committee’s previous report have been acted upon. However HMRC is aware that more needs to be done, as reflected in the commitment to working together with our European partners to find a more permanent solution to tackling this fraud.

PAC Conclusion (ii): Other EU Member States experience VAT missing trader fraud, and the EU Commissioner for Taxation has estimated the annual loss from VAT fraud across the European Union at £40 billion (€60 billion). The UK is one of the few that publish estimates of the losses. The Department should assist the (European) Commission’s initiative to establish reliable estimates for the European Union as a whole, and share methodologies with other Member States for calculating estimates at national level.

6. HMRC welcomes the acknowledgement from the Committee that the UK is at the forefront in measuring MTIC fraud levels. HMRC has already shared its basic approach to estimating tax gaps, including those caused by MTIC fraud, with Member States through a number of formal channels, including European Commission working group meetings. HMRC remains committed to cross-border cooperation on all aspects of the fight against MTIC fraud, and will discuss with European partners any future changes to its approach for estimating MTIC fraud levels.

PAC Conclusion (iii). Fraudsters may be able to avoid the Department’s “reverse charge” mechanism by switching the fraud from mobile phones and computer chips to other goods. There is a risk of criminals switching the fraud to other electronic equipment. The Department should be alert for any switch of the fraud to other goods and apply promptly for EU authorisation to widen the mechanism as necessary.
7. Determined fraudsters may attempt to continue the fraud using other goods. However, HMRC’s operational activities are not driven by commodities or trade sectors but are informed by behaviours, trading patterns and revenue risks. HMRC continue to improve their intelligence gathering processes and strengthen their operational activity to quickly counter any changes in the fraud. If traders of mobile phones and chips respond to the reverse charge by switching to goods not covered by the measure, this would be a good indication that they knew or should have known that their trading activity was linked to MTIC fraud (the “knowledge test”, as defined in the case of Kittel by the ECJ) and could lead to HMRC denying them their input tax claims.

8. The reverse charge was introduced because the Government believed it was a proportionate and effective response to a major challenge to the VAT system, and the Government will use the same criteria when assessing whether to retain the measure or indeed extend its scope. The Government recognises, however, that some Member States would be reluctant to see the reverse charge broadened significantly, which would significantly change the VAT system.

9. The reverse charge is just one facet of a coordinated approach to tackling MTIC fraud. The Government has taken steps to ensure that HMRC has the legislative tools and powers to tackle this organised attack on the VAT system. For example, in Budget 2007, the joint & several liability measure was extended to cover the next most commonly used category of goods.

PAC conclusion (iv): The reverse charge is a provisional measure pending a more comprehensive EU-wide solution to tackle the fraud, which would require legislation agreed by all the Member States. The Commission considers that a VAT system based on the origin of the supply of goods would remove the opportunity for the current type of missing trader fraud, though it could lead to new types of fraud and has little support among Member States. The Department should maintain and if possible expand the reverse charge mechanism.

10. The Government welcomes the Committee’s support for the reverse charge even as a provisional measure. It will assess the effectiveness of the reverse charge in countering MTIC fraud using mobile phones and computer chips, and will consider options to extend the duration and scope of the measure if it considers this to be proportionate, necessary and achievable within the EU framework.

11. The Government notes the Committee’s view that the origin system is not supported by the majority of Member States and that it could lead to new types of fraud. The UK is actively participating with EU partners in an examination of improvements in and alternatives to the current VAT system.

12. HMRC accepts the Committee's conclusion that its performance in responding to requests for VAT MTIC information from other Member States under EU Regulation 1798 / 2003 needs to be significantly improved. Steps are being taken at both the UK and EU levels to address the issue.

13. HMRC has reviewed its arrangements for recording, evaluating and tracking VAT MTIC information requests and has changed them to ensure that it can respond to all those with a high priority rating within the 90-day deadline. But it also recognises that, given the speed with which VAT MTIC frauds can be perpetrated, a 90-day response deadline is often inadequate. That is why at the EU level, in consultation with other Member States, HMRC is considering whether it is possible, and desirable, to significantly reduce the timescales by which information is obtained from businesses and made available or exchanged between tax administrations.

14. In addition, HMRC is also considering ways in which the VAT information exchange system could be better focused on the quality rather than the quantity of data exchanged. If Member States are willing to develop and implement strengthened VAT information exchange arrangements along the lines of those outlined above, it could significantly improve the capability of tax administrations to control VAT MTIC fraud irrespective of the scope of any ‘reverse charge’ accounting arrangements. In other words, strengthened EC VAT administrative co-operation and information exchange could provide a reasonably robust medium to long-term solution to the VAT MTIC fraud problem.

15. The Department recognises and supports the importance of giving feedback to EU partners on spontaneous information exchanges. At a meeting to discuss exchanges of information between EU Member States in 2006, the UK proposed the creation of a Member State Working Group to consider ways of improving the quality and value of VAT information exchanges, including a pilot system for providing feedback on spontaneous exchanges of information. This proposal was supported by the European Commission and other Member States.

29 Warsaw 2006.
PAC conclusion (vii): The Department was unable to show that it has actively stepped up the reporting of accountants, tax advisers and lawyers to their professional bodies for instances of misconduct in response to the Committee’s previous report. We recommend that the Department should make greater use of sanctions available to professional bodies to investigate unethical conduct by their members.

16. Where HMRC discovers incidents of fraudulent behaviour by professionals, its policy is to mount a criminal investigation into that behaviour. HMRC currently has a number of investigations underway which involve professionals. In addition, HMRC is putting in place procedures for reporting professionals to their regulatory body where the misconduct of the member means that it is in the public interest to disclose taxpayer confidential information, usually about a taxpayer (the client) other than the member themselves. Such reporting will, in most cases, be contingent upon the client being found to have under declared or over claimed VAT, and will need to follow the conclusion of any civil tax litigation involving an HMRC decision.

17. Criminal investigation and complaints to regulatory bodies alone will not address the behaviour of all those professionals and advisers supporting the traders involved in MTIC fraud. The ultimate sanction of the professional bodies, expulsion, would not prevent the ex-member advising MTIC traders as there is no requirement to be regulated in order to practise as an adviser in relation to VAT or other taxes. HMRC is therefore working with professional bodies on establishing and maintaining effective relationships across the range of HMRC activities, including handling poor or inappropriate behaviour. It will continue to inform advisers and professional bodies about MTIC fraud including the characteristics of fraudulent trade, its scale and consequences, so that they can review and strengthen their client take-on and management procedures.

PAC conclusion (viii): Criminals are only able to perpetrate VAT missing trader fraud because they have been able to obtain a valid VAT registration number. The Department should confirm that it has the management information to keep sight of the balance between preventing fraudulent VAT registrations, and Impeding legitimate trade.

18. HMRC does have measures in place for monitoring performance on VAT registration. It also aims to target anti-fraud action at those who present the greatest risk. At present, for those applications cleared for registration after an initial risk assessment, the average time to process an application is 42 days. HMRC recognises that this is too long, and is working to reduce the processing times through process, system and risk assessment improvements.

PAC conclusion (ix): The financial rewards from missing trader fraud have been high while the risk of fraudsters being caught and penalised has been low. The department, in liaison with the Revenue and Customs Prosecution Office, should work with the Ministry of Justice, the Sentencing Guidance Council and the Sentencing Advisory Panel to establish whether the courts have specific advice and sentencing guidelines to apply in missing trader fraud cases.
19. HMRC recognises the importance of sentencing in deterring fraudulent activity and has worked closely with RCPO and the Attorney General in raising awareness and understanding of the serious nature of this fraud with the judiciary, responsible Government ministers, our EU counterparts, and the general public.

20. In 2006-07 the courts imposed record individual prison sentences of 11 and 15 years in MTIC cases. This reflects the growing recognition by the Judiciary of the seriousness of this fraud and the impact and harm it has on our communities. In total for the year, there were 15 successful outcomes to 18 prosecutions in which 50 defendants were convicted with sentences of 216 years imprisonment imposed. Sentences in the first quarter of 2007-08 have continued to reflect this trend, whereby principals can expect a sentence in excess of 10 years imprisonment. As a further deterrent HMRC undertake to deny convicted fraudsters use of their proceeds from the fraud by actively pursuing in every case the confiscation of their assets.

21. HMRC has ensured that MTIC fraud is reflected in the UK Organised Crime Threat Assessment under SOCA’s organised crime control strategy. HMRC has taken forward this work into Europe through Europol where an HMRC officer drafted the MTIC fraud threat. As a result, the Council of the European Union has registered MTIC fraud as third priority on the 2007 EU organised crime threat assessment register.